

(A joint stock company incorporated in the People's Republic of China with limited liability) (於中華人民共和國註冊成立的股份有限公司) (Stock code : 3866) (股份代號: 3866)



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT 環境、社會及管治報告 2016

青島銀行股份有限公司







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About this report

About this report

This report describes the efforts and achievements of Bank of Qingdao Co., Ltd. (hereinafter referred to as "Bank of Qingdao", "the Bank", "our Bank" and "we") in economic, social and environmental areas in 2016 and shows Bank of Qingdao's assumption of social responsibility and commitment to sustainable development.

Reporting period

The reporting period is from 1 January 2016 to 31 December 2016, with some of the contents beyond this period.

Reporting cycle

This report is prepared annually.

Reporting scope

This report focuses on Bank of Qingdao Co., Ltd. as its main reporting entity, covering its head office and branches.

Basis of preparation

This report is prepared according to the disclosure requirements of The Environmental, Social and Governance Reporting Guide of The Stock Exchange of Hong Kong Limited and with reference to:

The Sustainability Reporting Guidelines of the Global Reporting Initiative (GRI4.0)

Opinions of the General Office of the China Banking Regulatory Commission on Strengthening the Social

Responsibility of Banking Financial Institutions

Guidelines of the Shanghai Stock Exchange on Environmental Information Disclosure of Listed Companies

Guidelines of the China Banking Association on the Corporate Social Responsibility of Banking Institutions of China

Explanation of information

Financial information in this report is partly based on 2016 financial statements prepared in accordance with the International Financial Reporting Standards (IFRS) and audited by KPMG. Other information is sourced from statistical data of the Bank's internal systems and branches. Cases cited are real cases in the Bank's operations. Unless otherwise stated, Renminbi is the functional currency throughout the report.

Assurance Approach of the Report

The Board of Directors of Bank of Qingdao Limited and all directors undertake that the information in this report contains no false record, misleading statement or material omission, and assume individual and joint and several liabilities to the authenticity, accuracy and completeness of the information in this report.

KPMG Huazhen LLP was appointed to perform independent limited assurance on the report in accordance with the International Standards on Assurance Engagements (ISAE) 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information and issued an assurance report.

Issuance form

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Preparer of the report

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Chairman's Statement

GUO Shaoquan Chairman Despite profound and complex changes in domestic and international environments in 2016, China's supply-side structural reform yielded encouraging results, marking a good start for the 13th five-year plan and foretelling a promising outlook for the years ahead. For Bank of Qingdao, the year 2016 marks the first year of operation following its successful listing on the Hong Kong Stock Exchange, the 20th anniversary of its founding and a brand-new year for all its employees to move forward and scale new heights.

Commitment to strategic deployment: We adhered to a new development concept, kept abreast of new and changing economic pulses and stayed aligned with strategic focuses of the state, Shandong Province and Qingdao and other cities. We lent more support to marine economy, strategic emerging industries, green financing programmes and key engineering projects, and served significant development strategies such as the Belt and Road Initiative and wealth management and key areas such as renovation of shanty towns, rail transport, small enterprise growth and new-style urbanisation. In doing so, we made due contributions to financial reform, economic growth and social progress.

Reliance on bank-wide unity and involvement: Guided by our value of building a bank founded on the basis of compliance, governed by professional expertise, led by innovation and empowered by technology, we strived to maintain sound and sustainable development. We are committed to strengthening corporate governance, optimising management procedures and improving customer experience, for the purpose of building an outstanding bank that provides warm services, boasts strong risk management and benefits from advanced technology. In the meantime, we played an increasingly important role in raising public awareness of environmental protection and energy conservation and emission reduction by continuously launching green financial products and services, improving the green credit system and issuing green financial bonds. We put green and low-carbon operations into practice, invested more in technology and promoted e-banking, mobile finance and other services to balance business growth and environmental protection.

Engagement in caregiving: We advocated a caring corporate culture, and formed a cultural environment centred on integrity, cohesion, solidarity and motivation. We strengthened the efforts to build a talent pool and career development paths and created various channels for employee growth and promotion, so that "no competent employee will be denied a position". In addition, we provided care for disadvantaged groups and poor people. We organised volunteer activities to, for instance, popularise financial knowledge and care for children of migrant families, actively participated in activities to support micro and small enterprises and special groups, and strongly supported educational and public welfare undertakings through such means as setting up the Bank of Qingdao Scholarship Fund and the Bank of Qingdao Dream Fund.

Joint strides into the future: The year 2017 will witness deepened supply-side structural reform across the country. Despite complex domestic and international situations that are set to linger over the year and more pressing business objectives, we are confident that as long as we keep making progress while maintaining stability and improving quality and efficiency, the dream of the Bank surviving and thriving to see its centenary is within our reach. We wish to join hands with the public and stand firmly together even in difficult times on our shared journey of hope and dream, moving toward a splendid prospect marked by higher efficiency, enhanced quality, optimised structure and stronger momentum.

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

President's Statement

WANG Lin President

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Against the backdrop of complex and challenging economic and financial situations looming at large both domestically and internationally, as well as changing evolvement of reform in 2016, Bank of Qingdao, under the guidance of its operating philosophies of "momentum stimulation, sound development, risk control and market value increase", carried out business activities while ensuring compliance, and was able to achieve sound development. It accelerated the creation of more innovative products and services, actively supported regional economic and social development and people's lives through its services and strived to provide its customers with specialised, warm and insightful service experience.

We have an unyielding commitment to the regional economy and achieved encouraging results in the field of comprehensive financial services. In 2016, we put state policies and requirements relating to supply-side structural reform into action, relentlessly improved the quality and efficiency with which financial services supported real economy and focused on financial areas closely linked to people's livelihood. We devoted our hearts to serving key engineering projects and key programmes at the provincial and municipal levels, provided stronger support for enterprises in marine economy, innovative technology and other industries, built a financial platform underpinning entrepreneurship and innovation, and supported the development of modern agriculture.

We focused on providing inclusive financial services and made new progress in improving customer service experience. In 2016, we accelerated our efforts to execute an Interfaced Bank strategy. In order to build an accessible onestop retail bank, we built six interfaced service platforms, i.e. the transportation system, the medical system, the cloud payment system, the park payment system, the core network-based corporate financing platform and the asset management system. We lent strong support to consumer finance with a focus on housing loans, as well as supply chain finance with a reliance on "Chain e-Credit" products, providing multi-level comprehensive wealth management services for the public. In addition, we founded 13 community-level banks and two branches specifically targeting micro and small enterprises, and mobilised a "Door-to-Door Service" team to provide specialised, caring and customised OTC services for community residents.

We rallied behind the driving force of technological innovation and mounted new heights in terms of operating management. In 2016, we launched the Bank's new customer service system that would lay a solid foundation for further deepening our business model transformation and reinforcing the performance of our special services. In addition, by leveraging IT technologies, we developed a social mediabased customer interaction centre, remodelled our e-banking services and optimised the mobile payment environment, all of which resulted in a remarkable enhancement in customer experience, smart service and value creation. We are a keen practitioner of green concepts and made new contributions to the sound and healthy development of the banking sector. In 2016, as one of the first green bond issuer among city commercial banks, the Bank issued two rounds of green bonds and raised a fund of RMB8 billion to support green credit projects amounted RMB4.465 billion. In addition, the Bank served as the lead underwriter for the issuance of China's first social impact bond that raised a fund of RMB500 million to be used for poverty alleviation programmes in Yinan County, Shandong Province. As a successful endeavour to combine a social impact bond with a precise approach to poverty alleviation, it created a new precedent for China's social impact bonds.

We deepened our corporate culture and took new actions to fulfil social responsibility. In 2016, we carried out a series of activities, such as the celebration of the Bank's 20th anniversary, the employee sports activities and skill competition, and organised speech activities on topics such as "Growing with Bank of Qingdao", "Making Contribution to the Anniversary" and "How I Understand Service as a Service Specialist". Those activities further enhanced employees' involvement and cohesion. In addition, we carried out targeted poverty alleviation initiatives, helped people in disaster-stricken areas, provided care for vulnerable groups, and organised volunteer activities. All those actions are simply limited examples of us giving back to society. We also provided strong support for the causes of education and public welfare. We continued to provide financial aid for college students in higher education institutions, including Ocean University of China, Qingdao University and Qingdao University of Science and Technology. We expanded the scale of the Bank of Qingdao Dream Fund and continued to support 100 high school students from poor families in the No. 1 Middle School of Anshun, Guizhou Province and two of Bank of Qingdao-sponsored classes - Class Motivation and Class Inspiration - in the No.2 Middle School of Anshun, Guizhou Province.

Freedom to follow our hearts and explore new possibilities paves the way for us to overcome obstacles and welcome a promising landscape. Looking into the future, we see the presence of increasingly grave challenges, but our dreams are clearer than ever as we set out on our journey one step at a time. With a down-to-earth spirit that pushes us to seize every single day and entrepreneurial ambition and perseverance, we are marching toward our shared goals and a more fruitful future.



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

Company Overview

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Company Overview

Bank of Qingdao was founded on 21 November 1996. With its base in Qingdao, it provides services across Shandong Province. As of the end of December 2016, it had 111 offices, including one head office operation, one branch and 71 sub-branches in Qingdao. The Bank was listed on the Hong Kong Stock Exchange on 3 December 2015.

Leveraging post-listing advantages such as adequate capital, standardised operations and enhance branding, the Bank strived to enhance risk identification and operation capabilities and achieve stable growth of its market value. We made efforts to practice and upgrade our "Interfaced Bank" concept. We went beyond system and technological interfaces and expanded to platform interfaces in an effort to achieve a deepened integration of resources, carry out customer-centred cross-sales and provide comprehensive financial services. We strived to make retail services more comprehensive and build the bank into the most accessible retail bank for the public. With "Interfaced Banking" as our strategy to attract customers and "Warm Services" to retain them, the Bank endeavoured to enrich our products and increase the value from the life cycles of customers and their families. We provided more specialised services and forged our core business competitiveness. We strengthened our capabilities of providing comprehensive services covering loans, bonds and stocks in special financial areas relating to people's livelihood, supply chains and new economy. We strived to innovate the financial market and continuously improve our capabilities of providing comprehensive services. Riding the trend of individuals managing their own assets, and seizing the opportunity of multidivision structural reforms, the Bank enhanced its investment and asset allocation capabilities and built an asset management platform that was in line with the future trend of deepening financial and regulatory reform.

The Bank continued to reform and improve its governance, risk control, IT capabilities and other areas. With our six unique strengths – Mature Governance, Warm Services, Strong Risk Control, Advanced Technology, Clear Positioning and Leading Models – gradually taking shape and holding ground, the Bank is well positioned to provide all-inclusive financial services for its customers. In 2016, the Bank won the "Five-Star Diamond Award" – a prestigious global award in the service industry – for the first time and ranked 51st in the list of Top 100 Chinese Banks prepared by the China Banking Association.







Company Overview

Corporate Governance



Bank of Qingdao Governance Structure

The Bank is in strict compliance with regulatory requirements and strives to improve its corporate governance structure. It has formed a modern corporate governance structure consisting of the General Meeting of Shareholders, the Board of Directors, the Board of Supervisors and Senior Management, each of which has clear roles and responsibilities and performs such role and responsibilities independent of others in a manner that allows collaboration as well as checks and balances to ensure standardised and efficient performance of corporate governance. By the end of 2016, the Board of Directors of the Bank had 15 members: 6 non-executive directors, 4 executive directors and 5 independent non-executive directors. The Board of Supervisors had 7 members: 1 shareholder supervisor, 3 employee supervisors and 3 external supervisors. During the reporting period, the Board of Directors held 12 meetings, endorsed 55 resolutions and reviewed or heard 47 reports; the Board of Supervisors held 8 meetings, endorsed 24 resolutions and reviewed or heard 40 reports.

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Key KPIs

Type of KPI	Name of KPI	Unit	2016	2015
	Operating income	RMB100 million	59.96	50.06
Economic KPIs	Net profit	RMB100 million	20.89	18.14
	Basic earnings per share	RMB	0.51	0.58
	Total assets	RMB100 million	2,779.88	1,872.35
	Total loans	RMB100 million	871.68	726.96
	Total deposits	RMB100 million	1,416.05	1,153.22
	Return on average total assets	%	0.90	1.06
	Return on equity	%	12.20	13.74
	Non-performing loan ratio	%	1.36	1.19
	Provision coverage ratio	%	194.01	236.13
	Capital adequacy ratio	%	12.00	15.04
	Total paid taxes	RMB100 million	9.76	8.62
	Charity donation	RMB10,000	634.28	303.70
	Social contribution per share	RMB	2.21	2.15
Social KPIs	Headcount	Person	3,276	2,970
	Percentage of female employees	%	54.33	53.94
	Volunteer activity participants	Person-time	2,364	1,762
	Average trainings per person per year	In number	16	6.83
Environmental KPIs	Balance of green credit	RMB100 million	62.62	26.04
	Balance of loans to high-pollution, high-energy-consumption or overcapacity industries	RMB100 million	27.23	34.09
	E-banking replacement ratio	%	90.31	82.49
	Head office power consumption	10,000 kWhs	286	283
	Head office water consumption	Ton	14,379	12,008
	Head office paper consumption	1 million sheets	1.04	0.90
	Head office oil consumption	Litre	66,000	69,000



Company Overview

Honours and Awards

January 2016 Qingdao News

The Bank won five awards in the 2015 (Eighth Session) Financial Excellence Awards -**Best Comprehensive** Service Bank, Leading Internet Finance Bank. **Best Financial Institution** for Entrepreneurship, Innovation and Excellence, Most Popular Bankcard (Metro Card) and Best WeChat Public Platform (Finance)

January 2016 **Research Society** of Ideological and Political Work of China **Financial Institutions**

2014-2015 Advanced Organisation in Corporate Culture Construction in China's Financial System

March 2016 The People's Bank of China, Qingdao

April 2016 The People's Bank of China, Qingdao Central Sub-branch

Advanced Organisation in Financial Stability Work, Advanced Organisation in the Work of Reporting Major Incidents and 2015 Outstanding Performance in Anti-Telecommunications Fraud and Anti-Money Laundering Work

June 2016 The Chinese **Banker Magazine**

The personal banking business was awarded the Top 10 Wealth Management Innovation Award



December 2016 **Electronic Finance** magazine

The Bank's new customer service system won the 2016 Outstanding Contribution Award for Technological Innovation in the Financial Industry -Outstanding Contribution to Development Innovation

November 2016

Qingdao Office

The Bank was awarded

Advanced Organisation

in the Banking Sector in

Qingdao for Popularising

Financial Knowledge"

the title of the "2016

CBRC



December 2016 **Public Security** Bureau of Qingdao

The Bank won the title of the "2016 Excellent Traffic Safety Organisation".

July 2016 China Banking Association

June 2016

The People's

Sub-branch

among Financial

Bank of China,

The Bank was awarded

the Level-A Organisation

for Overall Performance

Institutions in Qingdao

for four consecutive years

Qingdao Central

July 2016

The Banker, a

UK magazine

in terms of the core

tier-one capital in the

World Bank Top 1000

Banker, a UK magazine,

list released by the

with its ranking

increasing by 130

compared to 2015

The Bank ranked 353rd

The Bank ranked 51st in China's banking sector and 5th in China's city commercial banks in terms of the core tier-one net capital in 2016 based on the results of the Gyroscope evaluation system of the steady development capabilities of commercial banks in China's Top 100 Banks List



November 2016 Ching Business News

2016 the Most Competitive City Commercial Bank in the Financial Value List of China Business News

December 2016 **Financial Times**

The Bank won two awards of Top 10 City Commercial Bank and Top 10 Small and Medium-Sized Banks in Wealth Management Services at the China Financial Institutions Gold Medal – Golden Dragon Award Contest

Trade Finance magazine Best Trade Finance City Commercial Bank

December 2016 China Banking Association

The Business Departments of the Jinan Branch and the West Coast Branch, as well as the Maidao Sub-branch won the title of Top 1000 Demonstration Organisation for Civilised and Standardised Services in China's Banking Sector in 2016



December 2016

Laboratory

World Brand

2016 (the Tenth Session)

Five-Star Diamond Award

Social Responsibility Governance

Social Responsibility Governance

Bank of Qingdao Co., Ltd. 2016 Environmental. Social and Governance Report



Responsibility Governance System

ESG Management Structure

Guided by the Board of Directors and led by the senior management, the General Office at the head office is responsible for organising and implementing social responsibility work, which is carried out by various departments at the head office and branches through coordination and collaboration. The Bank insists a development concept that gives equal emphasis on social and economic responsibilities, and is committed to delivering its ESG concepts and principles in various undertakings such as formulating credit policies, selecting customer bases and designing financial products.

Decision makers - The Board of Directors and senior management

Reviewing and deciding on social responsibility strategies and plans, material issues and other significant matters and performing a specific review on the annual ESG report.

Organisers – The General Office at the head office

Mobilising and coordinating various departments to carry out social responsibility work, including organising relevant activities, collecting social responsibility-related materials and preparing ESG reports.

Executives - Relevant departments at the head office and branches

Carrying out social responsibility activities within their work scope, collecting data on ESG indicators, etc.



Communication to Stakeholders

In order to understand the expectations and requirements of stakeholders, the Bank has built various communication channels that are embedded into its daily operations, and forged a communication mechanism to enhance regular communication with stakeholders through means such as meetings, reports and seminars. In doing so, the Bank aims to improve its capabilities and adequacy of social responsibility governance.

Stakeholders	Expectations and requirements	Means of communication	Responses and measures
Governments	 Support real economy Implement macro-economic polices Promote local economic development Expand financial inclusion services 	 Documents and guidelines on policies Working meetings Information distribution Specific topic reports 	 Support the Belt and Road Initiative Support local infrastructure construction Promote the optimisation and upgrade of the industrial structure Provide innovative services for small and micro businesses
Regulators	 Comply with regulatory requirements Maintain financial stability Take up social responsibility 	 Regulatory policies Inspection and regulation Work reporting 	 Strengthen internal control Improve the overall risk management system Engage in poverty alleviation efforts
Shareholders	 Ensure sustainable business operation Improve profitability Improve returns on equity Increase corporate value 	 General meetings of shareholders Information disclosure Performance roadshows Research on and exchanges with investors 	 Improve the corporate governance structure Make corporate development plans Disclose information in a timely manner Enhance management of investor relations
Customers	 Improve service quality and efficiency Provide a richer selection of financial products Ensure information and fund security Expand service channels 	 Marketing activities Customer hotline Surveys WeChat, online banking and other digital platforms 	 Improve customer experience Innovate financial products Protect consumer rights and interests Increase service locations Popularise financial knowledge
Employees	 Improve employees' benefits Protect the rights and interests of employees Provide professional training and career development opportunities Enrich free-time activities 	 Trade union General meetings of employee representatives Seminars Feedback Discussions and visits 	 Improve the compensation and welfare system Collect employees' suggestions from various channels Improve the training system Organise various recreational and sports activities Help employees in difficult situations
Vendors	 Fair procurement Cooperation for win-win outcomes 	 Negotiation Conclusion of contracts and agreements Tendering and bidding 	 Build a procurement management system Enhance business cooperation
Partners	 Mutually beneficial cooperation Communication and exchanges of ideas 	MeetingsJoint projects	 Build financial alliance for the Belt and Road Initiative Enhance interbank exchanges and cooperation
Communities	 Care for disadvantaged groups Organise public service activities 	Visits Seminars	 Financial aid to students Volunteer activities
Environment	 Low-carbon and environmentally friendly operations Sustainable development 	 Energy conservation and emission reduction policies Green public service activities 	Green credit Green office

Analysis of Material Issues

The Bank selects relevant issues on the basis of the needs of various stakeholders, as well as state macro-economic policies, corporate strategic focuses, hotspot social issues and other factors. It performs a materiality test based on stakeholder surveys and determines material issues that need to be disclosed in the report.

Identification

Identifying issues that are vitally important to the Bank's social responsibility in economic, environmental and social respects by considering the needs of various stakeholders, state macro-economic policies, corporate strategic focuses, hotspot social issues, industry practices and other factors.

Evaluation

Distributing surveys to stakeholders and inviting shareholders, customers, employees and other types of stakeholders to rate the importance of selected issues (with 240 valid surveys recovered).

Selection

Building a materiality matrix based on survey results and management's judgment on the importance of the issues, comprehensively evaluating and rating the importance of the issues and deciding on vitally important issues that need to be disclosed.

Materiality Matrix



Support for Real Economy

Bank of Qingdao Co., Ltd.

2016 Environmental, Social and Governance Report

Support for Real Economy

Implementation of Macro-economic Policies

With a deep understanding of the guidance of the Central Economic Work Conference, the Bank is committed to putting various state de-capacity and restructuring measures into action. It formulated and implemented credit policies that were in line with state and local development strategies, and used portfolio management tools in a flexible manner to keep adjusting and optimising its credit structure through such means as credit line management, reference to borrowers' credit history and establishment of a bottom line for access to credit. It focused on supporting governmentfunded financial institutions, local infrastructure construction, real economy and small and micro businesses to ensure steady growth and quality of its credit assets.

Commitment to supply-side structural reform

Embarking on a mission to deliver the development concepts of innovation, harmonisation, green, openness and sharing, the Bank continued to improve the quality and efficiency with which it serves real economy. It lent stronger support to efforts that aimed to boast economic growth, adjust structures, facilitate transformation, increase efficiency, benefit people's livelihood and prevent risk, and fully supported the initiatives to cut overcapacity, undertake deleveraging processes, reduce costs and improve weak links. This enabled the Bank to provide credit in a way that is more adaptive, responsive and suited to changes in demand. The Bank expanded its credit availability for ocean economy, strategically important emerging industries, green credit projects and key engineering projects; helped businesses faced with temporary difficulties achieve industrial transformation and upgrade and reduce financing cost through a committee formed by bank creditors; and placed a strong control over the availability of credit to businesses in industries characterised by high energy consumption, high pollution and overcapacity and optimised its credit asset structure and reduced the proportion of non-performing loans by taking legal actions to recover debt, restructuring debt, transferring creditors' rights, etc.

Case

The Bank provided loans and letters of guarantee to support the construction of an intercity rail transit system for the West Coast New District of Qingdao. Thanks to the Bank's support, the construction, test run and trial operation of the rail transit system connecting the Red Island of Qingdao to Jiaonan have been completed. The first phase of construction for the Red Island – Jinan rail transit project (from Jinggang Mountain to Dazhushan Mountain) spanned 28.803 kilometres. Once completed and put into use, it will greatly increase the urban transportation capacity of the new district and significantly reduce emissions of carbon dioxide and other exhaust gases.





Bank of Qingdao Co., Ltd. 2016 Environmental, Social and Governance Report

Support for the Belt and Road Initiative

In 2015, seizing the opportunity of the General Administration of Customs initiating regional customs clearance integration reform in customs offices along the Silk Road Economic Belt, the Bank co-founded the Belt and Road Financial Alliance with financial institutions in provinces along the Silk Road Economic Belt. In 2016, the Bank continued to explore and implement the Belt and Road Initiative, and strived to make breakthroughs in areas such as infrastructure development, industrial system construction, opening-up of border areas and platform construction, and elevate the overall level of financial services in the region.





Stronger financial support for technology, innovative and start-up enterprises

The Bank actively supported the development of technology, innovative and start-up enterprises and fostered and expanded the new energy, energy conservation and environmental protection, biomedical, high-end manufacturing, Internet+ and other industries underpinned by scientific and technological innovation. It improved the standards on customer and project access to credit, defined the key areas and directions under credit support, and accelerated the innovation of financial products and services to provide full financial support for rising technology enterprises.

By the end of 2016, the Bank supported 312 technology, innovative and start-up enterprises with loan balances, which amounted to RMB4.914 billion, representing a 26.68% increase from 2015.

Case 1

In 2016, the Bank provided a customised, comprehensive financial service package for a leading POS machine manufacturer and system developer in China, providing working capital loans, bank acceptance bills, letters of guarantee (including advance payment guarantees, performance guarantees, bid bonds and warranty guarantees) and other financial services. The company is now a top three POS brand in the domestic market, with at least the fourth largest market share. It enjoys leading market shares in Israel and South Africa, with sales partners in Europe and North America.

Case 2

The Bank provided an unsecured loan of RMB500,000 for a company that primarily engages in the R&D, testing and system integration of automobile electronic control suspension systems. The company is a technology enterprise sponsored by the Qingdao Industrial Technology Research Institute, and its major shareholder is Changchun Kong Hui Auto Technology Co., Ltd. Supported by a technical team led by academicians and Ph.D holders, the company now produces technologically advanced automobile electronic control suspension systems that end the reliance on imported products and have earned several patents. However, due to heavy R&D investments and inability to achieve mass production at the early stage, the company was a loss-making enterprise at the start-up stage. Given that the company will enter into large orders with two domestic companies with a good standing, the Bank approved and distributed an unsecured loan of RMB500,000 to cover its short-term R&D expenses despite the fact that the company lacked production funds and had no valid collaterals. The Bank will provide an additional loan of RMB5 million to support the company's production after it concludes the orders.

Support for the Development of Local Economy

The Bank has an unfaltering commitment to regional economy and makes it its mission to serve and support the development of local economy. It strived to help unique and outstanding local enterprises in Shandong to become bigger and stronger, and devoted itself to providing financial services that are vital to the livelihood of people in Shandong. The Bank mobilised hundreds of billions of funds to support the construction of Qingdao Metro, Jiaodong Airport, Olympics Sailing Base, the World Expo and other key provincial and municipal projects. It set up a technology-oriented sub-branch - the first of its kind in Shandong Province - and port-oriented and metrooriented sub-branches to provide comprehensive financial services for technology enterprises and key endeavours such as port and metro projects in a specialised and intensive manner. It collected non-tax fiscal revenue on behalf of provincial, municipal and district government authorities and provided centralised payment services for the state treasury; and was involved in fund management of special accounts for Qingdao's urban roads, land resource security deposits, renovation of shanty towns and comprehensive environment treatment in urban areas. It entered into strategic partnership with the Qingdao Municipal Commission of Development and Reform, the Qingdao Municipal Commission of Rural Affairs, the Federation of Trade Unions, the Qingdao Municipal Bureau of Human Resources and Social Security, the Qingdao Municipal Bureau of Education, the Qingdao Municipal Bureau of Sport and other bureaus and commissions. Over the past three years, the Bank served as an underwriter for a total of RMB9.42 billion of secondary government bonds.

In 2016, the Bank adopted a strategy that underpinned its transformation to investment banking. Focusing on PPP projects and urban development funds, it actively participated in government-led tender and bid businesses, and strongly supported the development of livelihood-related financial services, technology finance, green finance and other businesses. In the meantime, it took proactive actions to adjust its credit structure and recorded coordinated development in terms of scale, efficiency and quality.

The Bank has established branches in 11 cities in Shandong Province, and set up planning teams in Jining and Linyi to prepare for the establishment of branches in those cities in 2017. By then, the Bank will be able to reach out to all regions in Shandong Province. By the end of 2016, the balance of the Bank's sum of corporate deposits and interbank deposits amounted to RMB92.649 billion, an increase of RMB22.721 billion from the beginning of the year. The balance of the Bank's total corporate loans was RMB58.589 billion, an increase of RMB9.34 billion from the beginning of the year. Thanks to its outstanding business performance, the Bank was among top 50 largest taxpayers in Qingdao and top 100 largest taxpayers in Shandong Province.

Support for construction of key projects

The Bank supported key customers and major projects through strategic partnership, and entered into comprehensive strategic cooperation agreements with over 20 key customers, including the Qingdao Environmental Protection Bureau, the Software and Information Services Exchange, the Qingdao Municipal Hospital, the Administrative Committee of the West Coast New District, Wanda Group, Huatong Group, Qingdao Marine Equipment Quality Supervision and Inspection Group and Qingdao Software Training. It provided them with comprehensive service solutions.

> Affordable housing

Guided by the Guiding Opinions of the General Office of the State Council on the Construction and Management of Affordable Housing Projects (Opinion of the General Office of the State Council No. [2011] 45) and the Notice of the People's Bank of China (PBC) on Improving Financial Services to Support Public Rental Housing Projects and Other Affordable Housing Projects (PBC Notice No. [2011] 193), the Bank continued to implement the policy of providing differentiated housing loans, curb investment and speculative behaviours and support people's first-time purchase of a general commercial property for residential purposes. The Bank made more efforts to provide financial services that supported infrastructure construction, industrial development and other areas that were vital to an increasingly urbanised city based on its actual needs.



Metro finance

The Bank participated in the construction of Qingdao's metro system by entering into a strategic cooperation agreement with Qingdao



Metro Group. In addition, the Bank initiated integrated planning with respect to connection to the metro ticketing system and placement of funds on the system, syndicated loans and PPP financing for metro-related projects, credit services for upstream and downstream metro customers, installation of self-service equipment along metro lines, deployment and establishment of a service branch in the Qingdao Metro Tower, retail business development and other areas. This represents the Bank's efforts to build a unique financial presence directed to customer needs and empowered by advanced information technology in Qingdao's metro system.



Support for the development of cultural industries

After state policies on the integration of cultural undertakings and financial services were unveiled, the Bank attached great importance to the development of cultural industries, and remained committed to a development concept that underpinned the importance of differentiation and uniqueness. Viewing cultural industries as a new business opportunity, the Bank experimented with diversified investment and financing models to the extent that a unique development path for combining cultural undertakings and financial services was taking shape. In its effort to explore the possibilities of culture-finance integration, the Bank is not only a supporter, but also a participant. Not only did it lend more support to cultural industries, but also actively participated in a wide range of cultural activities. It sponsored sophisticated sporting events and cultural activities, and devoted itself to promoting Qingdao's cultural events. For several consecutive years, the Bank supported and participated in the Badminton Asia Championships, the Qingdao International Sailing Week, the Qingdao International Beer Festival, the China Professional Golf Tour for Women, the "Bank of Qingdao Wei Chen Card Cup" charity night and other large activities. The Bank's involvement in those activities brought fresh vigour to Qingdao's cultural undertakings and improved the Bank's influence and competitiveness in cultural industries of the region.

Establishment of a comprehensive and strategic service platform for the integration of cultural undertakings and financial services

The Bank partnered with the Wanda Oriental Movie Metropolis, the Logistics Park for Cultural and Creative Industries, the Cultural and Creative Industry Association and other organisations to build a platform for granting credit on a bulk basis under the culture-finance model. In the meantime, it lent stronger support to cultural industries' innovation drive, and strengthened the strategic cooperation in cultural industries among governments, banks and businesses. It set up operations specifically for cultural industries in areas where comics and animation companies, film and television studios and culture media companies cluster together. Those efforts reflect the Bank's dedication to serving cultural industries with financial services.



Sector-sensitive differentiated support with industrial focuses

With respect to cultural tourism, the Bank lent strong support to infrastructure construction of Class 4A or above tourist attractions and due support to the construction of ocean theme parks, and actively experimented with new financing models for cruise ships, yachts, sailboats, sailboards and other tourism projects.

With respect to clustered cultural and creative industries, the Bank gave its priorities to enterprises that boasted core technologies with proprietary intellectual property rights and well-known enterprises. Leveraging the advantage of industrial clusters within a park, it expanded its small-business credit business.

With respect to film, television and media industries, the Bank focused on enterprises in film and television, broadcasting, journalism and publishing and culture media businesses in economically advanced and populous regions, and supported such quality projects in developed cities as the shifting of CATV to digital television and broadcasting bidirectional transformation.

Design of innovative credit products

The Bank provided large and medium-sized cultural enterprises with a package of financial services such as financing and lending, liquidity credit arrangements and cash management;

With regard to cultural enterprises in tourist attractions with stable cash flows, it adopted a model that combined fixed-asset-backed financing with closed management of income accounts;

With regard to small and medium-sized cultural enterprises that adopted an asset-light strategy, it provided unique financial service products under the culture-finance integration, such as supply chain financing, IPR pledged loans and copyright-guaranteed loans;

With regard to enterprises recording high growth and prone to high financing risk, the Bank partnered with venture capital, private equity and other channels under a model that combined equity investment and loans.

Cooperation with third parties and innovation of guaranteed financing

The Bank innovated how copyright, authorship, rights to returns and other intangible assets can be used as guarantees,

whether directly or in a portfolio. It partnered with professional appraisers to perform comprehensive evaluations on enterprises' proprietary intellectual property rights.

Improvement of the internal risk management system and risk control measures

The Bank implemented a differentiated interest rate pricing mechanism and green credit examination and approval procedures, set up customer-specific rating standards, improved risk assessment systems and business review guidelines, and effected control over full processes.

• Case

The Bank provided a loan of RMB150 million to support building the Zhonglian Plaza, a creative industrial park converted from an old factory. It is now a unique cultural and recreational area with regional influence integrating folk cultures, fashion trends and artistic creations. With its unique business model and its position as a cultural site on Nanjing Road, Shinan District, the plaza is a growth driver for the region and various industries. With businesses from various cultural and creative industries such as advertising and planning, animation and comics, performance arts and television and broadcasting joining the plaza, it is becoming a high-end brand in cultural industries in Qingdao.





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Commitment to financial technology

Developing financial technology is the Bank's innovative approach to serving real economy and the industrial transformation and upgrade of the region. It is the prerequisite for the Bank to adjust its business structure, transform the mode of development, build a professional brand and create new business drivers. The Bank has taken pre-emptive actions to gain advantages in the field of financial technology, effectively supporting the development of hi-tech enterprises in the new energy, new material, energy conservation and environmental protection and other industries with various financing products, such as Tech EasyCredit, Smart EasyCredit, Patent-pledged and Insurerbacked Loans, and Loans to Technical Transformation. The Bank's support for Qingdao New Energy Solutions Inc. (NESI)'s poverty alleviation model leveraging photovoltaics for agricultural production won the praise of President Xi Jinping.

By the end of 2016, the Bank distributed RMB10.931 billion in loans, RMB9.787 billion of which was provided to Qingdao's local technology enterprises, with the balance of granted credit amounting to RMB4.337 billion.

Over the past two years, the Bank provided over RMB14.673 billion in credit support for nearly 2,000 enterprises listed in Qingdao's "Sail Plan". At the end of 2016, the credit balance was RMB3.445 billion, a 22.25% increase compared with the end of the previous year, with 191 credit customers.

Innovation on the financial technology management system

Taking into account the light asset and high growth nature of technology enterprises, the Bank formulated and implemented a five-fold management mechanism to lower the threshold of financing access for small and medium-sized technology enterprises and improve its service efficiency.

Improvement of the financial technology risk control system

The Bank prevented and controlled credit risk through designation of professional reviewers, specialised industry analysis, full-process due diligence and other means.

Establishment of the Technology Sub-branch, the first of its kind in Shandong Province

The Technology Sub-branch was founded on the principles and innovative models of Specialisation, Dedication and Exclusiveness to carry out the financial technology business. In 2016, the sub-branch provided a total of RMB1.047 billion in credit support for technology enterprises, with the yearend balance of RMB685 million, up 40.1% from the previous year. There were 125 credit customers with balances. For over a year since the sub-branch started to carry out the business of patent-pledged loans as an innovative approach, it provided 35 customers with credit support, with granted credit amounting to RMB126 million and distributed loans reaching RMB118 million. The Bank's next move is to build the Jimo Technology Sub-branch in the core area of the Blue Silicon Valley.



The Seminar on the Driving Effect of Financial Services on Innovation and Entrepreneurship and the Opening Ceremony of the Technology Subbranch of Bank of Qingdao

Innovation on the financial technology commercial service model

The Bank has developed over 20 financial technology products. Among them, a Patent-pledged and Insurerbacked Loan is the first of its kind in China; Cluster Credit enables mass processing of loans for incubators, high-tech parks and other targets; Bank-government-guarantor Credit aims to meet the liquidity needs of Sail Plan businesses that are unable to provide counter-guarantee measures; Youth Credit focuses on the innovation and entrepreneurship of young people; Zhi Yi Credit targets high-end talents introduced by the government of Qingdao; and Tax-credit Express leverages big data from bank and tax sources to solve the problem of information asymmetry.

Enhanced external cooperation

In 2011, the Bank spearheaded Qingdao's first Entrepreneurs' Club for Businesses to be Listed, and as the secretary-general of the Qingdao New Three Board Association, provided unremitting support for small and micro innovative enterprises and start-ups. It entered into strategic cooperation with the Qingdao Blue Ocean Equity Exchange and the Shandong Equity Exchange, and carried out the Investment and Loan Union business with seven investment companies, including Qingdao Milestone Entrepreneurship Investment Co., Ltd., Yong Wan Capital Asset Management Group Co., Ltd. and Ivy (Shanghai) Equity Investment Center (Limited Partnership).

Case

After Xi Jinping, President of the People's Republic of China, led a team to visit the Yinchuan Park of NESI in 2016, NESI, a rarelyknown company based in Qingdao, became known to the public. Five years ago, the Bank took advantage of its status as a Level-1 legal person bank and provided structured order-based financing products for NESI when it had no collaterals and guarantees. This continuous credit support helped NESI develop its leading photovoltaic solutions in the agricultural field, as well as its innovative business models. Since then, equipped with over 300 patented technologies and unique business models, NESI rapidly penetrated 27 provinces and municipalities across the country, maintaining a growth rate of nearly 100% each year. It has become a leader of photovoltaics-agriculture integration in China. In addition to its rapid growth, NESI created remarkable social benefits, making considerable contribution to improving air quality by cutting carbon dioxide emissions by 400,000 tons.





Serving "agriculture, rural areas and farmers"

Responding to the call of the country for supporting state policies on "agriculture, rural areas and farmers", the Bank remained committed to improving its service to those areas, supporting the development of modern agriculture and helping rural residents improve their living standards. In 2016, the Bank's agriculture-related loans recorded steady growth. By the end of 2016, the balance of such loans amounted to RMB24.012 billion, an increase of RMB2.913 billion from the beginning of the year, as well as an annual growth of 13.8%.

Summary of the Bank's support for "agriculture, rural areas and farmers" in 2016

Project	Number	Audited loan balance as at the end of 2016 (in RMB100 million)
Farmland Irrigation and Water Conservation	2	4
Rural road construction	2	5.14
Rural water supply	3	5
Renovation of shanty areas	1	2.4
Harmless treatment of sludge	1	1

Case

The Bank provided loans to support the Bahe Reservoir in Rongcheng to increase its capacity. As the only large reservoir in the urban area of Rongcheng, the Bahe Reservoir has been playing an important role in areas such as agricultural irrigation and production ever since it came into existence, making it the city's key water source and engineering establishment vital to people's livelihood. Under the Bank's support, the pool level of the reservoir increased from 2.5 metres to 5.0 metres, enhancing its ability to store and regulate water resources and improving its efficiency in utilising rain and flood as water resources. This mitigated the conflict between urban and rural water usage and facilitated sound development of local economy and society.



Developing New Ways of Serving Small and Micro Enterprises

We always attached great importance to developing our financial service for small and micro enterprises, which was key to promoting the inclusive finance and carrying out our corporate social responsibility. Based on effective control of credit risks, and in accordance with a philosophy that our service should be more small-and micro- enterprises targeted, standardized, industrialized and internet-based, we prudently developed the service for small enterprises, continued to explore ways to optimize its business mode for sustainable development. As at the end of 2016, the balance of loans granted to small and micro businesses reached RMB42.477 billion, representing a 21.6% increase from last year, including RMB33.118 billion to small businesses, representing a 31.38% increase from last year, and RMB5.172 billion to micro businesses, representing a 27.99% increase from last year.

Developing New Products and Services

New financial products	The Bank launched the pledge loan business for beneficiary rights in leasing machinery equipment of technology enterprises. In corporation with Beijing Software and Information Services Exchange, the Bank launched the pledge loan business for software copyright, and loan business guaranteed by government.
New modes of review and approval	The Bank rigorously complied with a parallel operation model by risk managers and cross-check for small businesses, implemented an interview system with actual controllers, intensified on-site investigation, addressed problems arising from information asymmetry, improved the precision with which business review was carried out, and optimized the credit management system operation model for small businesses, including adding abbreviated financial statements, and logos indicting credit type for small businesses in applying for financing.
New modes of providing guarantees	The Bank launched the pledge loan business for beneficiary rights in leasing machinery equipment of technology enterprises, and pledge loan business for software copyright, which enhanced small businesses' ability to obtain loans.
New repayment methods	The Bank developed "Xu Yi Dai" (續易貸), to optimize modes of repayment, simplify operation procedures for single transaction during the credit term, and ease the funding pressure of small businesses; efforts were made to promote the enlending business of small businesses, with the enlending fund reaching RMB305 million during the current year.
Broadening services channels	The Bank transformed from a finance provider to a finance organizer. The Bank was connected with the procurement system and purchase payment system of the relevant government departments of Qingdao, which enabled these departments to conduct purchase online.

Case

Since 2011, the Bank has been supporting a trading company engaged in manufacturing and selling tires. During the period of cooperation, the company was in good credit standing, and showed a strong willingness to repay, with no embezzlement of loans, or leaving the principal or interest unpaid. In order to maintain a continuous stream of working capital for the company, the Bank took out "Xu Yi Dai" service to it to help promote its healthy development.





Support for Real Economy

Exploring Ways to Promote Internet Finance

In order to provide customers with convenient, effective and environmentally-friendly financial service, and help vary electronic settlements, during 2016, we continued to speed up the construction of electronic banking channels, promote the business adhering to customer demands, upgrade and improve traditional electronic banking channels, such as Internet banking and mobile banking. At the same time, we also accelerated the construction of the O2O platform "Haihui Life" (海慧生活) and WeChat banking, and set about establishing an online marketing system to transform from mobile trading channels to marketing trading channels in a gradual manner.

	2016		As at the end of 2016	2015		As at the end of 2015
By business types	Total transaction amount (In 100 million RMB)	Number of transactions (In 10 thousand)	Accumulated number of customers served	Total transaction amount (In 100 million RMB)	Number of transactions (In 10 thousand)	Accumulated number of customers served
Corporate online banking service	6,950.79	1,176.41	59,358	5,481.00	1,124.20	51,723
Personal online banking service	4,801.07	8,176.90	645,811	3,851.60	6,734.55	581,711
Mobile banking service	1,065.51	4,824.45	774,969	644.09	3,060.05	504,508

Cloud-based Payment Platforms

We gave priorities to speeding up the construction and innovation of mobile finance. Therefore, we have launched the cloud-based payment business in all respects. The cloud-based payment business mainly serves the emerging fee collection needs (such as property management fee and tuition fees) of enterprises that do not have a specialised fee collecting system. We aim to build up an autonomous and flexible customer service platform, and create a business mode that is multi-channel supported, and in which various modes of payment are interconnected with each other, so that business customers will able to collect fees autonomously, and individual customers make payment through self-service. Ever since it was launched, we have signed cooperation contract with 30 business clients, and completed 4,456 fee collection projects, amounting to RMB3.2808 million.

O2O Platforms

We took proactive measures to promote the construction of mobile payment and to optimize payment environment. As we continued to explore ways to optimize the O2O platform "Haihui Life"'s mode of attracting customers, the new mode of "attracting customer through online and conducting marketing offline" achieved preliminary success. External resources were actively introduced with innovative and diversified marketing activities of WeChat, which further strengthened the link among mobile channels and achieved synergy effect and customer sharing of channels. Through data-based marketing management measures, the Company tapped the potential value of customers and actively created a socialized, mobile, customized and personalized financial mode.

Supply Chain Finance

After a thorough analysis of the transaction data involving the core enterprises and their upstream and downstream clients, we voluntarily provided financing for the core enterprises' upstream and downstream clients under credit pattern or cargo controlling pattern, which was entirely carried out in an internet-based manner. After financing, we put in place business risk control based on big data analysis. At the 8th Annual Financial Technology and Payment Innovation Meeting held in 2016, the Bank of Qingdao was honoured with the Outstanding Contribution to Supply Chain Finance Award.



Case

Bank of Qingdao Developed New Supply Chain Finance Cooperation

The Bank signed agreement with a company under Haier Group (hereinafter referred to as "the core enterprise"), according to which the Bank should provide "E Miao Dai", an online financing service, for the core enterprise's upstream and downstream customers. Through "E Miao Dai", the core enterprise recommended to us its upstream and downstream customers that had good performance, and we, based on the core enterprise's cooperation with such customers, provided them with online financing service, including convenient financing and payment service. Based on such online mode of financing, we built cooperation with Opple Lighting. The system came into operation in May 2016, which provided online financing for the upstream and downstream dealers of Opple Lighting. In 2016, we signed cooperation agreement with a number of leading core enterprises in fast consumption industry, including Pechoin, Huiyuan, Luhua, Yihai Kerry, Mengniu, Jinluo, and Nine-Alliance. As at the end of 2016, we granted loans with amounts of RMB368 million to 408 dealers.



Bank of Qingdao entered into a cooperation agreement on supply chain financial services with Shanghai Pechoin Group

Protecting Ecosystems and the Environment

Promoting Green Finance

In accordance with the Integrated Reform Plan for Promoting Ecological Progress issued by the State Council, the Energy Efficiency Credit Guidelines jointly issued by the China Banking Regulatory Commission (CBRC) and the National Development and Reform Commission (NDRC), and the Green Credit Guidelines issued by the CBRC, we have set out the Green Credit Policies of the Bank of Qingdao, which include relevant laws and regulations that relate to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.

By implementing these policies, we are committed to promoting our operations by adhering to the philosophy of green development. On the precondition that the risks could be controlled, we carried out the regulatory policies of the State Council, the People's Bank of China (PBC) and the CBRC in all respects, took initiatives to strengthen green financial services, insisted on promoting green development and sustainable commerce, and intensified the on-site assessment and risk prevention and control of key projects and in key areas.

It is specified in these policies that the Bank's Board of Directors shall be responsible for determining strategies of promoting the Bank's green credit business, instructing the senior management to set the overall objectives for the green credit business, and performing the relevant supervision and assessment. The operating objectives and management strategies for the Bank's green credit business are incorporated in these policies as well.

Furthermore, we have established a Special Leadership Team that is responsible for carrying out and moving forward the Bank's green credit business. Led by a bank president in charge of the relevant matters, the team also involves representatives from the relevant departments.

Developing Innovative Green Financial Products

We made continuous efforts to incorporate the philosophy of green credit into our industry policies, to improve our green credit system, rigorously control loans extended to industries of high pollution and high energy consumption, and with excess capacity, and to promote the sustainable development involving economic, social and environmental aspects. With the support of PBC, the Bank became one of the first trial commercial banks and issued the first and second green finance bonds respectively in March and November 2016, which altogether raised RMB8 billion. We managed such raised funds through special-purpose accounts, and prepared a special-purpose ledger recording how they were used. As at the end of December 2016, the amount used by the Bank for supporting green credit projects reached RMB4.465 billion. The loan balance reached RMB6.262 billion, representing a year-on-year growth of RMB3.658 billion, at a rate of 140.48%. The balance of loans granted to industries of high pollution and high energy consumption, and with overcapacity reached RMB2.723 billion, representing a yearon-year decrease of RMB686 million, at a rate 20.12%.



The press release for Bank of Qingdao's issuance of green bonds and conclusion of enterprise-bank cooperation on supporting the development of green industries



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Protecting Ecosystems and the Environment



Bank of Qingdao entered into a comprehensive strategic cooperation agreement with Yunnan Water Investment Limited to support the development of green bonds

Supporting the Measures to Conserve Energy and Reduce Emission, Including:

- On the precondition that the risks are effectively managed and controlled, priorities are given to supporting the development of energy conservation and emission reduction industries, and promoting green credit business, with no credit limits;
- We increased the access to credit for energy conservation and environmental protection industries, and reduced the total amount of credit extended to industries of high pollution and high energy consumption, and with overcapacity. In accordance with the principles of treating differently, maintaining amount of credit in some areas while reducing it in others, adjusting stock, and imposing a cap on its increase, we intensified adjustment for credit extension to coking, non-ferrous metals, building materials, petroleum processing, chemical and other industries of high pollution and high energy consumption;
- We implemented an orderly withdrawal of credit, sped up shutting down outdated production facilities. We will make arrangements regarding the withdrawal of credit from the backward production capacity and techniques of manufacturing of steel, coal, cement, electrolytic aluminium, and tire to prevent haphazard investments and reconstruction at a low level;
- We increased support for energy conservation and emission reduction projects, including projects regarding energy resources substitution, efficient coal-fired boiler, cascade utilization of energies, ultra-low energy consumption and green building, clean fuel vehicle, low carbon consumption emissions, and green lighting;
- We increased support for circular economy projects, including projects regarding integrated use of mining resources and solid waste, recycle of renewable resources and water resources, and making rubbish useful resources. We proactively provided credit support for the projects in key industries and enterprises' conducting clean production process that met the industry policies and credit conditions;
- We supported the innovation of energy conservation and emission reduction technologies, and extended credit to hi-tech projects set up at national or provincial levels.

Case 1 Prevention and Treatment of Pollution

In March 2016, Qingdao Galaxy Environment Co., Ltd obtained a loan from the Bank for the purposes of carrying out the design and construction work regarding its urban sewage treatment, industrial wastewater and reclaimed water technology research and development projects, and of producing environmental protection equipment and facilities, etc. The company has obtained the Third-Class Qualification for Specialised Contractor of Environmental Protection Engineering, Class-B Qualification for Special Engineering Design of Environmental Engineering (Wastewater), Class-B Qualification for Industrial Wastewater Treatment and Sewage Treatment. The company was accepted and praised by the Environmental Protection Bureau at national, provincial and municipal levels for its successful completion of a series of sewage treatment projects and raw water projects of water quality that met the national sewage discharge requirements, according to various inspection results.

• Case 2 Conservation and Recycling of Resources

In April 2016, Shandong Water Conservancy Construction Group Co., Ltd. obtained a loan from the Bank for the current capital turnover in the group and its affiliates, and for paying for projects, including Chengnan Reservoir Project in Yuncheng County, Fengquan Reservoir Project in Changyi, Weifang City, Pingdu City's Supporting Projects for the East Route Project Phase I of the South-North Water Diversion Plan, the second Plain Reservoir in Weifang Binhai Economic-Technological Development Area, and Caiyuanji Reservoir Project in Dongming County. These projects can help develop and use natural water resources in a scientific way, speed up the construction of plain reservoirs, address issues regarding drinking water safety along the Yellow River basins, improve resource-supply ability, effectively mitigate the threats of flood and draught, and ensure the long-term, healthy and sustainable economic and social development of the whole province.

Case 3 Protection of Ecosystems and the Environment

In May 2016, Shidao Xinlv Garden Art (Rongcheng) Co., Ltd. obtained a loan from the Bank for the purposes of purchasing raw materials, including trees, flowers, and plants for a greening project. The Company is 100% controlled by the Garden Management Office of Shidao Management Zone of Rongcheng City, and its principal activities are garden design, planting and sale of trees, flowers, and plants. Upon completion of the project, the green area has been increased by 230 thousand square meters.



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Promoting Green Services

We sped up the construction and innovation of electronic banking channels, including mobile banking, Internet banking and WeChat banking. With the advanced information technology available, we completed a development test for the Media-Customer Interaction Centre Project (Phase I). With a view to enhancing customer experience, expanding our domain of services, and transforming our responsibility, we have created an online service centre with characteristics of Bank of Qingdao.

Electronic Account Reconciliation

We expanded the channels for account reconciliation and optimized the account reconciliation process. During 2016, we held a promotion competition of online banking account reconciliation at all levels, which led in a significant increase in the proportion of electronic account reconciliation through measures, such as breaking down the objectives, group competition, positive and negative incentives, increasing publicity and issuing notices. As at the end of December 2016, online banking account reconciliation accounted for 80.09%.

Self-service Banking Services

We have been continuously increasing the scale and level of self-service channels for the past years. As at the end of 2016, the Bank had 94 self-service banks, 468 self-service devices, through which we provide customers with withdrawals, deposit, transfer, account checking, and payment service. At the same time, we have been continuously promoting the development and application of Internet finance, and stepping up the establishment and innovation of Internet banking and mobile banking. As at the end of 2016, the Bank's corporate online banking customers and personal online banking customers increased by 14.76% and 11.02% respectively, compared to last year, transaction amount increased by 26.82% and 24.64%, and the proportion of electronic banking channels was 90.31%, growing by 7.82 percentage points compared to that at the end of last year.

Insisting on Green Operation

We proactively promote a culture of thrift, in which we not only save physical materials such as a piece of paper, a drop of water, and a unit of electricity, but also place focus on the intangible aspects, such as, the optimisation and reform of the banking process and administration to improve efficiency. In addition, we have established the "Weekly Inspection Practice", a senior management inspection system to look into compliance- and operation- related issues that can be divided into 22 different categories, including the overall environment, equipment and facilities, catering tools, security, environmental sanitation, service facilities, and temperature control. The results of such inspection are communicated at the weekly senior management meeting held on Monday, at which responsive measures are discussed. At the same time, we prepare a table that specifies the content and standards for the Weekly Inspection, and require each branch to carry out routine examination on a daily basis, and the person in charge of each branch to look into compliance- and operation- related issues monthly, quarterly, half yearly, and on public holidays and sign off for the inspection results.

Electronic Office

In 2016, the Bank carried out a comprehensive reform and update of its electronic office system to make it operate in a more customized, oriented and timely way, so that the layout, columns and content could be customized or the general functions could be pushed by the system based on intelligent memory, and be sent to third parties by organizations, posts and roles. The system also could enable the staff to regularly collect cases that had not been done as scheduled, and ensure that such cases would be finished within a defined timeframe. In addition, we introduced a mobile office mode that could make office work become really convenient, intelligent and human-oriented, which led to a significant reduction of the cost of paper, electricity and labour, and improved work efficiency. In 2016, 1.04 million pieces of paper were used. In order to alleviate the financial burden on banks at community level, and to save labour and time cost, we held trainings and seminars in the form of video conference to the extent that it was appropriate to do so.

Construction of Information System

We continuously pushed forward the construction of a lightweight, highly-efficient, and flexile cloud centre. Based on the extensible framework, centralised operation and maintenance, and highly integrated resources, brought about by the cloud technology, we comprehensively enhanced the operating efficiency of the data centre, and realised resource intensity. In 2016, the Bank's new customer service system came into operation. Through unified data standards, user and organisation management, we centralised operation of the business, simplified the front stage operation, and improved work efficiency and customer experience.



Launch of a new customer service system

Saving Energies

Category	Unit	2016
Office electricity consumption of the head office	in million kW/h	2.86
Office water consumption of the head office	in ton	14,379
Office gasoline consumption of the head office	in litre	66,000
Natural gas consumption of the head office	in cubic metre	11,788
Total greenhouse gas emissions of the head office	in tCO ₂ e	3,790.48
Including: direct greenhouse gαs emissions*	in tCO ₂ e	166.33
	in tCO ₂ e	3,624.15

Resources Consumptions and greenhouse gas emissions in 2016

* Includes greenhouse gas emissions of gas and gasoline consumption

** Includes greenhouse gas emissions of electricity Municipal heating consumption.

We advocated not to take the elevator when moving within five floors, not to turn on the lights when it was light enough, or turn off the air-conditioner when the temperature is appropriate. We encouraged the staff to turn off all the switches before leaving the office. We put in place the Security Inspection and Weekly Inspection Practice mechanism, through which we communicate the inspection results, perform management and supervision, to ensure that we carried out thrift in all respects.

We optimized the water supply, and established a mechanism of recollecting the leftover water in the break room and reusing cleaning water, to effectively save water. In addition, we carried out the Weekly Inspection Practice and Security Inspection to ensure that all the switches were turned off within the office tower and that there was no water or electricity leakage. In 2016, we have drastically improved our utilisation of vehicles by exerting a centralised management and unified arrangement, which significantly reduced the frequency of vehicles used, and the running cost of vehicles. In addition, we strengthened our management of the gasoline usage, implemented "one gas card for one car", and special-purpose car only for special purposes, and set limits on the gasoline quality, the amount to be used and gas station according to different vehicles. We improved vehicle fuel management with special checks on those highly gas-consuming vehicles.


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Protecting Ecosystems and the Environment

Second-use of Wastes

We were very concerned about our impact on the environment, and appointed a professional company for the second-use and harmless treatment of the waste electronic information products. The components meeting the reuse criteria, were second-used as spare products or parts, to extend the useful life of such electronic information products, and to reduce the adverse effects that the manufacturing of electronic products could have on the environment.

Purchase Management

The Bank placed strict control over procurement of supplies. It revised the Administrative Measures of Bank of Qingdao on Centralised Procurement and the Measures of Bank of Qingdao on the Administration of Evaluation Experts on Centralised Procurement. It has elevated the status of energy conservation and environmental protection performance and made it a procurement standard in an effort to expand the scope of supplier surveillance. In addition, in order to abide by the principles of openness, fairness and impartiality in tendering and procurement activities, the Bank formulated the Administrative Measures of Bank of Qingdao on a Pre-Commitment Approach to Tendering (Procurement), with the purpose of enhancing the self-discipline of major participants in tendering and procurement activities and preventing violations of laws and regulations in such activities.

Electronic Equipment Discarded by Bank of Qingdao in 2016

Category	Number
Microcomputer (Mainframe)	31
Monitor	35
Printer	16
ATM	8
BST	1

Note: The statistical scope of the data above includes the equipment with residual value, which is confirmed by the head office, and the equipment would be disposed by the head office.

Green Corporate Social Responsibility

The Bank took part in the voluntary tree-planting activities in Qingdao, Jinan, Dongying, Binzhou and Zaozhuang, etc., and built up the Bank of Qingdao Memorial Woods in Qingdao and Jinan, etc.





On 12 March 2016, Zaozhuang Branch organised tree-planting activities with the theme of Youth and Green Actions to Make a Beautiful Zaozhuang Both in its Urban and Rural Areas.

Giving Back to Society

Enhancing Customer Service

Service is the base on which a bank survives. We therefore insist on a customer-centred approach, which emphasizes the service idea "We Work Harder to Make You Warm and Relived". Warmth represents the kind of feeling, experience, and temperature that we deliver to customers. "Making You Relived" represents our commitment to providing satisfactory financial service with our professional personnel. "Working harder" represents our continuous pursuit of living up to our brand by effectively meeting customers' demands, protecting customers' legal rights, treating customers equally, reminding customers of the risks of financial products and services, disclosing the relevant information, strengthening the management of customer complaint handling process, rigorously complying with the confidentiality terms regarding the data of customers' personal information, and effectively maintaining the mutual trust between the Bank and customers.

Enhancing Service Quality

Training on Professional Skills

The Bank organized a series of experience exchange and service training sessions, including specific training for management personnel, such as "Walk into Other Banks to Learn Experience", "2016 Gold Medal in Banking Office Construction", "Analysis of the Five Soft Indicators of Warm Service", and "Stimulate Motives to Serve Happily and Develop Excellent Management Efficiency", specific training on "Business Etiquette for Customer Manager", "Improve Warm Service Skills for Lobby Managers", and special training courses specially designed for the specific needs of each branch and sub-branch. At the same time, we have manners, gesture, English as routine training courses, so as to meet the requirements for serving various kinds of customers.



In December 2016, the Bank won the 2016 International Five Star Diamond Brand award for its service. In the same month, the business department of the Jinan Branch, the business department of the West Coast Branch, and the Maidao Subbranch were awarded the 2016 Top Thousand Banks in the Industry that Provide Civilized and Procedure-based Service by the China Banking Association.







Improving the Facilities of Banking Offices

The Bank conducts the positioning management of each service facility. In addition, we have launched some personalised service facilities, including candy prompt card, convenient envelope box, self-service customer hook, hall tea car and toilet items.



Canteen van at the lobby



Service box for the convenience of customers

Bathroom Items for customers



Provision of cash bags

Self-service hooks for customers



Phone chargers

Candy cue cards

Human-oriented Services for Special Groups

The Bank has set up a personalised service system for special customers, including: children's area in business district, baby chair, wheelchair, love seat, blind card, call for help for special customers, washroom with additional handrails, and love notebook, to show our care for special groups.



Children's zone at the business lobby, baby chairs and wheelchairs



Priority seats



Blind-friendly card

Developing New Types of Financial Products and Services

Constructing the Bank-Hospital Connect Platform

We have constructed an industry leading Bank-Hospital Connect Cloud Platform to help tackle the difficulty of receiving medical services through process re-engineering.

A standardised Bank-Hospital Connect Cloud Platform enables patients to pay for medical service with a bank card, or social security card with financial functions, without the need to apply for a medical card. Those with a Financial IC Card of Bank of Qingdao can register, make payment, check information and print through self-service channels of the hospitals that have been linked to such Bank-Hospital Connect Cloud Platform, without the need to deposit cash in advance. Making payment with a bank card or social security card, not only helps patients better manage their cards and money, but also help hospitals save the cost of issuing cards, and transfer some of the non-medical service, including appointment making, payment making, and test sheet checking, to banking channels.

Building an Integrated Application Platform for "One-card through"

We provided the targeted customers with "one-card through" package solutions and realised rapid replication.

We designed and developed the integrated system in light of the application scenes in enterprises, campuses, and residential areas (collectively as the three areas), to change the tradition of using the industry card for identity recognition and making small-amount payment in non-financial areas. Replacing the industry card with Financial IC Card that combines financial payment, industry management and payment in nonfinancial areas, and that serves the function of access control, attendance, canteen consumption, and vehicle management, together with consumption in the three areas and small payment in public transportation area in electronic cash, we continuously extended the function of the bank card and the areas it could serve.

Aligning with the metro group and public transportation group of Qingdao, we have issued the bank cards that can pay in public transportation area, and with the segment billing function added, we have realised flash payment for customers when taking subway, bus, and taxi. In addition, we gave out millions of metro cards for free.

> Upgrading and Transforming Financial Service at Community Level

Setting up community sub-branches

We have set up new community sub-branches, where deposit, withdrawals, and receiving bills of credit card are available through self-service equipment; the sale of and consultation on money management, insurance, fund products are provided by sales personnel with the relevant qualification; deposits, withdrawals, opening accounts, foreign and domestic settlements, bank card services, receiving payment and making payment on a commissioned basis, granting loans to small and micro enterprises and personal loans are available through staff service.

Organising Financial Service Activities to Serve the Community

Since 2012, we have been organizing an annual "Hairongcaifu" Financial Service Festival, which is based on the community branch banking office, and involves the hall marketing, community marketing, financial management hall, community roadshow, and sending films into the community. We provide the community residents with retail banking services, including debit card, business card, metro card, finance, insurance, fund, precious metals, online banking, mobile banking, direct marketing banks, and expense paying on a commissioned basis.

Hairongcaifu of Low Risk and High Yield

In 2016, the Bank's Hairongcaifu financial product drew the attention of the financial markets in the banking world, as it was various in types, conveniently available, with high returns and controllable risks, and it achieved expected yield for each period. It won a wide recognition in the industry and among customers. Every time it was put on the open market, it was chased among customers. Hairongcaifu was awarded the Top Ten Regional Banks in the area of Financial Service in four consecutive years from 2013 to 2016, which reflected our increasingly stronger R&D and operating capabilities. During 2016, we won two awards of "2015 Annual Taurus Finance and Banking Award (Comprehensive Award) (金牛理財銀行獎(綜合獎))" and "2015 Annual Taurus Bank Financial Products Award (Qingdao Bank – Hairongcaifu Gain-guaranteed Series) (金 牛銀行理財產品獎(青島銀行 - 海融財富穩贏系列))".

Giving Back to Society

Case

In the morning of 21 May 2016, the fifth "Hairongcaifu" Financial Service Festival kicked off to mark the 20th anniversary of Bank of Qingdao. With the theme of "Gratitude for Your Support and More Brilliance to Come", the festival aimed to provide customers with financial service in all respects. In addition, we launched various value-added activities to feedback the support of customers, including issuing the 20th anniversary bank card, inviting Robert Baggio and Franco Baresi, former football players of the Italian national team, to participate in the AC Milan Junior Football Training Camp, and organising the Bank of Qingdao Invitational Tournament, in which the International All-star Team led by Baggio and Baresi played against Shandong All-star Football Team led by Wang Dongning and Dai Renging.



Roberto Baggio participated in the ceremony marking the issuance of Bank of Qingdao 20th anniversary bank cards



Group picture taken after the conclusion of the Bank of Qingdao Star Invitational Tournament



Group picture taken after the closing ceremony of the 2016 AC Milan Youth Football Camp held by Bank of Qingdao



Roberto Baggio met Bank of Qingdao customers at a book store

Broadening Service Channels

Setting up New Banking Offices

Name of indicator	Unit	2016	2015	2014
Banking offices	In number	111	100	76
Banking offices newly set up during the the year	In number	11	24	16
Banking offices in rural areas (inclusive of community banks)	In number	4	3	1
Community sub-branches, and small and micro sub-branches	In number	15	11	0

Banking Offices in Rural Areas

In response to the call of "promoting inclusive finance" proposed at the 18th National Congress of the Communist Party of China, and to the plan of "Financial Service Entering into Villages and Communities" of CBRC, we took proactively the responsibility of making financial service available in rural areas. As at the end of 2016, we have set up 4 village banking offices in Qingdao.

Self-service Equipment

The Bank has 94 self-service banks, 468 self-service devices, which provide the public with services, such as withdrawals, deposit, transfer, account checking and expense paying.

Community Sub-branches, and Small and Micro Sub-branches

As at the end of 2016, we have set up 13 community subbranches, and 2 small and micro sub-branches, all of which achieve good financial performance. The "Jie Jiao" community sub-branches have become a development feature of the micro establishments of Bank of Qingdao, and drew wide attention of other banks and regulatory authorities.

Promoting Consumer Finance

We proactively implemented the state policy, and made efforts to promote consumer finance, and to intensify the role of finance in supporting and stimulating household consumption. We increased support for personal residential mortgage, and proactively provided support for first-time homebuyers and upgraders. In 2016, we granted 14,344 personal residential mortgages with amounts of RMB8.698 billion. In the meanwhile, we provided the customers that had obtained personal residential mortgage with smallamount consumption loan product, such as An Ju Dai, Che Yi Dai and Jie Hun Xing Fu Dai, to meet customers' funding needs for decorating their house, buying a car, getting married, and travelling. As at the end of December 2016, the balances of personal residential mortgage and consumption loans were RMB19.313 billion, the proportion of the balance of personal loans increased to 78.18%, rising 14.05 percentage points compared to that at the beginning of the year.

Promoting Employment and Business Startups

We vigorously promoted small secured loans and proactively promoted employment and business starting work. In 2016, we accumulatively granted 1,590 units of small secured loans with amounts of RMB313 million, which drove employment for over 4,000 people.



Bank of Qingdao Co., Ltd. 2016 Environmental, Social and Governance Report

Giving Back to Society

Developing Public Wellbeing Finance

Focusing on the government's and public institutions' projects and other sectors that were closely related to people's wellbeing, we, with diversified services, proactively expanded the domain in which we could seek for cooperation, and continuously achieved breakthroughs in thermal power, water, gas, public transportation, medical service, elderly care service, and education industries. During the reporting period, we reviewed and approved 20 social development fund projects with amounts of over RMB20 billion, and funded 8 of them with amounts of over RMB9.1 billion; we funded 15 projects in the financial factoring business with amounts of over RMB2.013 billion.



Bank of Qingdao participated in the first Shandong Finance Fair in December 2016

Protecting Consumers' Rights

Our Measures for the Administration of Consumer's Right Protection of Bank of Qingdao, Workflow of Protecting Consumer's Right of Bank of Qingdao, Contingency Measures for Consumer's Right Protection of Bank of Qingdao, Measures for the Administration of Service of Business Lobbies of Bank of Qingdao, and other specific systems regarding the protection of consumer's right were formulated according to the Law of People's Republic of China on Commercial Banks, Guiding Opinions of the General Office of the State Council on Strengthening the Protection of Financial Consumers' Rights and Interests (Guo Ban Fa [2015] No.81), Guidelines on Banking Consumer's Rights Protection (Yin Jian Fa [2013] No.38), and other laws and regulations, to strictly regulate the whole process of provision of products and services and to earnestly protect financial consumer's legal right

We prohibit unauthorised disclosure of customers' personal information to any one or any organization, and query of the personal loan applicant and the credit report of the relevant personnel, unless a written authorisation is obtained from such individuals. The organisations or individuals with production data concerns shall sign confidentiality agreement with us. Upon signing such confidentiality agreement, we are responsible for keeping their production data confidential.

Security Tips

We posted the "Public Security Tips" on each cash counter in order to remind customers of the safety of their cash in all respects.

Customer Complaint Mechanism

We highly valued the customer complaint handling and ensured that we 100% responded the customer complaint. We made the customer complaint management a part of customer rights' protection, and it was exerted by the team from the Customer Rights' Protection Office of the Head Office. The customer complaint was addressed by specific responsible personnel. We made response to the customer complaint from multiple channels on a timely basis, took active measures to protect customer rights, made continuous efforts to improve the mechanism for managing the customer complaint handling that could work for a long-term, established a multi-lavered, cross-region, and cross-line mechanism for handling and responding emergency cases, and reported the in-progress matters. We took initiatives to improve the problems that came in bulk or that were systematic raised by customers. According to the principle of making customer data precise and detailed, and making the way of handling personalised, and the way of communication human-oriented, we addressed customers' complaints in a human-oriented manner and in accordance with laws and regulations, which left a good impression on customers. As at the end of 2016, we answered 381,325 questions through customer service hotline, received 561 cases of customer complaint, which decreased by 17% compared to those at the end of 2015, with customer complaint satisfaction reaching 99.9%.



Popularizing Financial Knowledge

We continuously deepened the public's understanding of financial knowledge and financial risks, strengthened the protection of consumers' financial data, and launched campaign to educate and instruct the public on how to protect themselves from telecom fraud, especially to customers in rural areas and special groups so as to render the work of popularizing financial knowledge to be carried out on a regular basis and procedure-based. In 2016, we proactively organized activities such as "March 15 Consumer Protection Promotion", "Universalising Financial Knowledge" and "Popularising Financial Knowledge into Every Household" to popularize the fundamental banking knowledge.

Publicity on Combating False Money

To further intensify our efforts to give publicity on combating false money, and to enhance the public's awareness of combating false money and the ability to identify it, our branches and sub-branches carried out campaign against false money in campuses, communities, and through road shows, in which we not only explained in details the harm of false money and the significance of combating it, as well as the security features of RMB, but also we had a demonstration of the true and false currency, and offered guidance on how to tell the difference quickly and precisely through observation and touch.



Activities to popularise financial knowledge at primary schools



Outdoors activities to popularise financial knowledge



Activities to popularise financial knowledge at the universities for the elderly – lectures on anti-fraud knowledge



Activities to popularise financial knowledge at military camps



Activities to popularise financial knowledge at the universities for the elderly – general lectures for people



Community-level educational activities on the 3.15 International Day for Consumers' Rights and Interests with a focus on financial customers



Giving Back to Society

Operating in accordance with Laws

The Bank insists on legal operation, and rigorously complies with the relevant regulatory laws including the Guidelines for the Compliance Risk Management of Commercial Banks. We set out the Compliance Risk Management Policy of Bank of Qingdao, had meetings on a regular basis to recognize, monitor and assess the compliance risk, strengthened the internal control system for compliance risk management, and optimised the risk management system. We strengthened the compliance management, and implemented measures to prevent compliance risk, including: (1) we made the business department, compliance department, and audit department the three lines of defence against compliance risk; (2) we launched activities to enhance the compliance awareness, including speech contests, and Q&A sessions on compliance issues, and risk tips; (3) we conducted the internal control appraisal, launched virtual sub-branches, employed independently external assessment agency, and prescribed the Negative List of Staff Behaviours.

In 2016, we issued the Basic Regulations on Internal Control of Bank of Qingdao (the Second Edition), and the Implementation Measures on Reporting the Major Issues Concerning Finance Stabilisation of Bank of Qingdao, to further improve our compliance management policy and system through internal control, and the compliance risk management level.

Compliance Management through Internal Control

Inspection Mechanism

The Bank has established a moderately sound mechanism for internal compliance inspection, including "Weekly Inspection Practice", "Security Check on Behaviours", and "Security Check on Operation"; internal control appraisal meetings are held on a quarterly basis, virtual sub-branches are launched to perform the audit for replacement purposes; key inspection is closely combined with the routine management and internal control measures; audit department of the head office is responsible for supervising and assessing on an overall basis the effectiveness of the internal control of each business line, and each branch and sub-branch; business departments at all levels carry out selfexamination and inspection within its own responsibilities. As a result, a regular mechanism for preventing and eliminating risk has come into being gradually. In 2016, we performed review on the on-site inspection based on the principle of "Two Reinforcements and Two Inhibitions", and invited the KPMG team to conduct a comprehensive review of the Bank's internal control. In addition, the "Weekly Inspection Practice" performed by the team led by the senior management was carried out 49 times, an "Internal Control Appraisal Meeting" was held on a quarterly basis, and the audit of 11 branches and sub-branches was performed by "virtual sub-branches".

Reporting System

The Bank has established a reporting system for irregularities, in which banking offices at community level and the relevant management departments report the issues regarding compliance risk. Audit departments at all levels, based on the internal control supervision results, report the deficiencies of the internal control in accordance with the working procedures of the internal audit. Upon the approval of the Board of Directors, annual report on internal control appraisal is submitted to the regulatory authorities in the form of formal document before 30 April each year.

In 2016, the Board of Directors of Bank of Qingdao considered and reviewed the 2015 Report on Self-assessment of the Internal Control of Bank of Qingdao, 2015 Report on Risk Compliance Management of Bank of Qingdao, 2015 Report on Operational Risk Management of Bank of Qingdao, and 2015 Report on Antimoney Laundering Risk Management of Bank of Qingdao.

System Construction

In recent years, through the series of activities of "System Construction Year, System Implementation Year, System Evaluation Year and System Optimization Year", the Bank has built a system framework which involves four aspects: construction, implementation, evaluation and optimization.

In the year of 2016, after summing up and refining the preliminary work, we organised and carried out three different activities surrounding the theme of "System Improvement Year", namely, "Enhance the Learning Effect for Staff", "Enhance the Efficiency Of System Operation", "Enhance the Effectiveness of the Implementation, along with "Learning the System Every Day," "Special Rectification", and "Make it Simplified" activities. In light of the opinions and suggestions widely solicited from the branches and sub-branches, we condensed, streamlined, revised, and made amendments to the frequently used system at the frontline, involving over 130 items, to constantly build a clear-cut and scientific system that can bring about effectiveness and simplicity. As the Bank has rendered full support to the regional economic development, served the people's life and enhanced its own strength, it has formed cultural deposits with the characteristics of Bank of Qingdao, and gradually established a cultural system aligned with the development goal of Bank of Qingdao, compatible with the style and concept of Bank of Qingdao and inherited from the core socialist values and traditional Chinese virtues and cultivated an unique corporate culture with caring, serving, risks and compliance as its cores.

Since 2010, the Bank has held speech activities in the morning meetings every Monday. The themes of "compliance and services" and "contribution and development" are carried through the morning meetings. The members from headquarters, branches and sub-branches take turns to make speeches and provide comments via video systems. The meetings not only eliminate vice and exalt virtue, but also rebuild the values. The vivid cases provide alerts and inspiration for all members of the Bank, which brings the value with caring, serving, risks and compliance as the cores into the staff's mind, into their heart and into the Bank. In addition, there are knowledge guizzes in the morning meeting, which can make the staff be more familiar with the banking business and compliance and create a positive cultural atmosphere where compliance can be found anytime, anywhere, in every events and in every one's conversations. In 2016, speeches, themed with "Service specialists share with you about services", "My contribution to the Anniversary of the Bank" and "Keeping the same dream, I develop with Bank of Qingdao", had been held.



A series of books containing speeches at morning meetings over the past four years

Anti-money Laundering

In 2016, in order to improve its anti-money laundering capabilities and specify anti-money laundering requirements, in addition to complying with the Anti-Money Laundering Law of the People's Republic of China, the Anti-money Laundering Rules for Financial Institutions (People's Bank of China Order No. [2006] No.1) and other anti-money laundering laws and regulations, as well as the 5C anti-money laundering risk assessment standards and other institutional requirements, the Bank, drawing on the experience from its anti-money laundering endeavours, revised its anti-money laundering measures, stressed additional needs for customer identity surveillance and due diligence, revised and improved measures to perform anti-money laundering and terrorist financing risk assessments and classify customers, and set out such additional requirements as running an antimoney laundering case-based reporting system and monitoring anti-money laundering and terrorist financing blacklists. All such efforts were then institutionalised into the Anti-money Laundering Rules of Bank of Qingdao (Third Revision). In addition, the Bank actively cooperated with the People's Bank of China ("PBOC") to perform anti-money laundering investigations. Seven anti-money laundering administrative investigations were carried out, and assistance in anti-money laundering were provided for the PBOC for over 40 times. During 2016, the Bank had submitted 829.8 thousand reports for large amount cases and 13 thousand reports for suspicious cases to the PBOC.

Supervision of Internal Audit

In 2016, the Bank established audit projects centred on the hot issues and cases of industrial risks and carried out 16 auditing projects including special audits for bill business and special audits for financial audits, which drove the line management departments to revise and complement 22 systems and pushed forward the construction of internal control and compliance system. A stimulated sub-branch team carried out substitute audits and summited the auditing reports and reported the issues discovered to the board of directors and the board of supervisors through Director Office and Supervisor Office regularly. Auditing information was passed to business departments in the form of announcements and suggestions, which promoted the sharing and using of the auditing results. Meanwhile, the Bank established systems such as Management Measures (For Trial Implementation) for Appointment of Internal Auditors of Branches of Bank of Qingdao, Professional Ethical Standards (For Trial Implementation) for Auditors of Bank of Qingdao and Standards (For Trial Implementation) of Confidentiality of Audits of Bank of Qingdao, to further improve the effectiveness of the internal control systems.



Giving Back to Society

Enhancing Risk Management

During the reporting period, the Bank further improved the framework of risk management, strictly implemented the regular reporting systems of risk management, determined the risk preference of the Bank based on the risk tolerance and operational strategy and improved the information system of risk management. The Bank also supported the risk identification, measurement and control of all major business lines, improved internal control systems of risk management and gave full play to the function of the risk management committee, to ensure the accuracy of the relevant decision information, effective implementation of the Bank's policies of risk management and good control of the overall risk.

Credit risk	The Bank has improved the management mechanism, optimise the credit process and structure, and strengthen the management after issuing loans and the asset quality, to achieve the Bank's expectation that the overall management risk of credit risk would be under control and the management would be continue to improve.
Operational risk	Based on comprehensive business inspection, with the new situation and new business as the focus, through the improvement of construction of information technology system, the Bank implemented the operational risk capital measurement and improve the prevention mechanism to prevent case risk.
Liquidity risk	Through limit management, planning adjustment and control, stress test and other method, the Bank managed the liquidity in a unified manner and formed a reasonable system for liquidity risk measurement and monitoring. In addition, the Bank organised its asset and liability business, based on such elements as liquidity exposure, liquidity reserves, position balance and market conditions, and whether the relevant regulatory criteria was met.
Market risk	In accordance with Guidelines on Market Risk Management of Commercial Banks, Guidelines on Internal Control of Commercial Banks and Guidelines on Stress Testing of Commercial Banks formulated by CBRC, the Bank managed its interest rate risk and exchange risk with reference to the New Basel Capital Accord and established the management system for market risk through regulation, monitoring and reporting of authorisation, credit granting and risk limit.
Compliance risk	The Bank has established three defensive lines for compliance risk management and a monitoring system for the staff's abnormal behaviours, attached importance on cultivating compliance culture and built functional systems for compliance training and promotion, to effectively manage and control the compliance risk and ensure the Bank can operate with due care within the framework of laws and policies.
Information and technology risk	In terms of the management of operation and maintenance, with reference of ISO20000 standards, the Bank deepened the application of ITIL and comprehensively improve the stability and usability of the systems by optimising the system structure and through the preventive maintenance. For information security, the Bank obtained the approval of ISO27001 certification in 2013 and gradually established a control system for information security and technological protection, starting from aspects of user account management, user behaviour audits, data masking and security audits, access control of internet devices. For the business continuity, the Bank had completed the construction of "two areas and three centres" and continued to improve the management efficiency with the management platform of business continuity.
Reputation risk	Through issuing special notices and guidelines for coping skills and other forms, the Bank provided effective technical complement to the management measures and proposals of public sentiment and reputation risk, established Management Measures for WeChat and Microblog of Bank of Qingdao for the staff's study and reference, and put emphasis on deploying the issues including the compliance of the released content and the intellectual property in adopting and forwarding materials.

Standardised Professional Ethics Conduct

Under the guidance of the board of directors, the Bank has established Treatment Approach for the Violence of Regulations of Staff of Bank of Qingdao, which include policies and regulations relating to bribery, extortion and fraud, and made a negative list of the staff's irregularities and the treatment, which standardises the professional ethics and discipline of the staff and guides the staff to comply with the professional ethics conduct. In 2016, the Bank revised and improved the Treatment Approach according to new emerged irregularities.

In order to standardise the conduct of the staff of the Bank and improve their overall quality and professional ethics, the Bank has established some systems, such as Measures for the Score Management for Irregularities of Staff of Bank of Qingdao, Measures for Management of Abnormal Behaviours of the Staff of Bank of Qingdao, Behaviour Restriction for Counter Personnel of Bank of Oingdao, to regulate the work atmosphere, professional ethics, professional discipline and professional image of the staff and to guide the staff comply with the professional ethics and enhance behavioural discipline. Also, the Bank launched an educational column for anti-corruption and promotion of integrity, called Weekly Case, compiled the cases of violation of the regulations or rules in the same industry and posted the cases on the intranet. The Bank arranged all staff to study the cases for alerting purpose, and used the cases to remind the staff of complying with laws and working with integrity. In 2016, there was no lawsuit due to corruption in the Bank.

In 2016, the board of the directors continued to implement Ethics Standards and Values of the Board of Directors and Senior Management of Bank of Qingdao Corporation Limited. This document not only clarifies the different duties and standards for the directors and senior management in performing their responsibilities, but also enhance their integrity and diligence in fulfilling their duties and ensure the effectiveness of the performance of their responsibilities.

In 2016, the board of supervisors continued to implement Approach for Assessing the Performance of Responsibilities of Board of the Directors and Directors of Bank of Qingdao, Approach for Assessing the Performance of Responsibilities of Supervisors of Bank of Qingdao, and Approach for Assessing Performance of Responsibilities of Senior Management and Senior Management Personnel of Bank of Qingdao. The assessments of performance of responsibilities were carried out from various dimensions, such as self-assessments and assessments from board of supervisors and external assessments. The assessing systems for performance of responsibilities of the board of directors, the board of supervisors and the senior management by the board of supervisors were regulated and improved continuously.

Promoting the Construction of the Party Style and Clean Administration

In 2016, the Bank focused on the key point, carried out studies on "the constitution and rules of the Party, the important connotation of President Xi's speeches and being a qualified Party's member" and practically pushed forward the implementation of the "two responsibilities". The Bank deepened and promoted the three transitions-focusing on function transition as primary task, method transition as major responsibility and attitude transition actively step by step, enhanced the construction of discipline inspection and supervision teams, to provide solid foundation for the performance of supervisory responsibilities. The Bank gave play to the effect of discipline execution and accountability of supervision, insisted to put disciplines and rules above all and persisted in the requirements that the disciplines should be stricter than the laws and the disciplines should be complied with, not to mention the laws. The Bank effectively performed the functions of supervision, discipline execution and accountability, with the "four forms" of supervision and discipline execution.

The Bank accelerated its efforts to formulate institutional rules and measures, and strived to uphold party integrity. On the basis of the existing Integrity Manual and the Rules on Several "Don'ts" for Party Leaders to Maintain Honesty and Selfdiscipline, the Bank formulated the Rules of Bank of Qingdao on the Establishment of a Party Integrity Accountability System, as well as the Letter of Responsibility of Bank of Qingdao for Party Integrity as its supporting documentation, which was signed by leadership of the Bank at all levels. By establishing and improving rules and regulations, and guided by the objective of building a "Grand Supervision" structure, the Bank embarked on an enhanced mission to punish and prevent corruption and ensure sustained execution of supervisory functions. As of the end of the year, no bribery, extortion and other corruptive acts occurred in the Bank.



Timely Disclosure of Information

The Bank strictly abided by the regulatory requirements, such as the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, and continuously improved the quality and transparency of information disclosure, to safeguard the lawful rights and interests of shareholders and other stakeholders. In 2016, the Bank took the lead in disclosing its annual performance results, properly carried out active information disclosure and demonstrated a good image to the capital market. Also, the Bank improved the internal system of the information disclosure and regulated the management of the interim announcement.

Taking the Lead in Disclosing the Annual Performance Results

The Bank took the lead in issuing the Chinese and English announcement of annual performance on 9 March 2016, becoming the first H-share Chinese-funded bank to release its annual performance of 2015. By doing so, the Bank actively demonstrated its excellent management and financial position and won extensive concern of the capital market.

Issuing Statutory Announcement in Compliance with the Regulation

During the year, the Bank issued 16 regular reports and 26 statutory interim announcements. The regular announcements included performance result announcements, annual and interim reports and monthly statements of changes of securities. The statutory interim announcements were connected to changes of directors and supervisors, application of listing of A shares, funding and establishment of financial lease company and meeting materials of the meeting of shareholders.

Issuing Non-compulsory Announcements on the Company's Own Initiative

The Bank issued 5 non-compulsory interim announcements during the year, which were related to issuance of green financial bonds and approvals of qualification of financial derivatives business and lead underwriter of bonds, and showed the highlights of the business development of the Bank.

Standardising the Management of Interim Announcements

The Bank has established Detailed Rules for Disclosure and Management of the Interim Announcements of Bank of Qingdao Corporation Limited, to standardise the management of the statutory interim announcements and non-compulsory interim announcements. The Bank has built a system of reporting the issues related to interim announcements, to enhance the Bank's sensitivity on information disclosure and the importance the Bank attached to it.

Improving the Protection for Intellectual Properties

The Bank has attached great importance on application, management and protection of intellectual properties. Our Measures for the Administration of Intellectual Property Rights of Bank of Qingdao was formulated according to the Patent Law of the People's Republic of China, the Trademark Law of People's Republic of China, the Copyright Law of People's Republic of China and other laws and regulations of the state. The Bank has devoted itself to strengthen the system of intellectual properties and developed characteristic brands. By doing so, the Bank exerts the supportive and protective effect of intellectual properties to its business development and product innovation and continuously improves the soft power of the Bank. When expanding the coverage of the Bank's protection for the intellectual properties actively, the Bank shows sufficient respect to the legal rights of the third parties and ensures that the concept of protecting intellectual properties is permeated into all links of operation and management, to prevent from risks of intellectual property infringement. No issue of intellectual property infringement occurred during the year.

Protection of Employees' Rights and Interests

Category		As at 31 December 2016		
Calegory		Number	Percentage (%)	Turnover rate (%)
Total number of emp	loyees	3,276	-	4.61
Dec ann dan	Mαle	1,496	45.67	2.56
By gender	Female	1,780	54.33	2.05
	Under 30 years old (inclusive)	1,620	49.45	2.29
By age group	From 31 to 40 years old (inclusive)	847	25.86	1.28
by age group	From 41 to 50 years old (inclusive)	656	20.02	0.43
	Above 50 years old	153	4.67	0.61
By region	Within Shandong province	3,276	100	4.61
	Graduated from technical college	472	14.41	
By education	Bachelor degree	2,247	68.59	-
background	Master degree	544	16.61	÷
	Doctorate degree	13	0.39	-
New employees		447	~	
Employees from ethnic minorities		38	-	1

In accordance with the national requirements of dispatched employment, the Bank has further enhanced the management of dispatched employment. The Bank puts forward a specific project to lower the percentage of dispatched employees by turning some of them into formal staff as well as retaining and dismissing some of them. Employment of all positions complies with the national Labour Law and the relevant provisions of the contracts. During 2016, the Bank has not employed any child labour and had no employee who was injured or died due to work during our operation.

The Bank fully protects the rights of employees to work and rest according to laws, and clearly stipulates the working hours, rest time and leave, labour protection and working conditions in the contracts. The Bank has not imposed mandatory (overtime) situation and has complied with the relevant employees' health, safety and environment laws and regulations. Under the Labour Law and relevant provisions of the contracts, all employees in the labour contract system have signed labour contracts with the Bank. In terms of the labour management, the Bank has established internal regulations and relevant implementation guidelines, such as Attendance and Holiday Management System of Bank of Qingdao and Management Approach for Employee Resignation of Bank of Qingdao, and protected all kinds of labour rights of the employees in accordance with laws. The Bank pays basic social security for the employees, including basic pension, basic medical insurance, unemployment insurance, occupational injury insurance and maternity insurance, and has established such welfare systems as housing fund, corporate annuity and supplementary medical insurance, to ensure better pension and medical security for the staff.



Protection of Rights and Interests

Compensation and Benefits

The bank provides competitive compensation and benefits for the employees and pays for all kinds of compulsory insurances timely. The Bank has built a systematic health-care system, including occupational insurance and supplementary pension insurance (annuity), which basically relieves the concern of the employees on serious illness and care after retirement. Health examination, paid annual leave and physical fitness activities further protect the mental and physical health of the employees. The Bank advocates the equality between male and female, provides same payment for the same jobs, fully respects the religious belief of the employees and creates harmonious working atmosphere.

Services

The Bank advocates a culture of caring, emphasising humanism. The Bank has built a staff canteen, reading room, shower room, activity room and etc., to provide a clean and warm working and service environment. The environment keeps improving and developing through a system of "I carry out the inspection this week" and an activity of "What I discover today".

The Bank emphasises the safety of the working environment and the occupational safety of the staff, viewing protection of the personal safety of the employees as its significant goal. The Bank has deepened construction of technological protection, established a digital and advanced security protection system, driven the construction of technological protection toward digitalization, intelligence and integration. The Bank has also arranged its basic units to carry out educational campaigns and emergency rehearsals via guarterly meetings, Platform of Safe Bank of Qingdao and other methods, which improves all employee's awareness of safety and their capacity of dealing with contingencies. The Bank has performed safety rehearsals; dispatched 24 templates of contingency plans; direct all jurisdictions to establish an organisation for emergency response and to carry out emergency rehearsals; established an improved three-level emergency response system; and improved its capability of directing in and dealing with emergencies.

Democratic Management

The bank holds the employee (staff) representative conference once a year, while the branches and subbranches hold the second employee (staff) representative conference annually. The conferences reviewed the systems and measures related to the vital interests of the employees as well as suggestions from employee representatives, covering such areas as operation and management, human resource management, remuneration allocation and welfares. The comprehensive reply rate of the functional departments of the headquarters reached 100%. The fourth employee (staff) representative conference of the fourth session was held on 14 December 2016, where 184 representatives were invited and 147 of them were present. The representatives present seriously discussed and reviewed reports in groups, and put forward comments and suggestions related to business development, operation and management, welfares of staff and culture construction. In terms of the suggestions which were of value, the representatives filled out the proposal forms and submitted them to the conference.

The Bank has internally disclosed the contact information of all senior management staff, to ensure an unobstructed channel for the staff to communicate directly regarding business development and internal management and to disclose issues and raise comments or suggestions without reservation via face-to-face interview, text message and phone, letter, email and other methods.

The Bank advocates the implementation of the activity "What I discover today" on the intranet, encouraging all staff to discover problems related to business development, management improvement, compliance operation, system construction, system optimisation, external services, staff development, corporate image and outlet decoration and calling for suggestions from the staff. The Bank deals with these problems and suggestions respectively in real time and summarises the feedback of them monthly, which has not only enhanced the activeness of the staff in participating management, but also driven the continuous improvement and upgrading of the information technology system of the Bank and the development of the management ability of the Bank. In 2016, 1,090 solicitation forms for problems and suggestions were collected through this activity. The problems and suggestions, which were related to such topics as system optimisation, process improvement and daily management, were of great representativeness and significance for reference.

Promotion

The Bank has established an open and fair performance assessment system oriented to effectiveness, subject to budget and related to basic security. Oriented to the strategic goals, we set annual assessment missions and direct various units to carry out their work. Via performance evaluation, online assessment and other methods, we perform comprehensive assessment on all units.

To further optimise the talent allocation, the Bank takes the recruitment situation within the industry into consideration, enhances the internal promotion and cultivates the talents through "532 reserve personnel selection", internal talent recommendation system, management approach of cadre promotion on manager level, cadre visit and exchanges and other methods. In addition, in accordance with the Recruitment Management Approach of Bank of Qingdao, the Bank takes its organisational development plan into consideration, details the recruitment process by analysing the recruitment demands, improves the recruitment process and introduces external talents.

Caring for Physical and Mental Health of the Employees

Health Examination

Every year, the Bank carries out health examination activities for all employees in first-class hospitals at grade 3 (the highest level of the classification of hospitals in China which has three grades and six levels). In addition, the Bank has organised special health examination for female employees to provide timely care for them and to safeguard their health.

Health Lectures

To further carry through the caring culture, relieve the working pressure of the staff and ensure they can enjoy both life and work with a sound physical and mental condition, the Bank invites experts to hold special lectures about pressure management and psychological adjustment each year.

Humanism for the Staff

Helping out the Staff with Difficulties

To protect the vital interests of the staff, the Bank paid RMB238 thousand for the staff's solidarity medical insurance from 2015 to 2016 and helped process 222 person-times of claim payment. The amount of payment of insurance claims was more than RMB345.8 thousand. We made visits of staff and their and distributed RMB146 thousand of relief payments to 33 employees with illness or difficulties during the New Year's Day and the Spring Festival.

Festival Benefits

Every Labour Day, Women's day, Anniversary of the Bank, we visit model workers and outstanding workers, carry out special activities for protecting female employees and arrange excellent staff to concerts and to participate in other healthy and beneficial activities.

Various Leisure Activities for the Staff

Knowledge Competition

The Bank has held staff technical training for consecutive years. A technical skill competition for staff across the Bank was held on 22 October 2016. There were 44 teams (350 person-times) participating in the competition, which included 4 events, namely single-sheet accounting with single finger, turning pages of vouchers and inputting data, text typing with micro-computers and comprehensive serving ability. The competition, which highlighted the characteristics of training, closely combined the concept of civilized and standardised services, warm-hearted services, strict control of operational risks and technical skill training all together.



Artistic Gala

On 19 November 2016, the Bank held a staff artistic gala with a theme of "singing out loud and forging ahead toward the future" to celebrate the 20th anniversary of Bank of Qingdao. The gala, featured with magnificent atmosphere, various performance forms, new content and incessant highlights, retained the characteristics of planning, designing, arranging, directing and acting by the staff themselves. The gala became a stage for the staff to present their cultural achievements in the spare time and a platform to integrate corporate culture into entertainment, and served as spiritual motivation to boost all kinds of work. It injected new impulse into the staff culture construction and pushed the series activities of anniversary of the Bank to a new high.



Hobby Clubs

The Bank actively mobilised and organised cultural and sports activities, which were welcomed by the staff. These activities serve as important platforms to uphold healthy tendencies, foster cohesiveness, promote solidarity and drive development, and motivate the staff to devote themselves to their appointed work with spirits. In the recent two years, the Bank has organised more than 40 representational cultural and sports activities, together with table tennis club, football club, badminton club, basketball club, hiking club, photography club, chorus, military band, drum corps and dance group, to satisfy the mental and cultural needs of the staff and to enrich their cultural life in the spare time. The Bank was awarded the title of National Model Home for Staff for the period of 2015 and 2016.



Sports Events

On 4 September 2016, the Bank held the Staff Sports Meeting for 2016. 45 teams and more than 1,300 players participated in the 57 events of 8 categories. The sports meeting showed the Bank's spirits of thriving and exploring bravely and fully embodied an initiative of higher, faster and stronger as well as an image of teamwork for reform and innovation. It further inspired the spirits of the staff, aroused their enthusiasm, enhanced the cohesiveness and thus harvested good competition results as well as construction of spiritual civilisation.



Interacting Activities

In 2016, by holding series of activities of Leyan forum, Youth forum, Book sharing and Correspondent activity, the Bank created an interaction and communication platform for the staff, enriched the activities in their spare time and strengthened their cohesiveness.

Leyan forum was a platform for sharing research results and a platform for frontline services. When sharing the research results, we learned from the frontline of services and research, injected the comments and wisdom from the frontlines into research results and improved the effectiveness of turning the results into productivity.



Youth forum aimed at discovering excellent youth talents in the Bank and encouraging the passion in research. Up to 2016, three Youth forums have been held, harvesting over 80 excellent research results and a specially designed logo.







Doctor's salon was an interbank academic exchange platform set up by the Bank. It aimed to create a platform to encourage thinking and inspire wisdom through peerto-peer academic seminar, in order to further innovate financial thinking and liven academic atmosphere.



The goal of Book sharing was to encourage sharing of book reviews and reading experiences with more workmates and to spread the positive energy of Bank of Qingdao. The activity was held once a month and the host set the topics for sharing.

Online and offline activities organised by E-magazine of Bank of Qingdao and internal magazines, together with the training lectures, discussions and other online and offline interaction oriented to correspondents in the Bank, aimed to enhance the construction of the correspondent team and encourage more staff join the team of reporting and promoting of the internal magazines.



Professional Training and Development

The Bank attaches great importance to staff training and personnel training. According to the Bank's development plan, the Bank constantly improves the training system, optimises the training program and enriches the training content. In 2016, the Bank organized 1,831 trainings which were participated 52,481 times.

Implementation of Longyue Project

The Bank carries out training programs of middle and senior management, aiming at improving the overall quality of the management of the Bank, broadening their horizons, enhancing management and risk control capabilities and taking the lead role of the management. In 2016, the middle and senior management of the Bank went to National University of Singapore, Judge Business School of University of Cambridge and The Business School for the World (INSEAD) in France for training and study.



Quarterly Lectures

On-site training oriented to the middle and senior management of the Bank is held quarterly, based on the business needs of the Bank and the current economic situation. Relevant domestic experts are invited to giving lectures, of which the topics included turning business of the Bank into that of investment bank, strategic management and strategic transformation, comprehensive operation of commercial business and new tendencies of investment banks, and internet finance.





Business Line Training

Based on the needs of the business development of the Bank and the improvement of the staff's profession, regular professional training of business lines are carried out, including sales training of customer managers, centralized training of hall managers for standardised and warm services and training of operational system for customer services.



New Employee Orientation

Training for new employees in the new branches and new graduate employees was carried out. The training comprised of the history of Bank of Qingdao and corporate culture, brand building, organisational structure, staff management, service concept, legal compliance knowledge and banking business courses which included product business knowledge, marketing characteristics, risk control, system operation process and professional practices.



Giving Back to Society

Contribution to Public Welfare and Charity

To actively perform corporate social responsibilities, build the charitable image of Band of Qingdao of delivering warmth and love and advocate and exercise the mainstream values and ideal morality, the Bank has established the Dream and Love Fund of Bank of Qingdao (referred to as the Fund) and Management Approach of the Dream and Love Fund of Bank of Qingdao.

Financial charity

• Case 1

Bearing in mind the concept of stemming from the society and returning to the society, the Bank established the Dream and Love Fund of Bank of Qingdao on 18 October 2014, receiving donation of RMB1,222.2 thousand from 2,806 employees. In December 2016, there were 3,422 donators with donation of RMB1,580.2 thousand. The total donation amounted to RMB2,802.4 thousand. To help the children from poor families in Anshun city complete their education in senior high school, Bank of Qingdao set up two special classes in the First Middle School and the Second Middle School to subsidise 100 students excellent in character and learning from 2014 to 2016. During those three years, the fund contributed RMB2,100 thousand (RMB700 thousand per year) to create the conditions for the children to pursuit their dreams.



Case 2

The Bank offered loan support to a company for investing in and operating its photovoltaic agricultural industrial park. With the help of finance, the company, operating over 80,000 mu, has become a leading company in the area of photovoltaic agricultural comprehensive investment in China. By considering the characteristics of photovoltaic agriculture in increasing unit output and raising agricultural income, implementing accurate charity based on scientific greenhouse of photovoltaic agriculture, the company embarked on a road of accurate charity mode by industrial cooperation. The implementation of this project solved the unemployment problem for more than 100 persons, with their annual labour revenue exceeded RMB25 thousand per person. The project help 627 poverty-stricken families in Yuanlong village shake off poverty.

Case 3

On 23 December 2016, the first social impact bond was registered through National Association of Financial Market Institutional Investors (NAFMII) and was successfully issued on inter-bank bond market. The issuer of the social impact bond is Yinan County Urban and Rural Construction & Development Co., Ltd. The issuance volume is RMB500 million, which were all used for the charity project of Yinan county, Shandong province. The Bank took the lead and acted as a major underwriter, while Agricultural Bank of China Co., Ltd. played the role of joint major underwriter. As a successful case in China for combining social impact bonds with accurate charity, it created a new era for the social impact bonds in China.

格烈机要 山东省访州县长校社会爱应值券发行成功 ИКАЛГАНТАК КАТАЭФИЙФЭХГГКЛ ИКАЛГАНТАК, НАКАВИТАНТИК Паказана, накавиталия Паказана, накавиталия

Helping the Vulnerable Groups

The Bank has insisted on promoting such work as spreading financial knowledge in villages and caring for the children of new citizens. At the same time, we regularly arrange volunteers to provide voluntary services for the elderly, left-behind children and the disabled. In 2016, the Bank carried out more than 350 activities of spreading financial knowledge, providing aid to small and micro enterprises and caring for special groups, and thus set up an image of a bank with sense of social responsibility.

Cases

Maidao sub-branch of Bank of Qingdao launched a charitable brand in August 2015. Via the brand C.T.W.D, the Bank combined the online promotion with offline promotion and spread positive energy and thankfulness to influence more and more people. In 2016, the sub-branch fully presented the concept of the brand and mobilised the staff to further perform the charitable activities.



Visiting Children with Leukemia

On 4 Feburary 2016, before the Chinese New Year, the staff of Shazikou sub-branch, which was under management of Maidao sub-branch visited a 10 year-old boy with Leukemia in the western area of Qinghai University Affiliated Hospital. Taking the frigid weather into consideration, C.T.W.D bought coat, sweater and down jacket for him. In addition, we also prepared children's books, school supplies, electric toys, nourishment and so on, with the hope that he could feel better in the ward and return to the campus as soon as possible.

Little Banker's Adventure

To offer an intuitive understanding of bank to children, members of C.T.W.D. divided the activity into several sections. In addition to visiting tours in business premises and automatic device areas, class of knowledge of Renminbi was launched. The children, with desire for knowledge, were totally attracted by the lecture. The staff were all deeply touched by their desire for knowledge as well as innocent smile. The staff enjoyed the delighted lessons and explained the questions patiently for the children. The form of integrating teaching into playing provided practical daily knowledge of finance for the children.



Yellow wristbands escort Alzheimer people on their way home

In 2016, the voluntary activities of C.T.W.D, named "Plan to warm the winter", started with an activity of caring for Alzheimer elderly people. C.T.W.D got in touch with the community residential committee and visit the elderly people who suffered Alzheimer's disease and who had bad memory, with yellow wristbands, which could prevent them from getting lost. The members of C.T.W.D explained patiently the usage methods and matters needing attention of the yellow wristbands to the elderly and their families, and remind them of keeping warm in winter. It was difficult to express the happiness of the staff when watching the elderly people wear the yellow wristbands and laugh happily. The happiness of the elderly people is our biggest pleasure.





Giving Back to Society

Educational Support

The Bank established scholarships in five colleges, e.g. Ocean University of China, Shandong University of Science and Technology and Qingdao University, to help the students on education. The branches in Shandong University of Science and Technology and Qingdao University of Technology provide campus financial services for thousands of teachers and students.



Amount of scholarships and number of aided students

Universities	Beginning year	Amount of scholarships (10 thousand)	Number of aided students
Ocean University of China	2011	50	80
Qingdao University	2011	50	100
Shandong University of Science and Technology	2012	50	100
Qingdao University of Science and Technology	2013	30	300
Qingdao University of Technology	2013	30	100

Staff from Dongying branch went to Guangrao Gongqing Hope School and carried out a donation activity, delivering warm greetings to the teachers and students in the school and donating books and school supplies for them.

Staff from Jinan branch visited students in a hope school called Changqingxinzhihang, with more than 100 books donated by and painting brushes and e-books collected by the staff across the Bank.

Sub-branch of Dongying district of Dongying branch established a "Book bank". In 2016, the sub-branch of Dongying district, together with the Library of Dongying District, built the first Book bank with over 2,000 books purchased according to the customers' preferences. The subbranch was connected with the Library of Dongying District via the internet, to provide a book management system of branch library and supporting devices related to e-books, by which the book borrower could borrow books from various libraries and return the books in different libraries. We organised a reading club of Dongying sub-branch of Bank of Qingdao among our customer groups, established WeChat discussion group for the reading club and held all kind of activities, such as experiencing activity of the book bank, online companionship activity about books, badminton competition, recitation club of classics books of revolution and reading month of Shenglishengcai Primary School. The activity of the Book bank, which focused on customers and took books as a bond, has helped build a bridge connecting customers and us.



Voluntary Blood Donation

Nearly 200 employees from the wealth centre of the headquarters and branches including Jinan, Dongying, Taidong Six Road and Chongqing Road participated in donating blood.



Voluntary Activities of the staff

Date	Activity Name	Content	Location
16 March	Passing down the Lei Feng spirit and spreading love in the school for the blind	Spreading love in the school for the blind in Qingdao city	The school for the blind in Qingdao city
19 March – 20 March	Donating Old Stuff and Delivering Love	Donating clothes to the teachers and students of Qingjiang Ethnic Primary School in Mahao village, Shibing county, Guizhou province	Guangxi Road Sub-branch
2 April – 4 April	Voluntary services in Qingming holidays	Providing guidance for people to use automatic devices for registration, payment and other operation in the hospital	Municipal hospital in Qingdao city
8 October – 9 October	Holding hands with elderly people and warming their hearts	Visiting elderly people who live alone in Chenzhuang community	Chenzhuang community of Dongying district
3 December	C.T.W.D Voluntary activity in 2016-Yellow wristbands escort Alzheimer people on their way home	Donating yellow wristbands to the elderly people who suffers Alzheimer's disease or who have bad memory in Haikou Road community	Homes of the elderly people who suffers Alzheimer's disease or who have bad memory
March – November	Youth voluntary activity of spreading financial knowledge in villages	Improving rural financial services, spreading financial knowledge, building harmonious villages and promoting and deepening the activity of spreading financial knowledge in villages	Villages and towns of Jimo, Pingdu, Laixi, Xihaian, Chengyang
April – November	Voluntary activity of caring for the children of new citizens	Teaching the students about basic financial concepts and methods and knowledge of precaution against from financial frauds through classes of financial knowledge and financial practices.	Qingdao Ping'an Second Road Primary School, Jiangsu Road Primary School

Prospect for 2017

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Prospect for 2017

Prospect for 2017

In 2017, the Bank will continue to strengthen the ESG governance, enhance the level of governance and operation, and increase the market value of the Bank, to create the greatest value for the shareholders and stakeholders and promote economic development and social progress.

For the economy, the Bank will act actively to respond to the policy requirements of the central, provincial and municipal governments on supporting the development of substantial economy by finance, cultivate distinctive services including scientific and technological finance, small and micro finance and finance for livelihood, carry through such financial policies as providing services to "agriculture, rural areas and peasants", supporting the modern agricultural development and helping the poor with finance, and fulfil the responsibilities of building a resource-saving and environmentally friendly society.

For the environment, the Bank will accelerate the implementation of green operation, integrate the concept of environmental protection and energy conservation into daily operation, and expand the scope and level of online services through the construction of mobile finance 3.0. In addition, the Bank will fully carry out internal electronic operation and online office, build an operating system for "green operation", adopt artificial intelligence to process simple and repeatable business in the pilot areas, and reduce the carbon emissions and resource consumption during its operation. Also, the Bank will speed up the "green finance" and other characteristic financial development and use green loans to promote the

supply-side reform and economic transformation

and upgrading.

For the society, the Bank will continue to develop and expand the "Dream and Love Fund of Bank of Qingdao", and promote the construction of various staff clubs. The Bank will arrange visits to retired staff and employees with difficulties on a regular basis, try to discover and cultivated the "Role models around us" and skilful employees. Also, the Bank will persist to use the morning meetings and other advertising platform for corporate culture, strongly promote a climate of studying and attaching importance of study, and further create a people-orientated atmosphere.

In the future, the Bank will persist in adhering to the guiding principles of constructing the Bank with compliance, govern the Bank with expertise, boosting the Bank with innovation and empowering the Bank with science. The Bank will also improve its governance, optimise the management process, highlight the operational characteristics, improve the customers' experience and build competitive brands, in order to realise a robust and scientific development, create the greatest value for the shareholders and stakeholders and drive the economic development and social progress.

Appendix

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Appendix

1. Independent Limited Assurance Report

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

We were engaged by the Board of Directors of Bank of Qingdao Co., Ltd. ("the Bank") to provide limited assurance on the 2016 Environmental, Social and Governance Report of the Bank for the year ended 31 December 2016 ("the ESG Report").

Responsibilities of the Board of Directors

The Board of Directors of the Bank is solely responsible for the preparation and presentation of the 2016 ESG Report, including the information and assertions contained within it, in accordance with the disclosure recommendations of The Stock Exchange of Hong Kong Limited's Guidelines for Environmental, Social and Governance Reporting ("SEHK's Guidelines").

The Board of Directors is also responsible for designing, implementing and maintaining internal control that enables the preparation and presentation of the ESG report that is free from material misstatement, whether due to fraud or error.

Responsibilities of KPMG

Our responsibility is to carry out a limited assurance engagement and to express a conclusion based on the work performed. We conducted our work in accordance with International Standard on Assurance Engagements 3000: *Assurance Engagements other than Audits or Reviews of Historical Financial Information*, issued by the International Auditing and Assurance Standards Board.

We have complied with our independence and other relevant ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, and complied with the applicable requirements of International Standard on Quality Control 1 to maintain a comprehensive system of quality control.

Our independent limited assurance report is made solely to the Bank in accordance with the terms of our engagement. Our work has been undertaken so that we might state to the Board of Directors of the Bank those matters we have been engaged to state in this independent limited assurance report and for no other purpose. We do not accept or assume responsibility to anyone other than the Bank for our work, for this independent limited assurance report, or for the conclusions we have reached.

Summary of work performed

A limited assurance engagement on an ESG report consists of making inquiries, primarily of persons responsible for the preparation of information presented in the ESG report, and applying analytical and other procedures, as appropriate. Our procedures included:

- Inquiries of management to gain an understanding of the Bank's processes for determining the material issues for the Bank's key stakeholders;
- · Interviews with management and relevant staff at the Bank implementation of these across the business;
- · Interviews with relevant staff at the Bank responsible for providing the information in the ESG Report;
- · A media analysis and an internet search for references to the Bank during the reporting period;



Bank of Qingdao Co., Ltd. 2016 Environmental, Social and Governance Report

- Inquiries about the design and implementation of the systems and methods used to collect and process the information reported, including the aggregation of data into information as presented in the ESG Report;
- Comparing the information presented in the ESG Report to corresponding information in the relevant underlying sources by limited testing to determine whether key information contained in such underlying sources has been included in the ESG Report;
- · Reconcile key financial data and figures with the audited financial statements;
- Reading the information presented in the ESG Report to determine whether it is in line with our overall knowledge of, and
 experience with, the sustainability performance of the Bank.

The extent of evidence gathering procedures performed in a limited assurance engagement is less than that for a reasonable assurance engagement, and therefore, a lower level of assurance is provided. In addition, our work was not undertaken for the purpose of opining on the effectiveness of the Bank's systems and procedures.

Conclusions

Based on the procedures performed and the evidence obtained, nothing has come to our attention that causes us to believe that the ESG Report of the Bank for the year ended 31 December 2016 is not prepared, in all material respects, in accordance with the SEHK's Guidelines.

KPMG Huazhen LLP

Beijing 3 July, 2017

2.ESG Report Indicator Index

ESG Report Indicator Index

Subject Areas and Aspects	General Disclosures	Disclosure location	KPIs	Disclosure location
A. Environmental				
			A1.1 The types of emissions and respective emissions data.	Note 1
	Information on the policies and compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non- hazardous waste.		A1.2 Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	page 35
		pages 34-36	A1.3 Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Not Applicable
A1 Emissions			A1.4 Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	page 36
			A1.5 Description of measures to mitigate emissions and results achieved.	pages 34-35
			A1.6 Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	page 36
	Policies on the efficient use of resources, including energy, water and other raw materials.	pages 34-35	A2.1 Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	page 11, page 35
			A2.2 Water consumption in total and intensity (e.g. per unit of production volume per facility).	page 11, page 35
A2 Use of Resources			A2.3 Description of energy use efficiency initiatives and results achieved.	pages 34-35
			A2.4 Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	page 35
			A2.5 Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	Not Applicable
A3 Environment and Natural Resources	Policies on minimising the issuer's significant impact on the environment and natural resources.	pages 31-37	A3.1 Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	pages 31-37



Bank of Qingdao Co., Ltd. 2016 Environmental, Social and Governance Report

Appendix

Subject Areas and Aspects	General Disclosures	Disclosure location	KPIs	Disclosure location	
B. Social					
	Information on the policies and compliance with relevant laws and regulations that have a significant impact		B1.1 Total workforce by gender, employment type, age group and geographical region.	page 51	
B1 Employment	on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	pages 51-53	B1.2 Employee turnover rate by gender, age group and geographical region.	page 51	
	Information on the policies and compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.		B2.1 Number and rate of work-related fatalities.	page 51	
			B2.2 Lost days due to work injury.	page 51	
B2 Health and Safety		pages 51-53	B2.3 Description of occupational health and safety measures adopted, how they are implemented and monitored.	pages 51-53	
B3 Development and	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	pages 56-57	B3.1 The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	Note 2	
Training			B3.2 The average training hours completed per employee by gender and employee category.	Note 2	
	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	the policies; and (b)		B4.1 Description of measures to review employment practices to avoid child and forced labour.	page 51
84 Labour Standards		page 51	B4.2 Description of steps taken to eliminate such practices when discovered.	Not applicable	
	0.1.1		B5.1 Number of suppliers by geographical region.	Note 2	
85 Supply Chain Management			B5.2 Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	page 36	

Bank of Qingdao Co., Ltd. 2016 Environmental, Social and Governance Report

Subject Areas and Aspects	General Disclosures	Disclosure location	KPIs	Disclosure location
	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	page 44, page 50	B6.1 Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Not Applicable
			B6.2 Number of products and service related complaints received and how they are dealt with.	page 44
B6 Product Responsibility			B6.3 Description of practices relating to observing and protecting intellectual property rights.	page 50
			B6.4 Description of quality assurance process and recall procedures.	Not Applicable
			B6.5 Description of consumer data protection and privacy policies, how they are implemented and monitored.	page 44
	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	page 47, page 49	B7.1 Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	page 49
B7 Anti-corruption			B7.2 Description of preventive measures and whistle- blowing procedures, how they are implemented and monitored.	Not Applicable
	Policies on community engagement to understand the needs	nt to needs unities ssuer pages 58-61 ensure se into n the	B8.1 Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	pages 58-61
B8 Community Investment	of the communities where the issuer operates and to ensure its activities take into consideration the communities'interests.		B8.2 Resources contributed (e.g. money or time) to the focus areas.	pages 58-61

Note 1: Related indication statistic systems have not yet been established by the Bank and are scheduled to be established in the future gradually.

Note 2: Information is scheduled to be disclosed gradually in the future.





Thank you for reading the Environmental, Social and Governance Report of Bank of Qingdao Corporation Limited of 2016. With the aim of enhancing the information exchange, better understanding and satisfying your expectation and demands, providing more valuable information for you and other stakeholders and improving the Bank's capability and level for performing social responsibilities, we hope that you can evaluate this report and provide us with your valuable comments and suggestions. You can fill out the below feedback form and choose any of the following ways to send us your opinions.

Ad	(: +86(532)8 nail : bgs@qdb		ig Road, Qingdao city, S	Shandong province, China	
1.	Which kind of stake Customer Supplier	holder are you: Staff Cooperation partner	GovernmentCommunity	Supervisory institutionEnvironment	Shareholder Others
2.	Your general evalua	tion on this report: Average	🗖 Good	🗂 Excellent	PP
3.	Your evaluation of B	ank of Qingdao in performi Q Average	ng social responsibilitie 🔽 Good	es for economic development:	
4.	Your evaluation of B	ank of Qingdao in performi D Average	ng social responsibilitie 🔲 Good	es for environment:	
5.	Your evaluation of B	ank of Qingdao in performi D Average	ng social responsibilitie 🔲 Good	es for social progress:	
6.	Do you think Bank o	of Qingdao satisfies your exp	ectation and demands		
7.	Do you think the re society? D No	port gives a true and fair pie	cture of the practices o	of social responsibility for econom	ny, environment and
8.	Do you think the ex D No	pression of the report is clea	ar and easy to understa	ind?	
9.	Do you think the co Do you think the co	ntent structure and typogra	phy is suitable for read	ling?	C K K
10.		ther comments or suggesti ning social responsibilities?	ions on the report and	f on the improvement and deve	elopment of Bank of
Tha	ank you for your feed	back and support!			LOD



