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**BQD  青岛银行**

**Bank of Qingdao Co., Ltd.\***

**青島銀行股份有限公司\***

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

**(H Shares Stock Code: 3866)**

**(Preference Shares Stock Code: 4611)**

## **Annual Results for the year ended 31 December 2017**

The board of directors (the “**Board**”) of Bank of Qingdao Co., Ltd. (the “**Bank**” or “**Bank of Qingdao**”) is pleased to announce the audited annual results (the “**Annual Results**”) of the Bank and its subsidiaries (the “**Company**”) for the year ended 31 December 2017 (the “**Reporting Period**”) prepared in accordance with the International Financial Reporting Standards promulgated by the International Accounting Standards Board. The Board and its audit committee have reviewed and confirmed the Annual Results.

Unless otherwise stated, the currency of the amounts referred to in this annual results announcement is Renminbi (“**RMB**”).

### **1. BASIC INFORMATION OF THE COMPANY**

#### **1.1 Corporate Basic Information**

Legal name in Chinese:	青島銀行股份有限公司 (Abbreviation: 青島銀行)
Legal name in English:	BANK OF QINGDAO CO., LTD. (Abbreviation: BANK OF QINGDAO)
Legal representative:	Guo Shaoquan
Authorised representatives:	Guo Shaoquan, Lu Lan
Listing exchange of H shares:	The Stock Exchange of Hong Kong Limited
Stock name:	BQD
Stock code:	3866
Listing exchange of offshore preference shares:	The Stock Exchange of Hong Kong Limited
Stock name:	BQD 17USDPREF
Stock code:	4611

## 1.2 Contact Persons and Contact Details

Secretary to the Board:	Lu Lan
Joint company secretaries:	Lu Lan, Lai Siu Kuen
Registered and office address:	Building No. 3, No. 6 Qinling Road, Laoshan District, Qingdao, Shandong Province Postal code: 266061
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Company website:	http://www.qdccb.com/

## 2. FINANCIAL HIGHLIGHTS

### 2.1 Financial Data

<i>Unit: RMB'000</i>						
Item	2017	2016	Year-on-year change	2015	2014	2013
<b>Business Performance</b>			<b>Change (%)</b>			
Net interest income	<b>4,802,408</b>	5,007,955	(4.10)	4,114,054	3,596,336	3,087,784
Net fee and commission income	<b>828,969</b>	888,133	(6.66)	749,627	688,751	425,330
Operating income	<b>5,567,593</b>	5,996,145	(7.15)	5,005,508	4,365,052	3,556,292
Operating expenses	<b>(1,818,922)</b>	(2,213,521)	(17.83)	(2,076,578)	(1,995,253)	(1,688,944)
Impairment losses	<b>(1,378,904)</b>	(1,108,874)	24.35	(579,894)	(411,278)	(348,702)
Profit before taxation	<b>2,369,767</b>	2,673,750	(11.37)	2,349,036	1,958,521	1,518,646
Net profit	<b>1,903,607</b>	2,088,605	(8.86)	1,813,776	1,495,352	1,141,914
Net profit attributable to shareholders of the Bank	<b>1,900,252</b>	2,088,605	(9.02)	1,813,776	1,495,352	1,141,914
<b>Per share (RMB)</b>			<b>Change</b>			
Net assets per share attributable to shareholders of the Bank <sup>(1)</sup>	<b>4.38</b>	4.35	0.03	4.14	3.83	3.21
Basic earnings per share	<b>0.47</b>	0.51	(0.04)	0.58	0.59	0.45
Diluted earnings per share	<b>0.47</b>	0.51	(0.04)	0.58	0.59	0.45
Dividend per share <sup>(2)</sup>	<b>0.20</b>	0.20	–	0.20	0.25	0.08

## 2.2 Financial Indicators

Item	2017	2016	Year-on-year change	2015	2014	2013
<b>Scale indicators (RMB'000)</b>			<b>Change (%)</b>			
Total assets	<b>306,276,092</b>	277,988,106	10.18	187,235,254	156,165,941	135,689,371
Of which: loans and advances to customers, net <sup>(3)</sup>	<b>95,514,680</b>	84,864,849	12.55	70,655,221	61,248,341	54,105,925
Total liabilities	<b>280,152,883</b>	260,352,133	7.61	170,621,602	146,381,291	127,484,219
Of which: deposits from customers	<b>160,083,783</b>	141,604,761	13.05	115,321,997	101,733,660	96,283,907
Share capital	<b>4,058,713</b>	4,058,713	—	4,011,533	2,555,977	2,555,977
Equity attributable to shareholders of the Bank	<b>25,629,854</b>	17,635,973	45.33	16,613,652	9,784,650	8,205,152
Total equity	<b>26,123,209</b>	17,635,973	48.12	16,613,652	9,784,650	8,205,152
<b>Profitability indicators (%)</b>			<b>Change</b>			
Return on average total assets <sup>(4)</sup>	<b>0.65</b>	0.90	(0.25)	1.06	1.02	0.96
Return on average equity <sup>(5)</sup>	<b>10.73</b>	12.20	(1.47)	13.74	16.62	14.60
Net interest spread <sup>(6)</sup>	<b>1.57</b>	2.05	(0.48)	2.23	2.25	2.38
Net interest margin <sup>(7)</sup>	<b>1.72</b>	2.23	(0.51)	2.36	2.43	2.54
Net fee and commission income to operating income <sup>(8)</sup>	<b>14.89</b>	14.81	0.08	14.98	15.78	11.96
Cost-to-income ratio <sup>(9)</sup>	<b>31.68</b>	34.71	(3.03)	35.80	39.61	41.04
<b>Asset quality indicators (%)</b>			<b>Change</b>			
Non-performing loan ratio	<b>1.69</b>	1.36	0.33	1.19	1.14	0.75
Provision coverage ratio	<b>153.52</b>	194.01	(40.49)	236.13	242.32	365.24
Loan provision ratio	<b>2.60</b>	2.64	(0.04)	2.81	2.76	2.74
<b>Indicators of capital adequacy ratio (%)</b>			<b>Change</b>			
Core tier-one capital adequacy ratio <sup>(10)</sup>	<b>8.71</b>	10.08	(1.37)	12.48	9.72	9.75
Tier-one capital adequacy ratio <sup>(10)</sup>	<b>12.57</b>	10.08	2.49	12.48	9.72	9.75
Capital adequacy ratio <sup>(10)</sup>	<b>16.60</b>	12.00	4.60	15.04	10.75	10.88
Total equity to total assets	<b>8.53</b>	6.34	2.19	8.87	6.27	6.05
<b>Other indicators (%)</b>			<b>Change</b>			
Liquidity coverage ratio	<b>173.05</b>	101.24	71.81	132.06	N/A	N/A
Liquidity ratio	<b>56.36</b>	53.48	2.88	60.04	45.57	41.16

*Notes:*

- (1) Net assets per share attributable to shareholders of the Bank = (equity attributable to shareholders of the Bank - other equity instrument) / the number of ordinary shares at the end of the period.
- (2) Dividend per share represents dividend per share attributable to ordinary shareholders of the Bank.
- (3) Net loans and advances to customers = total loan and advances to customers – provision for impairment of loans and advances to customers.
- (4) Return on average total assets = net profit / average balance of total assets at the beginning and at the end of the period.
- (5) Return on average equity = net profit attributable to ordinary shareholders of the Bank / average balance of equity attributable to ordinary shareholders of the Bank at the beginning and at the end of the period.
- (6) Net interest spread = average yield on interest-earning assets – average cost of interest-bearing liabilities.
- (7) Net interest margin = net interest income / average interest-earning assets.
- (8) Net fee and commission income to operating income = net fee and commission income / operating income.
- (9) Cost-to-income ratio = (operating expenses – tax and surcharges) / operating income.
- (10) The capital adequacy ratio and other relevant indicators listed in the above chart were calculated in accordance with the Regulation Governing Capital of Commercial Banks (Provisional) (《商業銀行資本管理辦法(試行)》) and other relevant regulatory regulations.

### **3. MANAGEMENT DISCUSSION AND ANALYSIS**

#### **3.1 Review of the Economic Finance and Policy Environment**

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

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

## 3.2 Summary of Overall Operations

### 1. *Status of Key Operational Indicator Achievements*

- (1) Total assets amounted to RMB306.276 billion, representing a year-on-year increase of RMB28.288 billion or 10.18%;
- (2) Total deposits amounted to RMB160.084 billion, representing a year-on-year increase of RMB18.479 billion or 13.05%;
- (3) Total loans amounted to RMB98.061 billion, representing a year-on-year increase of RMB10.893 billion or 12.50%;
- (4) Net profit amounted to RMB1.904 billion, representing a year-on-year decrease of RMB185 million or 8.86%;
- (5) Non-performing loan ratio, provision coverage ratio and capital adequacy ratio were 1.69%, 153.52% and 16.60%, respectively;
- (6) Return on average total assets was 0.65%, representing a year-on-year decrease of 0.25 percentage point, mainly due to the fact that total assets increased while incomes did not increase;
- (7) Return on average equity was 10.73%, representing a year-on-year decrease of 1.47 percentage points, mainly due to the decrease of net profit as compared to that of last year.

### 2. *Major Tasks of Operational Management*

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

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

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

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

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

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

(4) *Risk management and internal control were improved gradually*

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

### 3.3 Analysis of Major Items of the Statement of Profit or Loss and Other Comprehensive Income

#### 3.3.1 Financial Performance Summary

Item	Unit: RMB' 000	
	2017	2016
Net interest income	4,802,408	5,007,955
Net fee and commission income	828,969	888,133
Net trading (losses)/gains, net gains arising from investments and other operating income/(losses)	(63,784)	100,057
Operating expenses	(1,818,922)	(2,213,521)
Impairment losses	(1,378,904)	(1,108,874)
Profit before taxation	2,369,767	2,673,750
Income tax charge	(466,160)	(585,145)
<b>Net profit</b>	<b>1,903,607</b>	<b>2,088,605</b>
Of which:		
net profit attributable to shareholders of the Bank	1,900,252	2,088,605
net profit attributable to non-controlling equity	3,355	—

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

Item	Unit: RMB' 000	
	Amount	
Profit before taxation in 2016	2,673,750	
Changes in 2017		
Net interest income	(205,547)	
Net fee and commission income	(59,164)	
Net trading (losses)/gains, net gains arising from investments and other operating income/(losses)	(163,841)	
Operating expenses	394,599	
Impairment losses	(270,030)	
Profit before taxation in 2017	2,369,767	



### 3.3.2 Operating Income

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

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



### 3.3.3 Net Interest Income

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

Item	Unit: RMB' 000					
	Average balance	2017 Interest income/ expense	Average yield/cost rate	Average balance	2016 Interest income/ expense	Average yield/cost rate
<b>Interest-earning assets</b>						
Loans and advances to customers	93,938,432	4,459,778	4.75%	81,467,154	4,243,148	5.21%
Investments <sup>(1)</sup>	138,930,060	6,267,263	4.51%	104,779,353	4,753,041	4.54%
Deposits and placements with banks and other financial institutions <sup>(2)</sup>	21,148,146	537,021	2.54%	18,848,427	369,258	1.96%
Deposits with central bank	22,478,374	340,988	1.52%	19,537,132	299,027	1.53%
Long-term receivables	2,653,624	144,669	5.45%	—	—	—
<b>Total</b>	<b>279,148,636</b>	<b>11,749,719</b>	<b>4.21%</b>	<b>224,632,066</b>	<b>9,664,474</b>	<b>4.30%</b>
<b>Interest-bearing liabilities</b>						
Deposits from customers	147,668,663	2,605,748	1.76%	127,231,668	2,226,519	1.75%
Deposits and placements from banks and other financial institutions <sup>(3)</sup>	59,974,673	1,951,036	3.25%	50,147,037	1,383,820	2.76%
Debt securities issued	54,783,446	2,356,747	4.30%	28,130,242	989,802	3.52%
Others	802,072	33,780	4.21%	1,545,820	56,378	3.65%
<b>Total</b>	<b>263,228,854</b>	<b>6,947,311</b>	<b>2.64%</b>	<b>207,054,767</b>	<b>4,656,519</b>	<b>2.25%</b>
<b>Net interest income</b>	<b>/</b>	<b>4,802,408</b>	<b>/</b>	<b>/</b>	<b>5,007,955</b>	<b>/</b>
<b>Net interest spread</b>	<b>/</b>	<b>/</b>	<b>1.57%</b>	<b>/</b>	<b>/</b>	<b>2.05%</b>
<b>Net interest margin</b>	<b>/</b>	<b>/</b>	<b>1.72%</b>	<b>/</b>	<b>/</b>	<b>2.23%</b>

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

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

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

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

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

Item	Unit: RMB' 000		
	2017 vs. 2016		
	Due to volume	Due to rate	Net increase/ (decrease)
<b>Assets</b>			
Loans and advances to customers	591,379	(374,749)	216,630
Investments	1,545,656	(31,434)	1,514,222
Deposits and placements with banks and other financial institutions	58,442	109,321	167,763
Deposits with central bank	43,915	(1,954)	41,961
Long-term receivables	144,669	—	144,669
<b>Interest income changes</b>	<u>2,384,061</u>	<u>(298,816)</u>	<u>2,085,245</u>
<b>Liabilities</b>			
Deposits from customers	366,506	12,723	379,229
Deposits and placements from banks and other financial institutions	321,496	245,720	567,216
Debt securities issued	1,147,529	219,416	1,366,945
Others	(31,255)	8,657	(22,598)
<b>Interest expense changes</b>	<u>1,804,276</u>	<u>486,516</u>	<u>2,290,792</u>
<b>Net interest income changes</b>	<u>579,785</u>	<u>(785,332)</u>	<u>(205,547)</u>

### 3.3.4 Interest Income

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

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

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

Item	Average balance	2017 Interest income	Average yield	Unit: RMB' 000		
				Average balance	2016 Interest income	Average yield
Corporate loans	66,025,309	3,190,167	4.83%	60,146,467	3,180,354	5.29%
Personal loans	27,913,123	1,269,611	4.55%	21,320,687	1,062,794	4.98%
<b>Total loans to customers</b>	<b>93,938,432</b>	<b>4,459,778</b>	<b>4.75%</b>	<b>81,467,154</b>	<b>4,243,148</b>	<b>5.21%</b>

#### *Interest income from investments*

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

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

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

### 3.3.5 Interest Expense

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

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

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

Item	2017			Unit: RMB' 000 2016		
	Average balance	Interest expense	Average cost rate	Average balance	Interest expense	Average cost rate
Corporate deposits from customers						
Demand	55,798,496	367,995	0.66%	44,272,742	296,253	0.67%
Time	42,201,224	1,091,892	2.59%	35,982,197	763,474	2.12%
Subtotal	97,999,720	1,459,887	1.49%	80,254,939	1,059,727	1.32%
Personal deposits from customers						
Demand	11,330,289	40,313	0.36%	9,942,905	35,295	0.35%
Time	38,338,653	1,105,548	2.88%	37,033,824	1,131,497	3.06%
Subtotal	49,668,942	1,145,861	2.31%	46,976,729	1,166,792	2.48%
Total deposits from customers	147,668,662	2,605,748	1.76%	127,231,668	2,226,519	1.75%

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

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

### *Interest expense on issued debts*

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

### **3.3.6 Net Non-interest Income**

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

<b>Item</b>	<i>Unit: RMB' 000</i>	
	<b>2017</b>	<b>2016</b>
Fee and commission income	<b>889,309</b>	952,124
Less: fee and commission expense	<b>(60,340)</b>	(63,991)
Net fee and commission income	<b>828,969</b>	888,133
Net trading (losses)/gains, net gains arising from investments and other operating income/ (losses)	<b>(63,784)</b>	100,057
<b>Total net non-interest income</b>	<b><u>765,185</u></b>	<b><u>988,190</u></b>

### 3.3.7 Net fee and commission income

During the year 2017, the Company's net fee and commission income amounted to RMB829 million, representing a year-on-year decrease of RMB59 million or 6.66%, mainly due to decrease in settlement fees.

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

Item	Unit: RMB' 000	
	2017	2016
<b>Fee and commission income</b>		
Wealth management service fees	376,949	311,613
Agency service fees	258,094	314,543
Settlement fees	80,344	202,467
Custody and bank card service fees	46,081	90,987
Others	127,841	32,514
<b>Total</b>	<b>889,309</b>	<b>952,124</b>
<b>Fee and commission expense</b>	<b>(60,340)</b>	<b>(63,991)</b>
<b>Net fee and commission income</b>	<b>828,969</b>	<b>888,133</b>

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

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

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

Item	Unit: RMB' 000	
	2017	2016
Net trading (losses)/gains	(187,764)	47,594
Net gains arising from investments	100,330	52,860
Other operating income/(losses)	23,650	(397)
<b>Total</b>	<b>(63,784)</b>	<b>100,057</b>

### 3.3.9 Operating Expenses

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

Item	Unit: RMB' 000	
	2017	2016
Staff costs	803,562	1,241,745
Property and equipment expenses	487,149	431,791
Tax and surcharges	54,898	132,498
Other general and administrative expenses	473,313	407,487
<b>Total operating expenses</b>	<b>1,818,922</b>	<b>2,213,521</b>



### 3.3.10 Impairment Losses

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

Item	<i>Unit: RMB' 000</i>	
	2017	2016
Loans and advances to customers	1,284,514	1,000,481
Long-term receivables	68,389	—
Financial investment:		
Receivables	20,000	105,500
Others	6,001	2,893
<b>Total impairment losses</b>	<b>1,378,904</b>	<b>1,108,874</b>

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

### 3.4 Analysis of Major Items of the Statement of Financial Position

#### 3.4.1 Assets

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

Item	31 December 2017		Unit: RMB' 000 31 December 2016	
	Amount	% of total	Amount	% of total
Total loans and advances to customers	98,061,379	32.02	87,168,295	31.36
Provision for impairment on loans and advances to customers	(2,546,699)	(0.83)	(2,303,446)	(0.83)
Net loans and advances to customers	95,514,680	31.19	84,864,849	30.53
Financial investments	164,410,351	53.68	152,607,313	54.90
Cash and deposits with central bank	27,097,814	8.85	22,697,997	8.17
Deposits with banks and other financial institutions	1,107,946	0.36	6,421,827	2.31
Placements with banks and other financial institutions	2,882,727	0.94	619,210	0.22
Financial assets held under resale agreements	3,584,200	1.17	3,957,206	1.42
Financial assets at fair value through profit or loss	179,078	0.06	320,315	0.12
Long-term receivables	4,076,396	1.33	–	–
Property and equipment	3,089,017	1.01	1,221,493	0.44
Deferred income tax assets	1,084,286	0.35	602,519	0.22
Others assets	3,249,597	1.06	4,675,377	1.67
<b>Total assets</b>	<b>306,276,092</b>	<b>100.00</b>	<b>277,988,106</b>	<b>100.00</b>

### 3.4.1.1 Loans and advances to customers

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

Item	31 December 2017		Unit: RMB' 000 31 December 2016	
	Amount	% of total	Amount	% of total
Corporate loans	64,363,848	65.64	58,589,447	67.22
Discounted bills	2,951,203	3.01	3,874,462	4.44
Personal loans	30,746,328	31.35	24,704,386	28.34
<b>Total loans and advances to customers</b>	<b>98,061,379</b>	<b>100.00</b>	<b>87,168,295</b>	<b>100.00</b>
Less: impairment provision	(2,546,699)	/	(2,303,446)	/
<b>Net loans and advances to customers</b>	<b>95,514,680</b>	<b>/</b>	<b>84,864,849</b>	<b>/</b>

#### Corporate loans

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

## Discounted bills

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

## Personal loans

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

### 3.4.1.2 Investment

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

Item	31 December 2017		Unit: RMB' 000	
	Amount	% of total	31 December 2016	% of total
Financial assets at fair value through profit or loss	179,078	0.11	320,315	0.21
Available-for-sale financial assets	79,086,556	48.05	58,410,672	38.20
Held-to-maturity investments	38,644,926	23.48	31,324,703	20.48
Receivables	46,678,869	28.36	62,871,938	41.11
<b>Total</b>	<b>164,589,429</b>	<b>100.00</b>	<b>152,927,628</b>	<b>100.00</b>

## Financial assets at fair value through profit or loss

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

Item	<i>Unit: RMB' 000</i>	
	31 December 2017	31 December 2016
Debt securities issued by policy banks	–	129,600
Debt securities issued by banks and other financial institutions	138,232	141,756
Debt securities issued by corporate entities	40,846	48,959
<b>Total financial assets at fair value with changes through current profit or loss</b>	<b>179,078</b>	<b>320,315</b>

## Available-for-sale financial assets

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

Item	<i>Unit: RMB' 000</i>	
	31 December 2017	31 December 2016
Debt securities	30,332,516	30,584,602
Wealth management products issued by financial institutions	20,997,129	1,502,025
Asset management plans	13,912,231	4,595,499
Investment funds	8,634,391	20,314,636
Trust fund plans	5,187,039	1,390,660
Equity investments	23,250	23,250
<b>Total available-for-sale financial assets</b>	<b>79,086,556</b>	<b>58,410,672</b>

## Held-to-maturity investments

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

Item	<i>Unit: RMB'000</i>	
	31 December 2017	31 December 2016
Government bonds	11,244,166	10,042,362
Debt securities issued by policy banks	14,748,401	11,792,171
Debt securities issued by banks and other financial institutions	10,888,829	8,070,558
Debt securities issued by corporate entities	1,763,530	1,419,612
<b>Total held-to-maturity investments</b>	<b>38,644,926</b>	<b>31,324,703</b>
<b>Fair value of held-to-maturity investments</b>	<b>36,656,311</b>	<b>31,299,756</b>

## Receivables

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

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

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

#### Investment in securities

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

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



### 3.4.2 Liabilities

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

Item	31 December 2017		Unit: RMB'000 31 December 2016	
	Amount	% of total amount	Amount	% of total amount
Deposits from customers	160,083,783	57.14	141,604,761	54.39
Deposits from banks and other financial institutions	24,901,934	8.89	45,018,569	17.29
Borrowings from central bank	584,215	0.21	3,432,407	1.32
Placements from banks and other financial institutions	5,774,299	2.06	6,925,270	2.66
Financial derivative liabilities	353,220	0.13	–	–
Financial assets sold under repurchase agreements	11,899,583	4.25	17,043,065	6.55
Income tax payable	57,167	0.02	211,940	0.08
Debt securities issued	68,632,691	24.50	41,786,221	16.05
Other liabilities	7,865,991	2.80	4,329,900	1.66
<b>Total liabilities</b>	<b>280,152,883</b>	<b>100.00</b>	<b>260,352,133</b>	<b>100.00</b>

### 3.4.2.1 Deposits from customers

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

Item	31 December 2017		Unit: RMB'000	
			31 December 2016	
	Amount	% of total amount	Amount	% of total amount
<b>Corporate deposits</b>	<b>107,274,155</b>	<b>67.01</b>	92,649,142	65.43
Demand deposits	<b>65,421,504</b>	<b>40.87</b>	54,911,942	38.78
Time deposits	<b>41,852,651</b>	<b>26.14</b>	37,737,200	26.65
<b>Personal deposits</b>	<b>52,225,500</b>	<b>32.62</b>	48,665,671	34.37
Demand deposits	<b>17,935,483</b>	<b>11.20</b>	10,093,140	7.13
Time deposits	<b>34,290,017</b>	<b>21.42</b>	38,572,531	27.24
<b>Outward remittance and remittance payables</b>	<b>566,193</b>	<b>0.36</b>	268,881	0.19
<b>Fiscal deposits to be transferred</b>	<b>17,935</b>	<b>0.01</b>	21,067	0.01
<b>Total deposits from customers</b>	<b>160,083,783</b>	<b>100.00</b>	141,604,761	100.00

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

### 3.4.2.2 Deposits from banks and other financial institutions

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

### 3.4.2.3 Debt securities issued

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

### 3.4.3 Equity attributable to shareholders

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

Item	Unit: RMB'000	
	31 December 2017	31 December 2016
Share capital	4,058,713	4,058,713
Other equity instruments	7,853,964	—
Capital reserve	6,826,276	6,826,276
Surplus reserve	1,203,325	1,013,649
General reserve	3,969,452	3,696,090
Investment revaluation reserve	(882,006)	66,617
Other reserve	(3,443)	(3,473)
Retained earnings	2,603,573	1,978,101
Total equity attributable to shareholders of the Bank	25,629,854	17,635,973
Non-controlling interests	493,355	—
<b>Total equity attributable to shareholders</b>	<b>26,123,209</b>	<b>17,635,973</b>

### 3.5 Analysis of Quality of Loans

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

#### 3.5.1 Distribution of loans by five categories

Unit: RMB'000

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

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

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

Unit: RMB'000

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

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

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

### 3.5.3 Distribution of loans and non-performing loans by industry

Unit: RMB'000

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

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

### 3.5.4 Distribution of Loans and Non-Performing Loans by Region

Unit: RMB'000

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

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

### 3.5.5 Distribution of Loans and Non-Performing Loans by type of Collateral

Unit: RMB'000

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



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

### 3.5.6 Loans to the Top Ten Single Borrowers

*Unit: RMB'000*

Names of borrowers	Industry	Amount of	Percentage	Percentage
		loans as at the end of the Reporting Period	of net capital %	of total loans %
A	Water, environment and public utility management	1,459,000	4.32	1.49
B	Financial services	1,279,000	3.78	1.30
C	Renting and business activities	1,186,189	3.51	1.21
D	Water, environment and public utility management	990,000	2.93	1.01
E	Construction	938,000	2.77	0.96
F	Financial services	900,000	2.66	0.92
G	Renting and business activities	867,288	2.57	0.88
H	Renting and business activities	800,000	2.37	0.82
I	Financial services	790,000	2.34	0.81
J	Public Management, social security and social organizations	666,310	1.96	0.67
<b>Total</b>		<b>9,875,787</b>	<b>29.21</b>	<b>10.07</b>

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

### 3.5.7 Distribution of Loans by Overdue Period

Overdue period	31 December 2017		Unit: RMB'000 31 December 2016	
	Amount	Percentage of total loans %	Amount	Percentage of total loans %
Overdue for 3 months (inclusive) or less	1,551,189	1.58	2,042,735	2.35
Overdue for over 3 months to 1 year (inclusive)	916,246	0.93	849,391	0.97
Overdue for over 1 year to 3 years (inclusive)	932,357	0.95	582,928	0.67
Overdue for over 3 years	112,977	0.12	52,487	0.06
Total overdue loans	3,512,769	3.58	3,527,541	4.05
Total loans to customers	98,061,379	100.00	87,168,295	100.00

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

### 3.5.8 Repossessed assets and provision for impairment

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

### 3.5.9 Changes in Provision for Impairment of Loans

The Company uses two methods to assess impairment losses of loans: those assessed individually and those assessed on a collective basis. Loans, which are considered individually significant or have unique credit risk characteristics, are assessed individually for impairment losses. If there is objective evidence of impairment of loans, the amount of loss is measured as the excess of its carrying amount over the present value of the expected future cash flows (exclusive of future credit losses that have not been incurred) discounted at the original effective interest rate. The impairment losses are recognised in profit or loss. Loans which are assessed collectively for impairment include individually assessed loans with no objective evidence of impairment and homogeneous groups of loans which are not considered individually significant and not assessed individually. Loans are grouped for similar credit risk characteristics for collective assessment.

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

Item	<i>Unit: RMB'000</i>	
	2017	2016
<b>Balance at the beginning of the year</b>	<b>2,303,446</b>	2,040,297
Charge for the year	<b>1,374,825</b>	1,064,268
Release for the year	<b>(90,311)</b>	(63,787)
Unwinding of discount	<b>(30,730)</b>	(22,504)
Write-offs and transfer out for the year	<b>(1,042,762)</b>	(745,878)
Recoveries of loans and advances written off and others	<b>32,231</b>	31,050
<b>Balance at the end of the year</b>	<b><u>2,546,699</u></b>	<b><u>2,303,446</u></b>

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

### **3.5.10 Countermeasures taken against non-performing assets**

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

- (1) Strictly control the quality of loans. The Bank specified its credit policies, strictly controlled the new credit granted to “high pollution, high energy-consumption and over-capacity” industries and zombie enterprises and compressed credit stock, which prevented the occurrence of new non-performing loans at the source.
- (2) Accelerate the disposal of existing non-performing loans. The Bank reinforced the coordination with the judicial departments of various levels to quicken the clearing and receiving of non-performing loans through litigation. It also strengthened the communication and cooperation with industry association and interbank and made full use of the operation mechanism of the Banking Creditors’ Committee to positively take part in the combined reduction and disposal of non-performing assets and risks, so as to fully guarantee and maintain its legitimate interests. In addition, the Bank gradually explored multiple channels to reduce and dispose of non-performing assets based on the conventional clearing and receiving means, and strengthened write-off of non-performing assets to optimize credit asset structure.
- (3) Strengthen the dynamic monitoring and risk reduction of credit asset quality. The Bank monitored overdue loans per day, and regularly analyzed non-performing loans and overdue loans to be kept duly informed of the developments of risk loans. The Bank also improved the response speed and effectiveness of preservative measures in litigation taken against risk loans to gain the initiative in disposal. Besides, the Bank enhanced credit policy studies and individualized studies, collected and sorted out cases of risk customers and arranged for training and learning to intensify the asset preservation ability and team construction.

### **3.5.11 Credit extension to group customers and risk management**

The Bank adhered to the principles of “implementing unified credit extension, providing an appropriate amount, employing classified management, conducting real-time monitoring and adopting a leading bank system” in extending credit to group customers. Firstly, to prevent large-sum credit risk, the Bank established the Large-sum Credit Extension Review Committee composed of senior management of the head office to review the business in which total credit amount extended to group customers exceeding 10% of net capital or in which total credit amount extended to a single customer exceeding 5% of net capital. Secondly, the Bank strengthened the identification of group customers and invisible related relationship among enterprises; the invisible related relationship among corporate customers was identified from such dimensions as corporate product flow, corporate capital flow, corporate guarantee circle and family ties of actual controllers. Thirdly, the Bank strengthened unified management of credit extension to group customers and determined composite credit limit for them. The Bank

controlled the credit limit through credit risk management system, teased and updated the list of group customers in a timely manner, prudently checked credit limits to prevent concentration risk, and improved its group customer management level on an ongoing basis.

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

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

### **3.6 Analysis of Capital Adequacy Ratio and Leverage Ratio**

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

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

#### ***3.6.1 Capital adequacy ratio***

The Company calculates capital adequacy ratio in accordance with the Regulation Governing Capital of Commercial Banks (Provisional) issued by the China Banking Regulatory Commission (the "CBRC") and other regulatory provisions. The on-balance sheet weighted risk assets are calculated with different risk weights determined in accordance with each asset, credit of the counterparty, market and other relevant risks and by considering the effects of qualified pledge and guarantee. The same method is also applied to the calculation of off-balance sheet exposure. Market risk-weighted assets are calculated with the standard approach, and the operational risk-weighted assets with the basic indicator approach. During the Reporting Period, the Company complied with the capital requirements prescribed by the regulators.

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

Item	Unit: RMB'000	
	31 December 2017	31 December 2016
<b>Total core tier-one capital</b>		
Share capital	4,058,713	4,058,713
Qualifying portion of capital reserve	6,826,276	6,826,276
Surplus reserve and general reserve	5,172,777	4,709,739
Retained earnings	2,603,573	1,978,101
Investment revaluation reserve and others	(885,449)	63,144
Qualifying portion of non-controlling interests	155,327	—
<b>Core tier-one capital deductions</b>	<b>(197,454)</b>	<b>(171,661)</b>
<b>Net core tier-one capital</b>	<b>17,733,763</b>	<b>17,464,312</b>
<b>Net amount of other tier-one capital</b>	<b>7,874,674</b>	<b>—</b>
<b>Net tier-one capital</b>	<b>25,608,437</b>	<b>17,464,312</b>
<b>Net tier-two capital</b>	<b>8,197,676</b>	<b>3,319,322</b>
<b>Net capital base</b>	<b>33,806,113</b>	<b>20,783,634</b>
Total credit risk-weighted assets	180,791,585	158,615,965
Total market risk-weighted assets	12,629,951	5,060,653
Total operation risk-weighted assets	10,287,348	9,591,315
<b>Total risk-weighted assets</b>	<b>203,708,884</b>	<b>173,267,933</b>
<b>Core tier-one capital adequacy ratio</b>	<b>8.71%</b>	<b>10.08%</b>
<b>Tier-one capital adequacy ratio</b>	<b>12.57%</b>	<b>10.08%</b>
<b>Capital adequacy ratio</b>	<b>16.60%</b>	<b>12.00%</b>

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

### 3.6.2 Leverage ratio

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

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

		<i>Unit: RMB'000</i>
		<b>Balance as at</b>
		<b>31 December</b>
<b>No.</b>	<b>Item</b>	<b>2017</b>
1	Total consolidated assets	<b>306,276,092</b>
2	Consolidated adjustments	—
3	Customer assets adjustments	—
4	Derivative adjustments	<b>82,331</b>
5	Securities financing transactions adjustments	—
6	Off-balance sheet items adjustments	<b>18,906,591</b>
7	Other adjustments	<b>(197,454)</b>
8	Balance of assets on and off balance sheet after adjustments	<b>325,067,560</b>



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

		<i>Unit: RMB'000</i>
		<b>Balance as at</b>
		<b>31 December</b>
		<b>2017</b>
<b>No.</b>	<b>Item</b>	
1	Assets on the balance sheet (excluding derivatives and securities financing transactions)	<b>302,691,892</b>
2	Less: tier-one capital deductions	<b>(197,454)</b>
3	The balance of assets on the balance sheet after adjustments (excluding derivatives and securities financing transactions)	<b>302,494,438</b>
4	Replacement cost of various types of derivatives (net of qualified margins)	—
5	Potential risk exposure in various derivatives	<b>82,331</b>
6	The sum of collaterals deducted from the balance sheet	—
7	Less: assets receivables formed due to qualified margins	—
8	Less: the balance of derivative assets formed due to transactions with central counterparties for providing clearing service for the customers	—
9	Notional principal for sold credit derivatives	—
10	Less: the balance of sold credit derivatives assets which can be deducted	—
11	The balance of derivatives assets	<b>82,331</b>
12	The balance of accounting assets for securities financing transactions	<b>3,584,200</b>
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	<b>3,584,200</b>
17	The balance of items off balance sheet	<b>18,906,591</b>
18	Less: the balance of items off balance sheet reduced due to credit conversion	—
19	The balance of items off balance sheet after adjustments	<b>18,906,591</b>
20	Net tier-one capital	<b>25,608,437</b>
21	The balance of assets on and off balance sheet after adjustments	<b>325,067,560</b>
22	Leverage ratio	<b>7.88%</b>

### 3.7 Segment Reporting

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

Item	2017		2016	
	Segment profit before taxation	Ratio (%)	Segment profit before taxation	Ratio (%)
Corporate banking	845,060	35.66	1,121,316	41.93
Retail banking	637,373	26.90	451,879	16.90
Financial market business	857,127	36.17	1,103,868	41.29
Unallocated items and others	30,207	1.27	(3,313)	(0.12)
<b>Total</b>	<b>2,369,767</b>	<b>100.00</b>	<b>2,673,750</b>	<b>100.00</b>

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

### **3.8 Other Financial Information**

#### ***3.8.1 Analysis of off-balance sheet items***

The Company's off-balance sheet items include credit commitments, operating lease commitments, capital commitments, etc. Credit commitments are the most important parts and as at the end of the Reporting Period, the balance of credit commitments reached RMB19.421 billion. For details, please refer to Note 16 of the financial statements in this results announcement.

#### ***3.8.2 Overdue and outstanding debts***

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

### **3.9 Business Development Strategy**

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

## 3.10 Overview of Business Development

### 3.10.1 Retail banking

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

#### 1. Retail deposits

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

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

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

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

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

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

## *2. Retail loans*

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

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

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

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

### 3. *Retail customers and management of customers' assets*

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

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

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

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

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

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



## 5. *Customer service management*

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

It built up the service marketing mechanism of “benefit-making” thought, forged a service value-based creation system, and transferred the business department from a transaction service center to a service and sales center. The Bank achieved initial results in the pilot projects of “service gold digging and department-hall integration service marketing” in the business hall, realized the preset goals of improving four values, namely, “customer sentimental value, employee work value, institution management value and retail capacity value”, made breakthroughs in output, consciousness, technology, channels and management and created service values.

The Bank’s service brands were renovated and developed continually through infiltration of service culture, studies of touching service scenes, and upgrading of service contents. During the Reporting Period, the Bank was again awarded “2017 (the eleventh) Five Star Diamond Award”, the most honorable title of international service industry, by the “World Brand Lab”, an authoritative organization.

### 3.10.2 *Corporate banking*

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

#### 1. *Corporate deposits*

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



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

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

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

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

## 2. *Corporate loans*

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

During the Reporting Period, the Bank conveyed the spirit of the Central Economic Work Conference by implementing the measures such as supply-side reform and “overcapacity cutting, destocking, deleveraging, cost reduction, and weakness improvement”, conducted reasonable allocation on credit resources through structure adjustment, mainly by taking a general strategy of “strictly controlling risks and highlighting characteristics” to shut down backward production capacity with “high pollution, high energy-consumption and over-capacity”. The total loan represented a year-on-year decrease of RMB383 million. The Bank focused on the implementation of national and Shandong Province’s significant strategies to continually enhance the financial service to key industries, sectors and projects in relevant areas. Supported public sector financing businesses in Shandong province and Qingdao, pushed forward the implementation of a series of significant projects, covering water conservation, underground pipelines, urban public transportation and renovation of urban shanty areas. The Bank built up brands of science and technology finance, green finance, and ocean finance depending on the policy advantages of the blue economic zone in the Shandong Peninsula region. The Bank also sped up to explore quality credit resources of new industries, such as strategic emerging industries, internet information service industries, high-end equipment manufacturing industries and cultural industries, in order to promote the adjustment and upgrading of assets structure of the Bank. The Bank improved culture finance service system, actively connected the financing demand of culture & creative parks and enterprises and endeavored to provide culture & creative enterprises with high-quality finance services.

## 3. *Corporate customers*

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

#### 4. *Corporate products*

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

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

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

### **3.10.3 Financial market business**

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

#### **1. Proprietary investment**

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

#### **2. Interbank business**

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

During the Reporting Period, the Bank's national interbank bond market transactions reached RMB9.7181 trillion, representing a year-on-year increase of RMB810.1 billion or 9.09%. In the 2017 bond settlement rankings published by China Government Securities Depository Trust and Clearing Co., Ltd., the Bank ranked 26th among national commercial banks

and 6th among city commercial banks, and was awarded the titles of “2017 Outstanding Dealer in the Chinese Bond Market” and “Outstanding Financial Bond Issuer”. In the 2017 Top 300 local currency market transaction rankings published by the National Interbank Funding Center, the Bank ranked 32nd and was awarded the title of “2017 Core Dealer in the Interbank Local Currency Market”.

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

### 3. *Asset management*

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

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

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

### 4. *Investment banking*

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

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

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

### **3.10.4 Distribution channels**

#### *3.10.4.1 Physical distribution channels*

The business outlets of the Bank are based in Qingdao with a footprint extending to other regions of Shandong Province. As at the end of the Reporting Period, the Bank set up 128 business outlets including 13 branches in 13 cities in Shandong Province, including Qingdao, Jinan, Dongying, Weihai, Zibo, Dezhou, Zaozhuang, Yantai, Binzhou, Weifang, Laiwu, Linyi and Jining. The Bank had a head office, a branch and 73 sub-branches in Qingdao area. The Company's holding subsidiary BQD Financial Leasing is based in Qingdao and has an office in Shanghai.

#### *3.10.4.2 Self-service banking channels*

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

#### *3.10.4.3 Electronic banking channels*

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



## (1) Internet banking

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

## (2) Mobile finance

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

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

### 3.10.4.4 *Information technology*

Keeping up with the trend of internet development, the Bank adhered to the strategy of comprehensively implementing scientific and technological innovation, elevated "excellence in technology" to a bank-wide strategy and made significant investments in information systems construction and science and technology teams. The Bank actively applied cloud computing, big data, artificial intelligence and mobile technologies in the innovation of product, service, channel and business models, therefore successfully achieved the strategic business goals for the Reporting Period and promoted the improvement of the core competence of the Bank.

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

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

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



### **3.10.5 *Businesses of BQD Financial Leasing***

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

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

## **3.11 Risk Management**

### **3.11.1 *Credit risk management***

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

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

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

1. Strengthen policy orientation and enhance the execution of credit policies. The Bank formulated differentiated credit policies and made timely adjustments in the light of market conditions, environmental factors and risk appetite. For credit business, the Bank strictly examined and approved loan applications following the credit policies, strictly controlled loan extensions to “zombie enterprises” and voluntarily withdrew from the industries of “high pollution, high energy-consumption and over-capacity”, realized total exposure control and promoted to optimize the inventory structure. The Bank issued the main points and requirements of credit risk management and control, tracked the implementation of relevant policies, and incorporated policy implementation by branches into the scope of risk management assessment, so as to ensure that credit policies and credit risk control measures are fully implemented.
2. Intensify risk identification and strengthen risk management in critical areas. The Bank intensified risk monitoring and identification for key areas and major customers and private groups that may bring potential risks, strengthened risk prevention and control in key fields and key risk areas such as guarantee circle, local government platform financing, real estate industry, financial market business and bill business, strengthened credit management of the Group and focused on the prevention of the excessive credit-giving customer risks involving multi-channel fund raising, actively responded to the requirements of national environmental inspection, and strictly controlled the credit risk arising from environmental issues.
3. Make full efforts to manage and control non-performing and overdue loans and promote the disposal of non-performing loans in a timely manner. The Bank heightened warning management, promptly formulated risk disposal plans for extending loans to customers for which a warning was given, compressed potential risk loans by amount reduction for renewal, credit enhancement and other measures, and took preservation measures if necessary; it worked out “customer-tailored” risk-reducing scheme for businesses in which non-performing loans were formed, and reduced and disposed of non-performing loans by stepping up clearing and receiving of loans and writing off loans to control its asset quality within a reasonable range; it continuously leveraged the communication and collaboration mechanism established with other banks and government departments to realize information sharing and took unified actions to jointly address problems encountered during enterprises’ operations.

4. Carry out self-inspections and self-corrections in business compliance and provide cooperation for supervisory review and proactively conduct remediation. As per the relevant requirements of regulatory departments, the Bank actively organized self-inspections regarding “three violations”, “three arbitrages” and “four improprieties”, actively conducted remediation, formulated accountability plans for problems found to promote corrective work, insisted to conduct investigation, remediation and carry out education at the same time, and comprehensively strengthened its employees’ awareness of observing laws and regulations and meeting specifications. The Bank carried out self-inspections in the form of inspection tour, specific inspection, and random business inspection etc. to further figure out the risk background and enhance its risk control, so as to ensure the stability of its asset quality.
5. Reform the credit approval system and implement centralized approval of the corporate credit business. The Bank set up Jinan and Qingdao approval centers under the headquarter credit approval department to approve its corporate credit business, which further improved the professionalism and independence of credit approval and consistency of the Bank’s approval standards.
6. Strengthen risk management for branch institutions and assessment and incentive measures. The Bank formulated the Comprehensive Evaluation Methods for Credit Management Level of Branch Institutions of Bank of Qingdao, to supervise and evaluate the credit management work of branch institutions, divide the credit management work, enhance business training and effectively improve the credit risk management ability and level of the Bank.
7. Continue to enhance credit risk management system to meet the needs of business development. The Bank continued to enhance credit risk management system and enhanced its product functions. The Bank applied big data to collect, analyze, judge and solve typical problems, forming experience to generalize to guide the work all over the Bank; applied emerging technologies such as cloud computing, big data and artificial intelligence to check and control business operation, employees’ behaviour, screened risks in time, and enhanced the support from technology system to risk management. The Bank promoted mobile platform development for project development of credit management. With the completion of the projects, functions such as real-time delivery of images and videos of after-loan inspection and underwriting site will be achieved and the Bank will improve after-loan quality inspection and the level and efficiency of credit management.

### ***3.11.2 Liquidity risk management***

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

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

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

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

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

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

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

1. It actively promoted the growth of all kinds of deposits, consolidated the foundation of the deposit-taking business, strengthened efforts for marketing of stable and low-cost deposits and gradually improved the overall stability of liability.
2. It made provision in advance and at the same time continued to enhance monitoring on various liquidity risk limits to ensure the regulatory indicators were in full compliance with provisions.
3. It strengthened the management of active liability, and issued successively RMB5 billion of tier-two capital bonds and USD1.203 billion of offshore preference shares to raise proceeds in the capital market so as to effectively replenish sources of long-term capital.
4. It designed several stress test scenarios covering the bank, market and mixed risks to conduct regular stress tests for liquidity risks in strict accordance with CBRC's Administrative Measures for Liquidity Management of Commercial Banks (Provisional) and its own business scale, nature and complexity and risk profile.

### **3.11.3 Market risk management**

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

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

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

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

#### **3.11.3.1 Analysis of interest rate risk**

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

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

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

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

### 3.11.3.2 Analysis of interest rate sensitivity

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

Item	Unit: RMB'000	
	31 December 2017	31 December 2016
	Increase/ (Decrease)	Increase/ (Decrease)
Change in annualized net interest income		
Interest rates increase by 100 bps	(399,892)	(539,852)
Interest rates decrease by 100 bps	399,892	539,852

### 3.11.3.3 Analysis of exchange rate sensitivity

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

Item	Unit: RMB'000	
	31 December 2017	31 December 2016
	Increase/ (Decrease)	Increase/ (Decrease)
Increase/(Decrease) in annualised net profit		
Foreign exchange rate increase by 100 bps	9,747	999
Foreign exchange rate decrease by 100 bps	(9,747)	(999)

### 3.11.4 Operational risk management

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



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

1. The Bank enhanced internal control, focused on strategic business of the whole Bank, conducted specific inspection and risk evaluation from such aspects as system, process and employees' behavior, leveraged the "triple defense lines" functions of the frontline business personnel, risk management department and internal audit department, implemented the collection, analysis and alert of key indicators and loss data of operational risks in all dimensions.
2. The Bank innovated working ideas, continued to promote construction of operational risk system and propaganda of culture, ensured a complete, reasonable and effective internal control system, strengthened personnel and position management and conducted employee education on operation compliance by screening and inspecting the irregularities of employees at key positions, so as to prevent operational risks.
3. The Bank upgraded system dynamics, promoted scientific and technological innovation from a strategic height, prevented risks in a centralized disposal mode to achieve "factorization of headquarter and lightweight of branches", increased automation, reduced frequency of manual operation, effectively combined "personnel prevention" and "technology prevention" and enhanced the system back-desk control ability of rule-breaking operations prevention.
4. The Bank substantially improved business continuity management and IT risk management, enhanced security guarantee of information technology systems, focused on promoting construction of backup for disaster emergency response and comprehensively evaluated key directions of optimization of the business continuity management system.
5. The Bank further strengthened outsourcing business management, promoted management of outsourcing project agreements, enhanced risk control and screening in the implementation of outsourcing projects and well managed information security of outsourcing service providers and outsourcing personnel.

### 3.12 Social Responsibility

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

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

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



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

### **3.13 Protection of Consumer Rights**

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

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

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

#### **2. Optimize systems and consolidate the management foundation**

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

### 3. Promote brand leadership and popularize public education

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

### 4. Enhance philosophy of consumer protection and fully implement obligations

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

## 3.14 Development Plan for 2018

### *3.14.1 Operating situation analysis for the new year*

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

### ***3.14.2 Development guidance for the new year***

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

### ***3.14.3 Main measures to be adopted for the new year***

1. Deepen management, optimize structure and improve functions to enhance overall management capability;
2. Focus on the source, acquire customers online and seek for greater perfection to steadily develop the retail business;
3. Strengthen the solid base, sharpen featured points and make steady progress to promote the transformation and upgrading of wholesale lines;
4. Adjust structure, strengthen management and make joint efforts to ensure the steady development of the financial market;
5. Pick up the pace, enhance quality and efficiency and safeguard support to enhance the leading role of financial technology;
6. Make intensive and smart operation and optimize processes to create a streamlined and efficient operating system;
7. Be proactive about compliance, strictly control the risks and strengthen internal control to facilitate the Bank-wide development;
8. Set up branches prudently, optimize the layout and promote transformation to improve the output efficiency of branches;
9. Lay a solid foundation, exercise fine management and increase efficiency by tapping potentials to improve the basic management level.

## **4. OTHER EVENTS**

### **4.1 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 of the Bank. 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 continued 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.

## **4.2 Corporate Governance Code**

During the Reporting Period, the Bank strictly complied with the code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the “**Listing Rules**”), and, where appropriate, adopted the recommended best practices therein.

## **4.3 Securities Transactions by Directors and Supervisors**

The Bank has adopted the required standard in the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by directors and supervisors. Having made specific enquiries to all directors and supervisors, each of the directors and supervisors confirmed that he/she has complied with the above Model Code during the Reporting Period.

## **4.4 Changes in Directors, Supervisors and Senior Management**

Due to work allocation, Mr. Du Wenhe had tendered his resignation in writing to the Board from the position of independent non-executive director and all positions in special committees under the Board. During the Reporting Period, pursuant to the resolution passed at the 2016 annual general meeting of the Bank convened in May 2017, Mr. Simon Cheung was newly appointed as an independent non-executive director of the sixth session of the Board. In July 2017, the qualifications of Mr. Simon Cheung as an independent director was approved by Qingdao Office of the CBRC (the “**CBRC Qingdao Office**”), and Mr. Cheung began to perform his duty. Mr. Du Wenhe no longer held the position of independent non-executive director of the Bank.

During the Reporting Period, upon approval by the CBRC Qingdao Office, Ms. Chen Shuang has served as vice president of the Bank since January 2017.

Save as disclosed above, no other changes occurred to the directors, supervisors and senior management of the Company during the Reporting Period.

## **4.5 Profits and Dividends**

The Company's profit for the year ended 31 December 2017 and the Company's financial position as at the same date are set out in the section headed “Financial Statements” of this results announcement.

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

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

If the proposal is approved by the 2017 annual general meeting, the dividend will be distributed to holders of domestic shares and holders of H shares whose names appear on the register of members of the Bank on 24 May 2018. The proposed dividend will be denominated in RMB. Dividends to holders of domestic shares shall be paid in RMB, and dividends to holders of H shares shall be paid in Hong Kong dollars. The exchange rate of RMB to Hong Kong dollars to be adopted shall be the average of the central parity rates in the interbank foreign exchange market of the five business days preceding the date of declaration of such dividends at the 2017 annual general meeting (including the day the annual general meeting to be held) as announced by the People's Bank of China. The register of members of the Bank will be closed from Saturday, 19 May 2018 to Thursday, 24 May 2018 (both days inclusive), during such period no transfer of domestic shares or H shares will be registered. In order to be entitled to the 2017 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 no later than 4:30 p.m. on Friday, 18 May 2018.

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

#### **4.6 Taxation applying to dividends on ordinary shares**

##### ***(1) For Holders of Domestic Shares***

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

##### ***(2) For Holders of H Shares***

In accordance with the Enterprise Income Tax Law of the People's Republic of China effective from 1 January 2008 and its related implementation provisions, the Bank shall withhold and pay enterprise income tax at the rate of 10% for non-resident enterprise shareholders whose names appear on the H-share register on 24 May 2018.

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

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

#### **4.7 Annual General Meeting of 2017 and Closure of Register of Members**

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

#### **4.8 Purchase, Sale or Redemption of Listed Securities of the Bank**

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

#### **4.9 Changes in Accounting Policies and Accounting Estimates or Correction of Significant Accounting Errors**

During the Reporting Period, there was no change in accounting policies and accounting estimates and correction of significant accounting errors that has a significant effect on the financial statements. The Company considered and approved the proposal on the changes in accounting policies at the Board meeting dated 20 March 2018. Please refer to the announcement of the Company dated on 20 March 2018 for details.

#### **4.10 Review of Annual Results**

KPMG Huazhen LLP and KPMG audited the 2017 annual financial statements prepared by the Company in accordance with PRC Accounting Standards and International Financial Reporting Standards respectively, and issued unqualified audit reports. The audit committee of the Board of the Bank has reviewed the annual results and the financial statements of the Company for the year ended 31 December 2017.



## 5. FINANCIAL STATEMENTS

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

*For the year ended 31 December 2017*

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

	2017	2016
Interest income	11,749,719	9,664,474
Interest expense	(6,947,311)	(4,656,519)
<b>Net interest income</b>	<b>4,802,408</b>	<b>5,007,955</b>
Fee and commission income	889,309	952,124
Fee and commission expense	(60,340)	(63,991)
<b>Net fee and commission income</b>	<b>828,969</b>	<b>888,133</b>
Net trading (losses)/gains	(187,764)	47,594
Net gains arising from investments	100,330	52,860
Other operating income/(losses)	23,650	(397)
<b>Operating income</b>	<b>5,567,593</b>	<b>5,996,145</b>
Operating expenses	(1,818,922)	(2,213,521)
Impairment losses	(1,378,904)	(1,108,874)
<b>Profit before taxation</b>	<b>2,369,767</b>	<b>2,673,750</b>
Income tax expense	(466,160)	(585,145)
<b>Net profit for the year</b>	<b>1,903,607</b>	<b>2,088,605</b>



	2017	2016
<b>Net profit for the year</b>	<b>1,903,607</b>	2,088,605
<b>Profit attributable to:</b>		
Equity shareholders of the Bank	1,900,252	2,088,605
Non-controlling interests	3,355	—
<b>Other comprehensive income:</b>		
Items that will not be reclassified subsequently to profit or loss		
– Remeasurement of net defined benefit liability	30	(398)
Items that may be reclassified subsequently to profit or loss		
– Available-for-sale financial assets :		
– Net movement in the investment revaluation reserve	(948,623)	(419,582)
<b>Other comprehensive income, net of tax</b>	<b>(948,593)</b>	(419,980)
<b>Total comprehensive income</b>	<b>955,014</b>	1,668,625
<b>Total comprehensive income attributable to:</b>		
Equity shareholders of the Bank	951,659	1,668,625
Non-controlling interests	3,355	—
<b>Basic and diluted earnings per share (in RMB)</b>	<b>0.47</b>	0.51

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION***As at 31 December 2017**(Expressed in thousands of Renminbi, unless otherwise stated)*

	31 December 2017	31 December 2016
<b>Assets</b>		
Cash and deposits with central bank	27,097,814	22,697,997
Deposits with banks and other financial institutions	1,107,946	6,421,827
Placements with banks and other financial institutions	2,882,727	619,210
Financial assets at fair value through profit or loss	179,078	320,315
Financial assets held under resale agreements	3,584,200	3,957,206
Loans and advances to customers	95,514,680	84,864,849
Financial investments:		
Available-for-sale financial assets	79,086,556	58,410,672
Held-to-maturity investments	38,644,926	31,324,703
Receivables	46,678,869	62,871,938
Long-term receivables	4,076,396	—
Property and equipment	3,089,017	1,221,493
Deferred tax assets	1,084,286	602,519
Other assets	3,249,597	4,675,377
<b>Total assets</b>	<b>306,276,092</b>	<b>277,988,106</b>
<b>Liabilities</b>		
Borrowings from central bank	584,215	3,432,407
Deposits from banks and other financial institutions	24,901,934	45,018,569
Placements from banks and other financial institutions	5,774,299	6,925,270
Derivative financial liabilities	353,220	—
Financial assets sold under repurchase agreements	11,899,583	17,043,065
Deposits from customers	160,083,783	141,604,761
Income tax payable	57,167	211,940
Debt securities issued	68,632,691	41,786,221
Other liabilities	7,865,991	4,329,900
<b>Total liabilities</b>	<b>280,152,883</b>	<b>260,352,133</b>
<b>Equity</b>		
Share capital	4,058,713	4,058,713
Other equity instrument		
Including: preference shares	7,853,964	—
Capital reserve	6,826,276	6,826,276
Surplus reserve	1,203,325	1,013,649
General reserve	3,969,452	3,696,090
Investment revaluation reserve	(882,006)	66,617
Other reserve	(3,443)	(3,473)
Retained earnings	2,603,573	1,978,101
Total equity attributable to equity shareholders of the Bank	25,629,854	17,635,973
Non-controlling interests	493,355	—
<b>Total equity</b>	<b>26,123,209</b>	<b>17,635,973</b>
<b>Total liabilities and equity</b>	<b>306,276,092</b>	<b>277,988,106</b>

# **CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

*For the year ended 31 December 2017*

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

	Attributable to equity shareholders of the Bank								Non-controlling interests	Total equity
	Share capital	Other equity instrument	Capital reserve	Surplus reserve	General reserve	Investment revaluation reserve	Other reserve	Retained earnings	Total	
Balance at 1 January 2017	4,058,713	-	6,826,276	1,013,649	3,696,090	66,617	(3,473)	1,978,101	17,635,973	- 17,635,973
Profit for the year	-	-	-	-	-	-	-	1,900,252	1,900,252	3,355 1,903,607
Other comprehensive income	-	-	-	-	-	(948,623)	30	-	(948,593)	- (948,593)
Total comprehensive income	-	-	-	-	-	(948,623)	30	1,900,252	951,659	3,355 955,014
Contribution by shareholders										
– Non-controlling interests of a new subsidiary	-	-	-	-	-	-	-	-	-	490,000 490,000
– Capital injection by other equity shareholders	-	7,853,964	-	-	-	-	-	-	7,853,964	- 7,853,964
Appropriation of profit:										
– Appropriation to surplus reserve	-	-	-	189,676	-	-	-	(189,676)	-	- -
– Appropriation to general reserve	-	-	-	-	273,362	-	-	(273,362)	-	- -
– Cash dividends	-	-	-	-	-	-	-	(811,742)	(811,742)	- (811,742)
Balance at 31 December 2017	<u>4,058,713</u>	<u>7,853,964</u>	<u>6,826,276</u>	<u>1,203,325</u>	<u>3,969,452</u>	<u>(882,006)</u>	<u>(3,443)</u>	<u>2,603,573</u>	<u>25,629,854</u>	<u>493,355</u> <u>26,123,209</u>

	Attributable to equity shareholders of the Bank								Non-controlling interests	Total equity
	Share capital	Capital reserve	Surplus reserve	General reserve	Investment revaluation reserve	Other reserve	Retained earnings	Total		
Balance at 1 January 2016	4,011,533	6,708,018	804,789	2,391,182	486,199	(3,075)	2,215,006	16,613,652	–	16,613,652
Profit for the year	–	–	–	–	–	–	2,088,605	2,088,605	–	2,088,605
Other comprehensive income	–	–	–	–	(419,582)	(398)	–	(419,980)	–	(419,980)
Total comprehensive income	–	–	–	–	(419,582)	(398)	2,088,605	1,668,625	–	1,668,625
Contribution by shareholders										
– Capital injection by ordinary shareholders	47,180	118,258	–	–	–	–	–	165,438	–	165,438
Appropriation of profit:										
– Appropriation to surplus reserve	–	–	208,860	–	–	–	(208,860)	–	–	–
– Appropriation to general reserve	–	–	–	1,304,908	–	–	(1,304,908)	–	–	–
– Cash dividends	–	–	–	–	–	–	(811,742)	(811,742)	–	(811,742)
Balance at 31 December 2016	<u>4,058,713</u>	<u>6,826,276</u>	<u>1,013,649</u>	<u>3,696,090</u>	<u>66,617</u>	<u>(3,473)</u>	<u>1,978,101</u>	<u>17,635,973</u>	<u>–</u>	<u>17,635,973</u>

## CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

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

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

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

The Bank obtained its financial institution licence No. B0170H237020001 from the Qingdao branch of the CBRC. The Bank obtained its business license with a unified social credit code 91370200264609602K from the Administration for Industry and Commerce of Qingdao City. The registered office of the Bank is located at Building No. 3, No. 6 Qinling Road, Laoshan District, Qingdao, Shandong Province, the PRC. The share capital of the Bank is RMB4.059 billion as at 31 December 2017. In December 2015, the Bank’s H-shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (Stock code: 3866).

The Bank has 13 branches in Jinan, Dongying, Weihai, Zibo, Dezhou, Zaozhuang, Yantai, Binzhou, Weifang, Qingdao Westcoast, Laiwu, Linyi and Jining as at 31 December 2017. The principal activities of the Bank and its subsidiaries (collectively the “Group”) are the provision of corporate and personal deposits, loans and advances, settlement, financial market business and other services as approved by the CBRC. The Bank mainly operates in Shandong Province.

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

### 2 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.



### 3 NET INTEREST INCOME

	2017	2016
<b>Interest income arising from</b>		
Deposits with central bank	340,988	299,027
Deposits with banks and other financial institutions	35,502	39,367
Placements with banks and other financial institutions	73,835	11,674
Financial assets at fair value through profit or loss	8,938	13,853
Loans and advances to customers		
– Corporate loans and advances	3,037,711	3,073,933
– Personal loans and advances	1,269,611	1,062,794
– Discounted bills	152,456	106,421
Financial assets held under resale agreements	427,684	318,217
Financial investments	6,258,325	4,739,188
Long-term receivables	144,669	–
Sub-total	11,749,719	9,664,474
<b>Interest expense arising from</b>		
Deposits from banks and other financial institutions	(1,049,733)	(938,553)
Placements from banks and other financial institutions	(203,201)	(57,891)
Deposits from customers	(2,605,748)	(2,226,519)
Financial assets sold under repurchase agreements	(698,102)	(387,376)
Debt securities issued	(2,356,747)	(989,802)
Others	(33,780)	(56,378)
Sub-total	(6,947,311)	(4,656,519)
<b>Net interest income</b>	<b>4,802,408</b>	<b>5,007,955</b>
Of which:		
Interest income arising from impaired financial assets identified	30,730	22,504

#### Notes:

- (1) Interest expense on financial liabilities with maturity over five years mainly included the interest expense on tier-two capital bonds issued.
- (2) Total interest income arising from financial assets that are not at fair value through profit or loss for the year ended 31 December 2017 amounted to RMB11,741 million (2016: RMB9,651 million).

Total interest expense arising from financial liabilities that are not at fair value through profit or loss for the year ended 31 December 2017 amounted to RMB6,947 million (2016: RMB4,657 million).

#### 4 NET FEE AND COMMISSION INCOME

	2017	2016
<b>Fee and commission income</b>		
Wealth management service fees	376,949	311,613
Agency service fees	258,094	314,543
Settlement fees	80,344	202,467
Custody and bank card service fees	46,081	90,987
Others	127,841	32,514
	<u>889,309</u>	<u>952,124</u>
<b>Sub-total</b>	<b>889,309</b>	<b>952,124</b>
<b>Fee and commission expense</b>	<b>(60,340)</b>	<b>(63,991)</b>
	<u>(60,340)</u>	<u>(63,991)</u>
<b>Net fee and commission income</b>	<b>828,969</b>	<b>888,133</b>
	<u>828,969</u>	<u>888,133</u>

#### 5 NET TRADING (LOSSES)/GAINS

	Note	2017	2016
Change in fair value of derivative financial instruments		(353,220)	—
Net foreign exchange gains	(i)	167,124	54,974
Net losses from debt securities and others	(ii)	(1,668)	(7,380)
		<u>(187,764)</u>	<u>47,594</u>
<b>Total</b>		<b>(187,764)</b>	<b>47,594</b>

Notes:

- (i) Net foreign exchange gains include gains from the purchase and sale of foreign currency spot, and translation of foreign currency monetary assets and liabilities into RMB, etc.
- (ii) Net losses from debt securities mainly include gains arising from the buying and selling of, and changes in the fair value of financial assets at fair value through profit or loss.

#### 6 NET GAINS ARISING FROM INVESTMENTS

	2017	2016
Net gains on disposal of available-for-sale financial assets	98,830	53,399
Others	1,500	(539)
	<u>100,330</u>	<u>52,860</u>
<b>Total</b>	<b>100,330</b>	<b>52,860</b>

#### 7 OTHER OPERATING INCOME/(LOSSES)

	2017	2016
Government grants	25,542	3,580
Net losses on disposal of property and equipment	(417)	(126)
Rental income	1,454	1,506
Others	(2,929)	(5,357)
	<u>23,650</u>	<u>(397)</u>
<b>Total</b>	<b>23,650</b>	<b>(397)</b>

## 8 OPERATING EXPENSES

	2017	2016
Staff costs		
– Salaries, bonuses and allowances	448,987	844,577
– Social insurance and housing allowances	76,046	115,456
– Staff welfare expenses	114,812	104,157
– Staff education expenses	11,344	21,831
– Labor union expenses	9,075	17,475
– Post-employment benefits – defined contribution plans	138,098	126,409
– Supplementary retirement benefits	5,200	11,840
Sub-total	803,562	1,241,745
Property and equipment expenses		
– Depreciation and amortization	315,450	299,671
– Electronic equipment operating expenses	83,577	60,061
– Maintenance	88,122	72,059
Sub-total	487,149	431,791
Tax and surcharges	54,898	132,498
Other general and administrative expenses ( <i>Note (i)</i> )	473,313	407,487
Total	1,818,922	2,213,521

*Note:*

- (i) Other general and administrative expenses include audit remunerations for auditors which amounted to RMB3.51 million for the year ended 31 December 2017 (2016: RMB3.02 million).

## 9 IMPAIRMENT LOSSES

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

## 10 INCOME TAX EXPENSE

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

	2017	2016
Current tax	631,729	768,268
Deferred tax	(165,569)	(183,123)
Total	<u>466,160</u>	<u>585,145</u>

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

	2017	2016
Profit before taxation	<u>2,369,767</u>	<u>2,673,750</u>
Statutory tax rate	25%	25%
Income tax calculated at statutory tax rate	<u>592,442</u>	<u>668,438</u>
Tax effect of non-deductible expenses for tax purpose		
– Annuity	11,043	4,393
– Entertainment expenses	3,548	2,699
– Others	9,809	137
	<u>24,400</u>	<u>7,229</u>
Tax effect of non-taxable income for tax purpose ( <i>Note (i)</i> )	<u>(150,682)</u>	<u>(90,522)</u>
Income tax	<u>466,160</u>	<u>585,145</u>

*Note:*

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

## 11 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.

	2017	2016
Weighted average number of ordinary shares ( <i>in thousands</i> )	<b>4,058,713</b>	4,058,197
Net profit attributable to equity shareholders of the Bank	<b>1,900,252</b>	2,088,605
Less: dividends on preference shares declared	<u>–</u>	<u>–</u>
Net profit attributable to ordinary shareholders of the Bank	<b><u>1,900,252</u></b>	<u>2,088,605</u>
Basic and diluted earnings per share ( <i>in RMB</i> )	<b>0.47</b>	0.51

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

	2017	2016
Number of ordinary shares as at 1 January	<b>4,058,713</b>	4,011,533
Increase in weighted average number of ordinary shares	<u>–</u>	<u>46,664</u>
Weighted average number of ordinary shares	<b><u>4,058,713</u></b>	<u>4,058,197</u>

## 12 DERIVATIVE FINANCIAL INSTRUMENTS

	31 December 2017			31 December 2016		
	Nominal amount	Fair value Assets	Liabilities	Nominal amount	Fair value Assets	Liabilities
Foreign exchange rate derivatives:						
– Currency swap	<u>8,233,092</u>	<u>–</u>	<u>(353,220)</u>	<u>–</u>	<u>–</u>	<u>–</u>
Total	<b><u>8,233,092</u></b>	<b><u>–</u></b>	<b><u>(353,220)</u></b>	<b><u>–</u></b>	<b><u>–</u></b>	<b><u>–</u></b>

## 13 FINANCIAL INVESTMENTS

	31 December 2017	31 December 2016
Available-for-sale financial assets	79,086,556	58,410,672
Held-to-maturity investments	38,644,926	31,324,703
Receivables	46,678,869	62,871,938
Total	<u>164,410,351</u>	<u>152,607,313</u>

### (1) Available-for-sale financial assets

	Note	31 December 2017	31 December 2016
Debt securities	(i)	30,332,516	30,584,602
Wealth management products issued by financial institutions	(ii)	20,997,129	1,502,025
Asset management plans	(ii)	13,912,231	4,595,499
Investment funds	(ii)	8,634,391	20,314,636
Trust fund plans	(ii)	5,187,039	1,390,660
Equity investments	(iii)	23,250	23,250
Total		<u>79,086,556</u>	<u>58,410,672</u>

#### (i) Debt securities issued by the following institutions:

	31 December 2017	31 December 2016
In Mainland China		
– Government	2,708,237	1,447,726
– Policy banks	11,024,741	9,379,448
– Banks and other financial institutions	10,963,707	15,199,065
– Corporate entities	5,635,831	4,558,363
Total	<u>30,332,516</u>	<u>30,584,602</u>
Unlisted	<u>30,332,516</u>	<u>30,584,602</u>

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

(iii) Available-for-sale unlisted equity investments do not have any quoted market prices and their fair values cannot be measured reliably. Therefore, these equity investments are stated at cost less any impairment losses (if any).

**(2) Held-to-maturity investments**

	<b>31 December 2017</b>	31 December 2016
Debt securities issued by the following institutions in Mainland China		
– Government	<b>11,244,166</b>	10,042,362
– Policy banks	<b>14,748,401</b>	11,792,171
– Banks and other financial institutions	<b>10,888,829</b>	8,070,558
– Corporate entities	<b>1,763,530</b>	1,419,612
Carrying value	<b>38,644,926</b>	31,324,703
Unlisted	<b>38,644,926</b>	31,324,703

**(3) Receivables**

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

**14 PROFIT APPROPRIATION**

- (1) At the Bank's board of directors meeting held on 23 March 2018, the directors approved the following profit appropriation for the year ended 31 December 2017:

- Appropriated RMB190 million to surplus reserve;
- Appropriated RMB273 million to general reserve;
- Declared cash dividends to all ordinary shareholders of RMB812 million representing RMB0.20 per share (before tax).

The profit appropriation resolution mentioned above has yet to be approved by the annual general meeting.



- (2) At the 2016 annual general meeting held on 11 May 2017, the shareholders approved the following profit appropriation for the year ended 31 December 2016:
- Appropriated RMB209 million to surplus reserve;
  - Appropriated RMB1,305 million to general reserve;
  - Declared cash dividends to all shareholders of RMB812 million representing RMB0.20 per share (before tax).
- (3) At the 2015 annual general meeting held on 10 May 2016, the shareholders approved the following profit appropriation for the year ended 31 December 2015:
- Appropriated RMB181 million to surplus reserve;
  - Appropriated RMB505 million to general reserve;
  - Declared cash dividends to all shareholders of RMB812 million representing RMB0.20 per share (before tax).

## **15 SEGMENT REPORTING**

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

Segment income, expense, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment income, expenses, assets, and liabilities are determined before intra-group balances, and intra-group transactions are eliminated as part of the consolidation process. Segment capital expenditure is the total payment during the period to acquire property and equipment, intangible assets and other long-term assets.

The Group defines its reporting segments based on the following for management purpose:

### **Corporate banking**

This segment represents the provision of a range of financial products and services to corporations, government agencies and financial institutions. The products and services include corporate loans, deposit taking activities, agency services, remittance and settlement services.

### **Retail banking**

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

### **Financial market business**

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

### **Unallocated 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.

Year ended 31 December 2017					
	Corporate banking	Retail banking	Financial market business	Unallocated items and others	Total
External net interest income	1,958,337	236,682	2,546,823	60,566	4,802,408
Internal net interest income/(expense)	919,154	632,903	(1,550,098)	(1,959)	–
Net interest income	2,877,491	869,585	996,725	58,607	4,802,408
Net fee and commission income	129,953	295,601	326,401	77,014	828,969
Net trading losses	–	–	(187,764)	–	(187,764)
Net gains arising from investments	–	–	100,330	–	100,330
Other operating income	1,240	1,691	91	20,628	23,650
Operating income	3,008,684	1,166,877	1,235,783	156,249	5,567,593
Operating expenses	(941,258)	(461,355)	(358,656)	(57,653)	(1,818,922)
Impairment losses	(1,222,366)	(68,149)	(20,000)	(68,389)	(1,378,904)
Profit before taxation	<u>845,060</u>	<u>637,373</u>	<u>857,127</u>	<u>30,207</u>	<u>2,369,767</u>
Other segment information					
– Depreciation and amortisation	<u>(129,233)</u>	<u>(176,398)</u>	<u>(9,508)</u>	<u>(311)</u>	<u>(315,450)</u>
– Capital expenditure	<u>248,416</u>	<u>339,076</u>	<u>18,276</u>	<u>4,387</u>	<u>610,155</u>
31 December 2017					
	Corporate banking	Retail banking	Financial market business	Unallocated items and others	Total
Segment assets	85,404,515	41,750,418	173,894,074	4,142,799	305,191,806
Deferred tax assets					1,084,286
Total assets					<u>306,276,092</u>
Segment liabilities/Total liabilities	<u>108,835,812</u>	<u>55,028,688</u>	<u>113,004,905</u>	<u>3,283,478</u>	<u>280,152,883</u>
Credit commitments	<u>19,013,368</u>	<u>407,964</u>	<u>–</u>	<u>–</u>	<u>19,421,332</u>

	Year ended 31 December 2016				
	Corporate banking	Retail banking	Financial market business	Unallocated items and others	Total
External net interest income	2,315,378	279	2,692,298	–	5,007,955
Internal net interest income/(expense)	488,712	895,800	(1,384,512)	–	–
Net interest income	2,804,090	896,079	1,307,786	–	5,007,955
Net fee and commission income	234,308	337,265	316,560	–	888,133
Net trading gains	–	–	47,594	–	47,594
Net gains arising from investments	–	–	52,860	–	52,860
Other operating income/(losses)	1,216	1,601	99	(3,313)	(397)
Operating income	3,039,614	1,234,945	1,724,899	(3,313)	5,996,145
Operating expenses	(1,104,564)	(593,426)	(515,531)	–	(2,213,521)
Impairment losses	(813,734)	(189,640)	(105,500)	–	(1,108,874)
Profit before taxation	<u>1,121,316</u>	<u>451,879</u>	<u>1,103,868</u>	<u>(3,313)</u>	<u>2,673,750</u>
Other segment information					
– Depreciation and amortisation	<u>(125,018)</u>	<u>(164,514)</u>	<u>(10,139)</u>	<u>–</u>	<u>(299,671)</u>
– Capital expenditure	<u>235,379</u>	<u>309,741</u>	<u>19,089</u>	<u>–</u>	<u>564,209</u>
31 December 2016					
	Corporate banking	Retail banking	Financial market business	Unallocated items and others	Total
Segment assets	<u>77,416,754</u>	<u>34,620,377</u>	<u>165,348,456</u>	<u>–</u>	<u>277,385,587</u>
Deferred tax assets					<u>602,519</u>
Total assets					<u>277,988,106</u>
Segment liabilities/Total liabilities	<u>93,973,719</u>	<u>51,085,550</u>	<u>115,292,864</u>	<u>–</u>	<u>260,352,133</u>
Credit commitments	<u>22,354,190</u>	<u>371,657</u>	<u>–</u>	<u>–</u>	<u>22,725,847</u>

## 16 COMMITMENTS AND CONTINGENT LIABILITIES

### (1) Credit commitments

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

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

	31 December 2017	31 December 2016
Bank acceptances	14,892,929	17,084,672
Letters of credit	1,887,946	2,750,188
Letters of guarantees	2,103,693	2,324,330
Unused credit card commitments	407,964	371,657
Loan commitments	128,800	195,000
Total	<u>19,421,332</u>	<u>22,725,847</u>

The Group may be exposed to credit risk in all the above credit businesses. Management periodically assesses credit risk and makes provision for any probable losses. As the facilities may expire without being drawn upon, the total of the contractual amounts shown above is not representative of expected future cash outflows.

### (2) Credit risk-weighted amount

	31 December 2017	31 December 2016
Credit risk-weighted amount of contingent liabilities and commitments	<u>9,734,322</u>	<u>9,328,680</u>

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

### (3) Operating lease commitments

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

	31 December 2017	31 December 2016
Within one year (inclusive)	110,311	109,494
After one year but within five years (inclusive)	277,915	277,007
After five years	84,216	109,968
Total	<u>472,442</u>	<u>496,469</u>

**(4) Capital commitments**

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

	<b>31 December 2017</b>	31 December 2016
Contracted but not paid for	<u>295,637</u>	<u>476,479</u>
Total	<u><b>295,637</b></u>	<u><b>476,479</b></u>

**(5) Outstanding litigations and disputes**

As at 31 December 2017 and 2016, there were no significant legal proceedings outstanding against the Group. Management is in the opinion that it is not necessary to provide any contingent liabilities as at the reporting period.

**(6) Bonds redemption obligations**

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

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

	<b>31 December 2017</b>	31 December 2016
Bonds redemption obligations	<u><b>3,834,175</b></u>	<u><b>3,390,234</b></u>

**(7) Pledged assets**

	<b>31 December 2017</b>	31 December 2016
Investment securities	<b>14,062,133</b>	22,704,450
Discounted bills	<u>–</u>	<u>510,925</u>
Total	<u><b>14,062,133</b></u>	<u><b>23,215,375</b></u>

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. These deposits are not available for the Group's daily operations.

The Group's pledged assets in relation to the purchase of bills under resale agreements can be sold or repledged. As at 31 December 2017, the Group did not have these pledged assets. The fair value of such pledged assets was RMB1,955 million as at 31 December 2016. As at 31 December 2017 and 31 December 2016, the Group did not sell or repledge any pledged assets which it has an obligation to repurchase when they are due.

## 6. RELEASE OF RESULTS ANNOUNCEMENT AND 2017 ANNUAL REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This results announcement will be published on the HKEXnews website of the Hong Kong Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the website of the Bank ([www.qdccb.com](http://www.qdccb.com)). The 2017 annual report containing all the information required by the Listing Rules will be dispatched to the shareholders and released on the website of the Hong Kong Stock Exchange and the website of the Bank in due course.

This results announcement was prepared in both Chinese and English versions, where there is a discrepancy between the Chinese and English versions, the Chinese version shall prevail.

By Order of the Board  
**Bank of Qingdao Co., Ltd.\***  
**Guo Shaoquan**  
Chairman

Shandong, the PRC, 23 March 2018

*As at the date of this announcement, the Board comprises Mr. Guo Shaoquan, Mr. Wang Lin, Mr. Yang Fengjiang and Ms. Lu Lan as executive directors; Mr. Zhou Yunjie, Mr. Rosario Strano, Mr. Wang Jianhui, Ms. Tan Lixia, Mr. Marco Mussita and Mr. Choi Chi Kin, Calvin as non-executive directors; Mr. Wang Zhuquan, Mr. Wong Tin Yau, Kelvin, Mr. Chen Hua, Ms. Dai Shuping and Mr. Simon Cheung as independent non-executive directors.*

\* *Bank of Qingdao Co., Ltd. is not an authorized institution within the meaning of the Banking Ordinance (Chapter 155 of the Laws of Hong Kong), not subject to the supervision of the Hong Kong Monetary Authority, and not authorized to carry on banking and/or deposit-taking business in Hong Kong.*