

2017

Bank of Qingdao Co., Ltd.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT



BANK OF QINGDAO CO., LTD.

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

(H Shares Stock Code: 3866)

(Preference Shares Stock Code: 4611)

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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 2017 and shows Bank of Qingdao's assumption of social responsibility and commitment to sustainable development.

**Reporting period**

The reporting period is from 01 January 2017 to 31 December 2017, with the exception of some matters.

**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, branches, and the subsidiary, unless otherwise specified.

**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 (G4.0)

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 based on 2017 financial statements prepared in accordance with the International Financial Reporting Standards (IFRS) and audited by KPMG. Should there be any conflict between the financial data herein and the 2017 annual report of the Bank, the 2017 annual report shall prevail. Other information is sourced from statistical data of the Bank's internal systems, the subsidiary, 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 and all directors undertake that the information in this report contains no false record, misleading statement or material omission, and assume individual and joint 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**

This report is issued in the form of printed version and on the website at <http://www.qdccb.com/> and <http://www.hkexnews.hk>.

This report is available in Chinese and English. If there is any conflict between the Chinese version and its English translation, the Chinese version shall prevail.

**Preparer of the report**

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Chairman's Statement

The year 2017 is also an important year to the Bank of Qingdao. This year, we have been closely following national policies and aligning with new business trends, regulations, driving forces, and technologies to adjust our development direction and approaches for better prudence and sustainability and better public services.

Trend following for breakthroughs. The Bank stayed in the main course of reform and development, fully implemented national decisions and plans, and stuck to the original purpose of finance to serve the real economy. We focused on the key strategies of China, Shandong, and Qingdao, stepped up investments in critical construction projects, new and old kinetic energy conversion projects, green credit projects, and financial inclusion projects, kicked off the "Mutual Benefit" program for small and micro businesses, pushed ahead special business such as port finance, metro finance, and culture finance, and proactively explored an open and interactive internet finance ecosystem.



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Chairman of Bank of Qingdao
Co., Ltd.
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GUO Shaoquan
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Capability improvement for better services. In a move to seek business diversification, the Bank established and held Qingdao Qingyin Financial Leasing Co., Ltd. We strived for more considerate service procedures based on service scenarios and improved service skills and experience to make services valuable, interactive, and personalized. To advocate green and low-carbon operations, we started a paperless program for over-the-counter services and improves our online banking, mobile banking, and WeChat banking functions to make them smarter and simpler, so as to achieve collaboration between our brick and mortar business outlets and online service channels. In 2017, our E-banking replacement ratio and customer complaint satisfaction stood at 93.62% and 99.81% respectively, for which the Bank again received the “Five-Star Diamond Award” - the top global award in the service industry.

Care for healthy development. As always, we kept promoting our corporate culture that concentrates on care and compliance to build an atmosphere that values integrity, cohesion, solidarity, and motivation. Adhering to the people-oriented principle, the Bank attention to the career development of staff while offers their various leisure activities after 8 working hours for them. Keen to drive the organization to keep learning, we have set up a learning system consisting of the Leyan forum, Lexue class, and Ledu salon. To fulfil our corporate social responsibility, the Bank participated in many youth volunteer activities, carried out a variety of public welfare and environment protection initiatives, established the Qingyin Charitable Foundation, and offered strong support for philanthropic education. In 2017 alone, we donated RMB 7.38 million for public welfare.

“

The year 2017 is of historic significance in China's financial history, a year when the Nineteenth CPC National Congress and National Financial Conference were successfully held to clarify the guidelines, important principles, and key tasks regarding finance.

”

Better performance for a brighter future. 2018, the fortieth year after China introduced its reform and opening-up policy, will witness the commencement of implementation of the spirit of the Nineteenth CPC National Congress, and serve as a critical year to comprehensively build a well-off society and roll out the 13th Five-Year Plan. In this coming era when opportunities are dubbed with challenges and we are called upon to advance with devotion, the Bank will stick closer to CPC's leadership, insist on proactive compliance, and carry out prudent operations to continue making us a bank featuring Warm Services, Strong Risk Control and Advanced Technology, grow with customers and the society, and contribute as a powerful driving force.



Signature of Chairman



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

WANG Lin
.....

Signature of President

A handwritten signature in black ink, consisting of stylized Chinese characters '王麟' (Wang Lin).



Chief Supervisor of Bank of
Qingdao Co., Ltd

CHEN Qing

Signature of Chief Supervisor

A handwritten signature in black ink, consisting of stylized Chinese characters, likely '陈青' (Chen Qing).

01

Company Overview

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Company Profile

Bank of Qingdao was founded in 21 November 1996. With its base in Qingdao, it provides services across Shandong Province. As of the end of December 2017, it had 128 outlets, including one head office, one branch and 73 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 operation and brand upgrade, the Bank strived to enhance risk identification and control 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 Bank" 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 relation 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 multi-division 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 its 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.

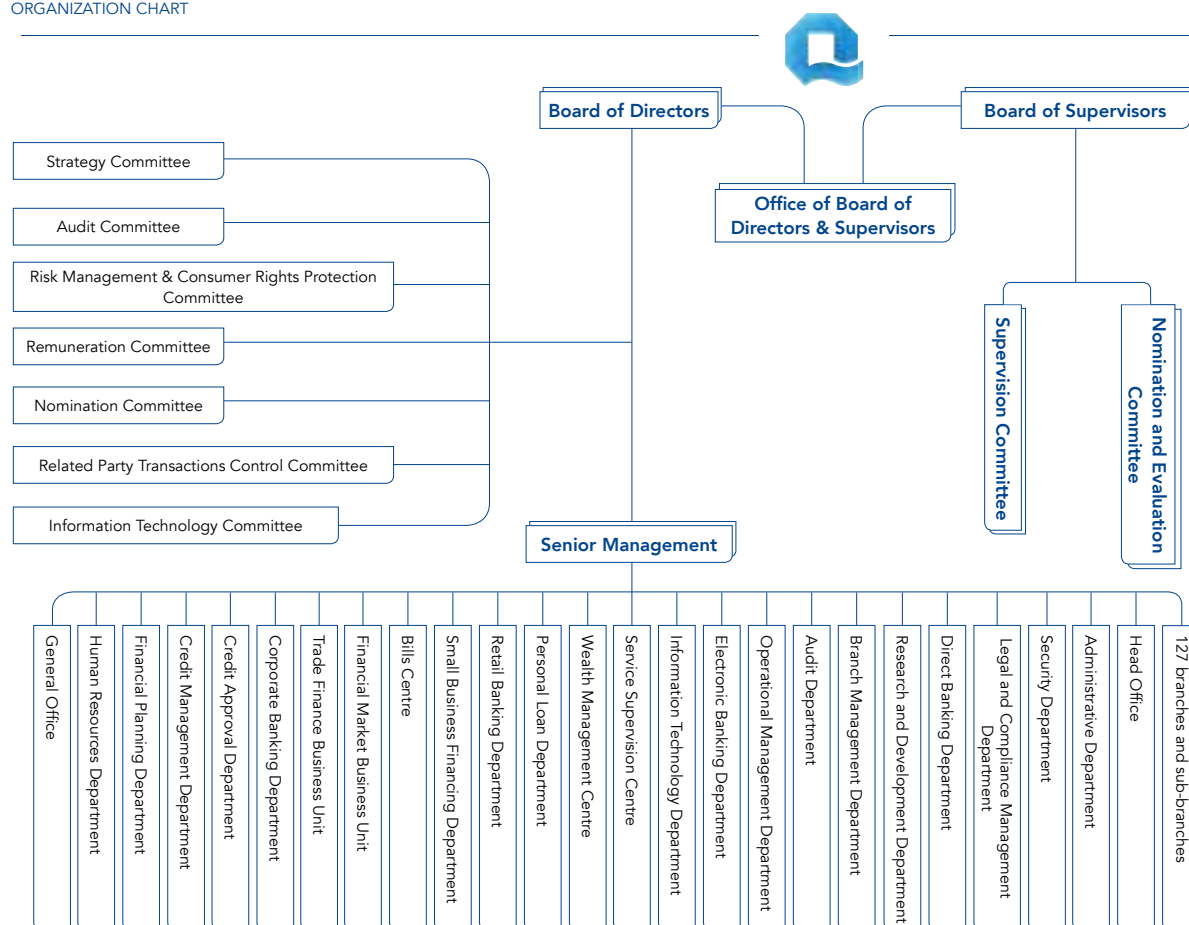


Five-Star Diamond Award

For the second consecutive year a top global award in the service industry

Corporate Governance

ORGANIZATION CHART



The Bank is dedicated to building a check-and-balance mechanism and an operation mechanism in accordance with domestic and foreign laws and regulations for regulated, market-oriented, and unique corporate governance. It continuously improves its corporate governance policies and system, standardizes its corporate governance procedures, and drive independent operations of and effective checks and balances by its governance bodies, so as to improve its core business competitiveness and achieve sustained and stable business growth via efficient corporate governance.

As required by regulators and based on its actual circumstances in 2017, the Bank amended its corporate governance documents including the Articles of Association, changed its independent directors and members of dedicated committees for a more diversified Board of Directors, reinforced the core position of the Board of Directors in corporate governance to allow it to better play its part in strategic guidance, risk management, capital management, motivation and constraints, organized independent directors to conduct investigations on specified topics for professional advice, increased the frequency of on-site meetings of the dedicated committees to further consult their expertise, and stepped up supervision by the Board of Supervisors to adapt to the increasingly tough regulatory environment.

The general meetings of shareholders is the power organ of the Bank. In 2017, it held 3 general meetings of shareholders to review and approve 33 proposals and hear 2 reports.

The Board of Directors serves as the Bank's decision-making body re-

sponsible for and reporting to the general meetings of shareholders. As at the end of 2017, the Board of Directors had 15 members, including 6 non-executive directors, 4 executive directors, and 5 independent non-executive directors. In the year, the Board of Directors held a total of 13 meetings to review and approve 50 proposals and to review or hear 55 reports.

The Board of Supervisors serves as the Bank's supervision body responsible to the general meetings of shareholders. As at the end of 2017, the Board of Supervisors had 7 members, including 1 shareholder supervisor, 3 employee supervisors and 3 external supervisors. In the year, the Board of Supervisors held a total of 8 meetings to review and approve 18 proposals and to review or hear 50 reports.

The senior management serves as the Bank's executive body responsible to the Board of Directors and supervised by the Board of Supervisors. As at the end of 2017, the senior management had 6 executives, including 1 president, 4 vice presidents, and 1 secretary to the Board of Directors. The senior management carried out business operation management in accordance with the Articles of Association and authorization from the Board of Directors; created an overall business plan in line with the strategies and objectives set by the Board of Directors and regularly report to Board of Directors the progress of implementing the strategies and plan; analysed internal and external situations, developed business operation strategies and management measures accordingly, and made adjustments against market fluctuations. It also closely communicated with the Board of Directors and Board of Supervisors to improve business operation management and drive work efficiency.

Key KPIs

Type of KPI	Name of KPI	Unit	2017	2016
Economic KPIs	Operating income	RMB 100 million	55.68	59.96
	Net profit	RMB 100 million	19.04	20.89
	Basic earnings per share	RMB	0.47	0.51
	Total assets	RMB 100 million	3,062.76	2,779.88
	Total loans	RMB 100 million	980.61	871.68
	Total deposits	RMB 100 million	1,600.84	1,416.05
	Return on average total assets	%	0.65	0.90
	Return on equity ¹	%	10.73	12.20
	Non-performing loan ratio	%	1.69	1.36
	Provision coverage ratio	%	153.52	194.01
	Capital adequacy ratio	%	16.60	12.00
Social KPIs	Total paid taxes	RMB 100 million	11.76	9.76
	Charity donation	RMB 10,000	738.00	634.28
	Social contribution per share ²	RMB	2.67	2.21
	Headcount ³	Person	3,545	3,276
	Percentage of female employees ³	%	54.39	54.33
	Volunteer activity participants ³	Person-time	2,472	2,364
	Average trainings per person per year ³	In number	27	16
Environmental KPIs	Balance of green credit	RMB 100 million	73.17	62.62
	Balance of loans to high-pollution, high-energy-consumption or overcapacity industries	RMB 100 million	23.40	27.23
	E-banking replacement ratio	%	93.62	90.31
	Head office power consumption ⁴	10,000 kWhs	443	286
	Head office water consumption	Ton	14,354	14,379
	Head office paper consumption	1 million sheets	1.31	1.04
	Head office oil consumption	Litre	64,778	66,000

1. Return on equity = Net profit attributable to holders of the Bank's ordinary shares/Average balance of equity attributable to holders of the Bank's ordinary shares at the opening or closing

2. Social contribution per share = (Total paid taxes + Wages paid to employees + Interests paid to creditors + Total amount of donation - Other social costs incurred due to factors such as environmental pollution) ÷ Total number of capital shares + Basic earnings per share

3. The indicators include data of the Bank but exclude the data of its subsidiary.

4. In 2017, the Bank moved its headquarters to another building. Before the relocation, the old building consumed power for business operation, while the new building consumed power for doing the interior. As the new building outsize the old, power consumption increased after the relocation.

Honours and Awards

Award Organisation	Award	Time
Research Society of Ideological and Political Work of China Financial Institutions	2015-2016 Advanced Organisation in Corporate Culture Construction in China's Financial System	January 2017
China Banking Association	2016 Advanced Organisation in Legal Risk Management in China's Banking Industry	March 2017
Federation of Trade Unions of Shandong Province	Certificate of Merit for Making People Rich and Making Shandong More Prosperous	April 2017
"Golden Profile" Fund Investment Contest	Best Investment Advisor	May 2017
xwpx.com	The Bank's internal magazine BOQ was granted the Third Prize for Outstanding Internal Periodicals of Enterprises of 2016 during the 2017 Enterprise Internal Magazine Summit Forum cum 2016 Outstanding Enterprise Internal Magazine Appraisal and Awarding Ceremony, the only awarded magazine issued by a city commercial bank	May 2017
World Brand Laboratory	The bank valued at RMB 6.031 billion ranked No. 418 among China's 500 Most Valuable Brands 2017, the only financial enterprise from Shandong Province in the rankings	June 2017
China Banking Association	China's Most Socially Responsible Financial Institution of 2016	June 2017
The Banker, a UK magazine	The Bank ranked No. 372 among other banks from around the world by core tier one capital, entering the top 500 rankings for the fourth consecutive year and defending the leading position among the corporate banks from Shandong Province. The Bank ranked No. 351 among other banks from around the world by total assets	July 2017
World Brand Laboratory	The Bank ranked No. 486 on the 12th Top 500 Asian Brands, the only financial enterprise from Shandong Province and the only city commercial bank from China in the rankings	September 2017
Professional Committee on Customer Relationship Management of China Federation of IT Promotion	The Bank's customer service centre (multimedia customer interaction centre) was granted the 2016-2017 China Best Customer Contact Centre of the Year Award and China Best Customer Contact Centre Service Experience Award	October 2017
China Corporate Culture Institute	2012-2017 Advanced Organisation in Corporate Culture Construction	November 2017
Shandong Provincial Banking Association	The Bank's "Small Business Loans for Government Procurement" product received the Award for Outstanding Financial Products for Small and Micro Businesses from Shandong Provincial Banking Association	November 2017
China Central Depository & Clearing Co., Ltd.	The Bank ranked among the top 10 of the top 100 banks by wealth management product issuance, and the 1st among the city commercial banks in the rankings	December 2017
China Business News	The Bank was rated by China Business News as the Most Competitive City Commercial Bank of 2017 in Financial Value	December 2017
China Financial Certification Authority	The Banks received the 2017 Best Mobile Banking Function Award for Regional Commercial Banks from China Financial Certification Authority	December 2017
China Banking Association	The Bank ranked No. 7 in terms of steady development capability of commercial banks in 2017 evaluated by the "GYROSCOPE (陀螺)" evaluation system of commercial banks issued by the China Banking Association	December 2017
hexun.com	The Bank's mobile banking received the Commercial Bank Technological Innovation Award during the 15th China's Financial Annual Champion Awards ceremony held by hexun.com	December 2017
Financial Times	The Bank won the Golden Dragon 10-Year Extraordinary Achievement Award and the Best Small- and Medium-sized Banks of the Year in Wealth Management Award during the China Financial Institutions Gold Medal - Golden Dragon Award Contest of Financial Times in 2017, the 7th consecutive year when it received awards from the contest	December 2017
China Banking Association	The Bank's Jiaozhou Sub-branch, Jinan Shungeng Sub-branch, and Jinan Luoyuan Sub-branch received the "Outlet with Five-Star Civilised and Standardised Services in China's Banking Sector" title, while the business departments of our Dongying Branch and Zibo Branch and the Development Zone Sub-branch and Jimo Sub-branch received the "Outlet with Four-Star Civilised and Standardised Services in China's Banking Sector" title	December 2017
World Brand Laboratory	The Bank received the Five-Star Diamond Award for the second year	December 2017

02

Social Responsibility Governance

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Social Responsibility Philosophy



Business philosophy

Building a bank founded on the basis of compliance, governed by professional expertise, led by innovation and empowered by technology



Responsibility philosophy

Adhering to compliance-based development, exploring green development, pushing for innovative development and pursuing shared development



Strategic goals

Warm services, strong risk control and advanced technology



Vision

Becoming a group-based, intensive and international provider of comprehensive financial services with unique advantages and world-class quality



Mission

Achieving scientifically sound development, creating the maximum value for shareholders and stakeholders and promoting economic development and social progress



Core values

Responsibility, care, compliance and dedication

Responsibility Governance System

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 in accordance with Measures for the Regulation of BOQ on Annual CSR Report Preparation and Disclosure (Trial). 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

Communication to Stakeholders

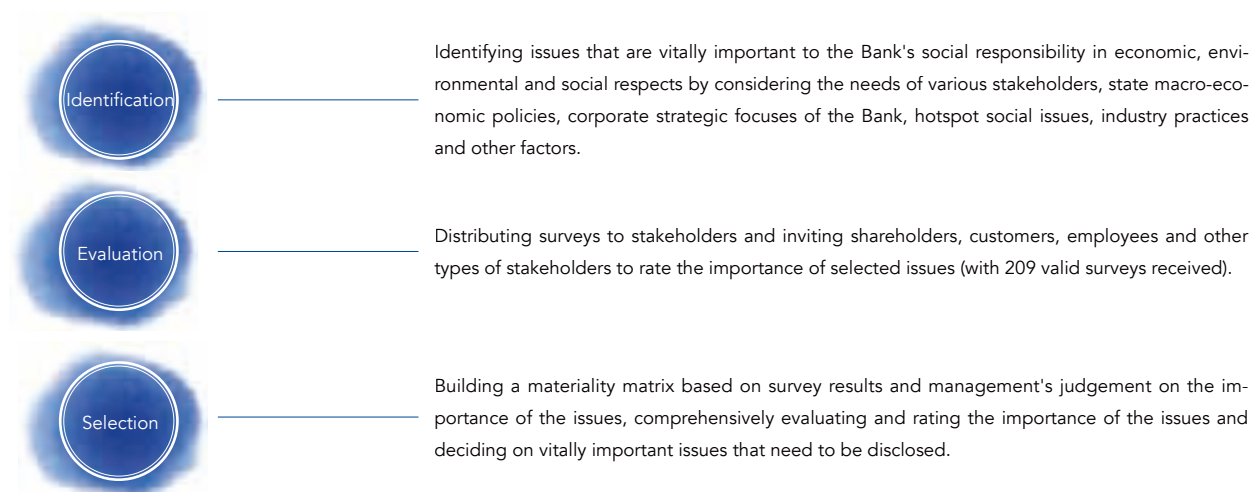
In order to understand the expectations and requirements of stakeholders, the Bank has built various communication channels that are embedded into its daily operations, and forged a communication mechanism to enhance regular communication with stakeholders through means such as meetings, reports and 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
 <p>Governments</p>	<ul style="list-style-type: none"> ·Support real economy ·Implement macro-economic policies ·Promote local economic development ·Expand financial inclusion services 	<ul style="list-style-type: none"> ·Documents and guidelines on policies ·Working meetings ·Information distribution ·Specific topic reports 	<ul style="list-style-type: none"> ·Support the Belt and Road Initiative ·Drive supply-side structural reform and implement the “cutting overcapacity, destocking, deleveraging, reducing corporate costs and shoring up weak spots” policy ·Support for construction of key projects ·Provide innovative services for small and micro businesses
 <p>Regulators</p>	<ul style="list-style-type: none"> ·Comply with regulatory requirements ·Maintain financial stability ·Take up social responsibility 	<ul style="list-style-type: none"> ·Regulatory policies ·inspection and regulation ·Work reporting 	<ul style="list-style-type: none"> ·Strengthen internal control ·Improve the party conduct and moral integrity ·Engage in poverty alleviation efforts
 <p>Shareholders</p>	<ul style="list-style-type: none"> ·Ensure sustainable business operation ·Improve profitability ·Improve returns on equity ·Increase corporate value 	<ul style="list-style-type: none"> ·General meetings of shareholders ·Information disclosure ·Performance road shows ·Research on and exchanges with investors 	<ul style="list-style-type: none"> ·Improve the corporate governance structure ·Make corporate development plans ·Disclose information in a timely manner ·Enhance management of investor relations
 <p>Customers</p>	<ul style="list-style-type: none"> ·Improve service quality and efficiency ·Provide a richer selection of financial products ·Ensure information and fund security ·Expand service channels 	<ul style="list-style-type: none"> ·Marketing activities ·Customer hotline ·Surveys ·WeChat, online banking and other digital platforms 	<ul style="list-style-type: none"> ·Improve customer experience ·Innovate financial products ·Promote consumer finance ·Protect consumer rights and interests ·Increase service outlets ·Popularise financial knowledge
 <p>Employees</p>	<ul style="list-style-type: none"> ·Improve employees' benefits ·Protect the rights and interests of employees ·Provide professional training and career development opportunities ·Enrich free-time activities 	<ul style="list-style-type: none"> ·Trade union ·General meetings of employee representatives ·Seminars ·Feedback ·Discussions and visits 	<ul style="list-style-type: none"> ·Improve the compensation and welfare system ·Collect employees' suggestions from various channels ·Improve the training system ·Set up the Staff House ·Help employees in difficult situations
 <p>Vendors</p>	<ul style="list-style-type: none"> ·Fair procurement ·Cooperation for win-win outcomes 	<ul style="list-style-type: none"> ·Negotiation ·Conclusion of contracts and agreements ·Tendering and bidding 	<ul style="list-style-type: none"> ·Build a procurement management system ·Enhance business cooperation
 <p>Partners</p>	<ul style="list-style-type: none"> ·Mutually beneficial cooperation ·Communication and exchanges of ideas 	<ul style="list-style-type: none"> ·Meetings ·Joint projects 	<ul style="list-style-type: none"> ·Deepen bank-customs cooperation ·Enhance interbank exchanges and cooperation
 <p>Communities</p>	<ul style="list-style-type: none"> ·Care for disadvantaged groups ·Organise public service activities 	<ul style="list-style-type: none"> ·Visits ·Seminars 	<ul style="list-style-type: none"> ·Financial aid to students ·Volunteer activities
 <p>Environment</p>	<ul style="list-style-type: none"> ·Low-carbon and environmentally friendly operations ·Sustainable development 	<ul style="list-style-type: none"> ·Energy conservation and emission reduction policies ·Green public service activities 	<ul style="list-style-type: none"> ·Green credit ·Green services ·Green operation

Analysis of Material Issues

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.



Materiality Matrix



03

Support for Real Economy

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Developing New Ways of Serving Small- and Micro-sized Enterprises	26
Exploring Ways to Promote Internet Finance	27







Implementation of Macro-economic Policies

The Bank accurately understands the spirit of the Central Economic Working Conference, implements the supply-side structural reform policy and the measures of cutting overcapacity, destocking, deleveraging, reducing corporate costs and shoring up weak spots, and leverages such means as reference to borrowers' credit history and credit line management to drive portfolio restructuring for reduction of assets in the industries featuring high pollution, high energy consumption or overcapacity as well as industries from which loans should be recovered and to which credit should not be granted. It steps up efforts to recover, dispose of, and reduce outstanding risk assets, improve its appraisal system regarding the organization and credit business line personnel, and increase the weight of compliance and risk assessment to seek accountability in an appropriate and reasonable manner.

Driving supply-side structural reform and implementing the “cutting overcapacity, destocking, deleveraging, reducing corporate costs and shoring up weak spots” policy

The Bank fully implemented the spirit of the Nineteenth CPC National Congress. Under the Guidance of Xi Jinping's thought on socialism with Chinese characteristics for a new era, it acted upon the new development philosophy and insist on the priority of quality and profit, and focused our efforts mainly on supply-side structural reform to proactively deliver the development concepts of innovation, harmonisation, green, openness and sharing. Following the requirements of China Banking Regulatory Commission on financial support for the real economy, the Bank continued to improve the quality and efficiency with which it served real economy. It lent stronger support to efforts that aimed to boost 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. Specifically, the Bank expanded its credit availability for the high-tech sector, high-end manufacturing sector, next-generation IT sector, blue ocean economy, strategically important emerging sectors, green credit projects and key engineering projects; implemented measures such as reducing interest rates, reducing or waiving overdue interests, and adjusting repayment periods and frequencies to help 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 industries characterised by high energy consumption, high pollution and overcapacity, and accelerated settlement with zombie companies and continuously optimised its credit asset structure by taking legal actions to recover debts, restructuring debts, transferring creditors' rights, etc.



Case

The Bank granted credit of RMB 210 million to group companies for the purposes of carrying out the design and construction work regarding urban sewage treatment, industrial waste water and reclaimed water technology research and development projects, and of producing environmental protection equipments and facilities, etc.



Support for the Belt and Road Initiative

· Deepening bank-customs cooperation

To follow the trend of customs reform and step up support for foreign trade enterprises, the Bank put greater efforts on the researches and development of customs clearance-related products. On 4 August 2017, the Bank held the New and Old Kinetic Energy Conversion cum Jinan Customs New Guarantee Mode Seminar jointly with Jinan Customs. At the seminar, the Bank signed the Bank Customs Guarantee agreement to become a bank accepting the new type of guarantee.

Case

Bank-Customs Guarantee

Bank-Customs Guarantee is a business model created jointly by Jinan Customs, Bank of Qingdao and China Taiping and implemented under the procedures in which enterprises submit applications, the insurance company underwrites the applications, the Bank grants credits, and the Customs accept the application. In this business model, enterprises may obtain guarantee letters from the Bank more easily and at a lower cost, and the Customs may provide consolidated tax collection services for more enterprises, especially small- and medium-sized enterprises, against the guarantee letters.

Bank-Customs Guarantee represents the implementation of another innovative service resulting from the partnership between the Bank and the Customs. Currently, the new business model has covered the Jinan Customs area and Qingdao Customs area and will be introduced as arranged by the General Administration of Customs to the rest of China to truly benefit enterprises.



· Introducing trade financing products dedicated to export enterprises

In 2017, the Bank followed the government's requirement for supporting the foreign trade, innovating the foreign trade financial services model, and enhancing the supporting of export enterprises.

Case

Bank-Trade Express for export order financing

Bank-Trade Financing is a service introduced by the Bank and Bureau of Commerce, Qingdao to address the financing needs of small- and medium-sized foreign trade enterprises. The service allows the Bank to decide on the line of credit with reference to the enterprises' foreign trade business data and without collaterals or guarantees, so as to effectively resolve the problem of difficult and expensive financing of small- and medium-sized enterprises and further facilitate trade for steady growth of the foreign trade sector of Qingdao. Regulators and commercial authorities have attached great importance to the service, and have visited the Bank many times for research.



Support for the Development of Local Economy

The Bank kept exploring the regional economy and driving the development of the local economy. The Bank strongly supported the construction of Qingdao Metro, Jiaodong Airport, Olympics Sailing Base, the World Expo and other key provincial and municipal projects. We set up technology-oriented, port-oriented, cultural innovation-oriented, and metro-oriented sub-branches to provide comprehensive financial services for technology enterprises as well as key projects such as culture and media, 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 national treasury, and was involved in fund management via 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 Science and Technology, the Qingdao Municipal Bureau of Education, the Qingdao Municipal Bureau of Sport and other bureaus and commis-

sions, and proactively participated in the government's livelihood projects and government project biddings.

As at the end of 2017, the Bank's corporate deposits amounted to RMB 107.274 billion, an increase of RMB 14.625 billion or 15.79% from the end of the previous year. The Bank's corporate loans (excluding discounted bills) totalled RMB 64.364 billion, an increase of RMB 5.774 billion or 9.86% from the end of the previous year. The Bank was among the top 50 largest taxpayers in Qingdao and top 100 largest taxpayers in Shandong Province.



Support for construction of key projects

The Bank carried out comprehensive cooperation with Qingdao in key project construction, advantageous industry development, livelihood finance, and other areas to fully support the economic development of Shandong Province.



Case

Reservoir ecosystem protection and comprehensive treatment project

The Bank offered a loan to support the Chanzi reservoir ecosystem protection and comprehensive treatment project of Laixi. The comprehensive treatment included building the east and west floodbanks of the reservoir, laying sewage pipes, and setting up buffer zones and tree lawns on both sides of the flood banks, for flood control on the one hand and development of leisure tourism and other businesses on the other, making it important to the growth of the regional economy.

Land consolidation business

The business aimed to grant green credit to projects on agriculture, rural areas and farmers and to municipal key projects. In October 2017, the Bank approved the medium-term liquidity loan.

· Developing public well-being finance

In 2017, the Bank's public well-being finance business actively played its role in areas such as government finance, social insurance, housing fund, land reserve, house maintenance, administrative affairs, army, state-owned assets, publication, scientific research institutions, colleges, TV and radio, neighbourhoods and villages, social communities, house owner committees, health care, central enterprises, and won the biddings for many large public well-being finance projects.

Case

Fund supervision for car park debts

In January 2017, the request of a Weihai company for issuance of a car park debt valued at RMB 1 billion was approved, and the Bank was specified as the only fund supervising bank of the debt. On 6 November 2017, the company's fund of RMB 992 million was transferred to the Bank.



992 million

On 6 November 2017, the company's fund was transferred to the Bank

Further exploring IPO financing

In accordance with the requirements for in-depth IPO financing and exquisite quasi-investment banking, the department preliminarily tried IPO financing services based on the features of IP financing, led arrangement of the investment banking services, and instructed the sub-branches to conduct multiple innovative investment banking businesses including investment funds, equity investment, asset securitisation, and annexation loans.



(Bank of Qingdao helped set up the New OTCBB Smart IoT Strategic Alliance of Qingdao)

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 mainly granted relevant loans to the transformation of farmland and water conservancy, rural road, rural water supply, shanty towns' transformation, sludge harmless treatment, to support and accelerate the development of modern agriculture and help rural residents improve production and livelihood.

With the spirit of "expanding financial inclusion services", the Bank proactively fulfilled its duty to provide financial services to rural areas in Qingdao by setting up outlets there and stepping up rural development support. As at the end of 2017, it had a total of 21 outlets at the

county level.

The Bank invested lots of efforts to support construction and improvement of a payment environment in rural areas. Considering the payment needs of peasants, the Bank launched the "debit & credit card" in 2017 with an aim to help drive setup of a payment service environment in rural areas in Qingdao and innovation of payment services and products.

As at the end of 2017, the balance of rural loans amounted to RMB 24.644 billion, an annual growth of RMB 632 million or 2.63% from the beginning of the year.

Case

Granting loans to support comprehensive treatment of the Beishu reservoir and Gaogezhuang reservoir

As the two reservoirs play an important part in the water conservancy system of Laixi, the Bank granted loans to fund the projects of comprehensive treatment of the two reservoirs, so as to increase their capacities of flood control and drought relief, secure water supply to the city, address the need of irrigation, and improve the ecological environment. The project will quickly restore their capacities of flood control and drought relief and eliminate potential risks for a reliable protection of the safety and stable development of economy and society in Laixi and the areas where the streams from the reservoirs flow.



Building unique financial services

· Port finance reached a significant scale

Since the establishment of the port-oriented sub-branch in 2014, the Bank has moved from the stage of adapting to the smart port to the stage of reaching into the smart port with an aim to build a different and unique sub-branch for people in the port area, gradually focusing its port finance business on transaction banking.

Based on the characteristics of customers in the port area, the Bank developed the "123" rule, i.e., one centre (customer), two questions (who is the customer and what is the demand), and three key points (products, services, and channels), against which services are tailored to implement the strategy of generating a brand effect by making breakthrough via personalized wealth management, quickly expanding the customer group via mobile banking, setting up close ties via online services, and winning word of mouth via supervision by famous figures.

· Metro finance generated initial positive results

In 2017, the Bank signed a strategic cooperation framework agreement with Qingdao Metro and fully leveraged its strength as a local corporate bank to take pre-emptive actions in the metro market with an open mind and entrepreneur spirit.

It tailored a Metro Settlement Centre that offers comprehensive credit granting services covering banker's acceptance bill, letter of guarantee, etc., door-to-door collection services, fund monitoring services, structured deposit and principal-guaranteed wealth management products, industrial chain financial services, and all-purpose financial IC cards. The Bank has set up the Metro Building Sub-branch and May Fourth Square Metro Community Sub-branch to deliver special services for Qingdao Metro.

Considering the characteristics of the port economy, the Bank designed and developed a series of quality and efficient financial services for the related industries in the Port of Qingdao. In the meantime, the Bank carefully studied the upstream and downstream customers and developed a port industry model and service platform to achieve growth of the transaction banking-centred port finance business. The Bank built and released its on-line service outlet and promoted mispos, self-service payment terminals, all-purpose cards to bring convenience to enterprises, logistics companies, terminal yards, customs clearance agencies, etc. in the port area. It also established Bank-Port Express, a bulk stock pledge monitoring platform, together with the port to optimise business processes and risk control.



(Bank of Qingdao Metro Building Sub-branch)

· Culture finance gained initial momentum

Sticking to the general plan of Shandong and Qingdao for a cultural development reform, the Bank proactively took creative initiatives to address the financing needs of cultural innovation zones of various types and at various levels, a move to help cultural innovation enterprises seek development. Among the supported projects include both famous international cultural infrastructure projects such as Wanda Oriental Film Capital and Qingdao International Horticultural Exposition and local cultural infrastructure projects such as Qingdao Software Park

and Zhong Lian Plaza, and both financing projects of large- and medium-sized enterprises such as Qingdao Financial Daily and Qingdao Publishing Group and financing projects of small-sized enterprises from the comics and animation, media, and cultural innovation sectors.

Case

The first bank to support cultural innovation in Shandong Province

On 28 December 2017, the Bank signed a comprehensive strategic partnership agreement with the Propaganda Department of Qingdao CPC Municipal Committee to jointly establish Bank of Qingdao Cultural Innovation Sub-branch, the first bank to support cultural innovation in Shandong Province, an effort to recognize cultural innovation finance as strategic to the Bank. In the upcoming five years, the Bank will offer loans totalling RMB 10 billion to enterprises seeking cultural innovation and prioritize credit and scarce resources to support the development of small- and medium-sized enterprises in the cultural innovation sector.

The Cultural Innovation Sub-branch will tailor financial services for different cultural innovation enterprises. For example, it will provide five special products for small- and medium-sized cultural innovation enterprises with light assets, including movie and arts loan, cultural tourism loan, creative rights loan, cultural innovation town (park) loan, and "The Belt

and Road" cultural trade loan; it will also engage channels such as VCs and PEs to offer, in a mode that interconnects investments with loans, comprehensive financial services covering loans, bonds and stocks to enterprises with a strong potential and relatively high financing risks. These efforts aim to truly develop the connection between financial and cultural services, which would be truly beneficial to cultural innovation enterprises.



(Inauguration of Bank of Qingdao Cultural Innovation Sub-branch)

· Continuous innovation in technology finance

To proactively drive the innovation-driven development strategy of the state, the Bank has developed a unique approach of effective combination between technology and finance, which is to define a clear technology finance development philosophy, build a unique technology finance operation system, and innovate multiple technology finance products including Patent-Pledged and Insurer-Backed Loan, Cluster

Credit, Bank-Government-Guarantor Credit, Credit Loan, Financial Leasing Loan, Equity Loan, Technological Enterprise Risk Sharing Loan, and Tax-Credit Express. During 2015 to 2017, the Technology Sub-branch alone offered loans of approximately RMB 2 billion in total to over 300 enterprises seeking technological innovation in Qingdao.

Case

Offering Patent-Pledged and Insurer-Backed Loans to technological enterprises

Initiated and organized by the Qingdao Intelligent Property Affairs Centre, this service was implemented by the Bank along with insurance companies and security companies based on the revenue and risk sharing principle to offer loans as working capital to fund the daily operations of technological Qingdao enterprises that possess patents. The insurance company, the security company and the Bank assumed losses of such loans in proportion of 6:2:2.

A technological company manufacturing advanced green-ray laser module established in 2009 and funded by the Bank is a typical enterprise that boasts a highly capable R&D team and an outstanding management team and seeks technological innovation. When the enterprise received an order and started to prepare raw materials, it found that it needed another RMB 5 million to cover the cost. Through an investigation, the Bank regarded that the enterprise qualified for a loan since it was a company seeking technological innovation and possessed patents. Therefore, the Bank worked with an insurance company and a security company to grant a loan of RMB 5 million to the enterprise as its working capital solely against the mortgage of its patents at an interest rate of 30% lower than the market level. The enterprise also receives a fiscal interest rate subsidy and premium subsidy. After getting the loan, the enterprise quickly arranged production and successfully made delivery as required.

Developing New Ways of Serving Small- and Micro-sized Enterprises

To answer the call for “Mutual Benefit” banks facilitating small- and micro-sized businesses, the Bank held a press conference on 14 July 2017 to commence related efforts by launching its “Bank-Enterprise Mutual Benefit” product and establishing its “Bank-Enterprise Mutual Benefit” club to render traditional financial services for small- and micro-sized

businesses. The Bank also innovatively combined services such as wealth management, financial advisory, and tax planning to build a comprehensive service platform that offers one-stop financial solutions to small- and micro-sized businesses.

Developing New Products and Services

Innovative financial products	Offered loans against pledge and escrow of export rebates and secured loans for start-up of small- and micro-sized businesses, and carried out bank-wide operations of some sophisticated technology finance business, such as the business of patent-pledged and insurer-backed loans.
Innovative review and approval approaches	Optimised the templates of the system used to manage the credit of small-sized enterprises and added special credit granting business tags for financing applications of such enterprises.
Innovative security types	Allowed outstanding technological enterprises to use their intellectual properties such as patents to secure patent-pledged and insurer-backed loans.
Innovative repayment modes	Drove the refinancing fund business for loans from the municipal government of Qingdao to small-sized enterprises, enhancing bridge financing support for the enterprises.
Broadening service channels	Enhanced cooperation with government departments to access customers as soon as their demands arise, including the economic and information commissions, taxation bureaus, small-sized enterprises service centres, and bureaus of human resources.





Exploring Ways to Promote Internet Finance

In 2017, the Bank persistently facilitated the overall strategic layout of internet finance by adhering to market demands and customer core needs, and placed emphasis on acceleration of establishment and innovation of mobile finance. The Bank gradually optimized the framework of mobile financial products mainly composed of mobile banking, Haihui Life and WeChat Banking.

Continuously exploring innovation and application of internet technologies and customer service modes

For corporate customers, the Bank optimised its supply chain financing platform, improved its electronic bill of exchange functions, and added functions such as electronic trading market and enterprise wealth management to the platform to further address the demands of enterprises for a variety of internet-based services such as payment, settlement, secured transaction, financing, and wealth management, making it more capable of offering comprehensive financial services.

For individual customers, the Bank strongly developed its mobile finance business by continuously optimising and improving its personal online banking service. It further brought offline services online by introducing the online electronic Treasury bond purchase service and certificates of deposit service. In the meantime, the Bank accelerated implementation of its personalized marketing strategy and continued moving toward data-driven precision marketing and a service platform, driving it closer to an open and interactive internet finance ecosystem.

	2017		As at the end of 2017	2016		As at the end of 2016
Type	Transaction amount (RMB 100 million)	Number of transactions (unit: 10,000)	Number of transactions (unit: 10,000)	Transaction amount (unit: RMB 100 million)	Number of transactions (unit: 10,000)	Number of customers (accounts)
Internet banking for enterprises	9,769.85	1,405.72	74,706	6,950.79	1,176.41	59,358
Internet banking for individuals	6,235.43	8,113.42	697,817	4,801.07	8,176.90	645,811
Mobile banking	2,563.66	5,587.56	1,113,110	1,065.51	4,824.45	774,969

Cloud payment platform

In 2017, the Bank launched its comprehensive “Cloud Payment” service for interbank payment via the online service centre of the port of Qingdao, an effort that further leveraged the internet service platform to integrate premium online and offline resources, extend cooperation with corporate and individual customers, cover a greater variety of application scenarios, and bring the benefit of the highly efficient electronic service channel to more people.



Supply chain finance

The Bank moved on to strengthen its supply chain finance business. In 2017, it granted loans totalling RMB 1.161 billion to over 900 critical enterprises including SPDC and Mengniu, with a loan balance of RMB 407 million as at the end of 2017.



04

Protecting Ecosystems and the Environment

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Developing Green Finance

In accordance with the Integrated Reform Plan for Developing 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, the Bank set out the Green Credit Policies of the Bank of Qingdao. 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 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 assess-

ment 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.

Implementing the green credit policy

The Bank followed closely China's industrial policies, monetary policies, and environment protection policies, and enforced implementation of the green credit policy to drive green credit offering. In addition, it developed a list of industries featuring high pollution, high energy consumption or overcapacity and imposed strict control over the total amount of loans for the industries, so as to withdraw therefrom as planned. In 2017, the Bank's green credit mainly went to rural and urban water conservancy projects, resources recycling projects, urban public transportation projects, garbage disposal and pollution prevention and control projects, and ecological agricultural projects. At the end of 2017, the loan balance of the Bank's green credit projects reached RMB 7.317 billion, representing a year-on-year growth of RMB 1.055 billion or 16.85%. The balance of loans granted to industries featuring high pollution, high energy consumption or overcapacity reached RMB 2.34 billion, representing a year-on-year decrease of RMB 383 million or 15.89%.

Measures to support energy conservation and emission reduction

As a listed public bank, we fulfilled our corporate social responsibility to support energy conservation and environment protection by persistently reducing the credit granted to overcapacity industries and outdated manufacturing industries like coal, steel, electrolytic aluminium, by further funding promising industries including the advanced manufacturing industry, modern service industry, cultural industry, strategic emerging industries, modern information technology industry, labour-intensive industries, and environment protection industries, and by facilitating upgrade and transformation of traditional industries. For outdated industrial capacities and zombie enterprises, the Banks took measures to withdraw credit in an orderly manner, so as to effectively implement China's macro-economic control policy and green credit policy.

Case

Wastewater treatment capacity upgrade project of Jimo Wastewater Treatment Co., Ltd.

As planned, the project covered an area of 65,337 square meters and required a total investment of RMB 109.3639 million among which RMB 39.3639 million was raised by the company and RMB 70 million was provided by the Bank as a loan.

70

million

provided by the Bank as a loan





Promoting Green Services

In 2017, the Bank further achieved resource conservation and customer convenience through improving online service functions, adding offline service facilities, and driving paperless operations.

Success release of Mobile Finance 3.0

In September 2017, the Bank successfully released Mobile Finance 3.0, which was transformed from a transaction-oriented platform to a marketing-oriented transaction platform, representing an attempt to fully open its services and implement precision marketing based on big data analysis. The platform uses invitation codes and mobile phone push messages to combine marketing efforts of online channels and offline outlets, an important move toward the Bank's plan for an online mobile service centre.



Continuous optimisation of self-service channels

As at the end of 2017, the number of corporate online banking customers and the number of personal online banking customers increased by 25.86% and 8.05% respectively compared to the previous year, the transaction amounts of the two types of customer increased by 40.56% and 29.88%, and the proportion of electronic banking channels grew by 3.31 percentage points from the end of the previous year to 93.62%. The Bank possessed a total of 482 self-service devices, including 102 ATMs, 258 CRSs, 122 self-service terminals, which were 14 more than 2016 in total.



Exploring account reconciliation channels via multichannel

To improve the efficiency and convenience of account reconciliation with enterprises, the Bank initiated account reconciliation via phone or official website.

Comprehensively utilising automatic acquiring bill machines to facilitate business request handling

In 2017, the Bank deployed automatic acquiring bill machines across its business network to address issues such as manual bill printing, manual bill delivery, and waste of paper not collected by customers. With the automatic acquiring bill machines, customers can have their business requests handled at the nearest outlet, which not only improves customer experience, but also reduces the Bank's service labour requirement by nearly 100 people.

Promoting paperless offices for green and lightweight operations

The Bank started developing its paperless counter system in 2017, which generates and stores electronic images of accounting documents to streamline service procedures, improve document management, and reduce resource consumption, and released the system in March 2018.

Releasing the online tax withholding service in Qingdao

Partnering Qingdao Provincial Office SAT, Qingdao Local Taxation Bureau, and China UnionPay Qingdao Branch, the Bank developed the Tax-Bank Online Registration and Tax Withholding Agreement Project in early 2018, which enables online taxation registration and automatic taxation data synchronization between Qingdao Provincial Office SAT and Qingdao Local Taxation Bureau, so that tax payers only need to register taxation online with either of the authorities. This represents a taxation information highway that connects tax payers, the authorities, and commercial banks for quick taxation information exchange, efficient tax payment and high tax payer satisfaction. The partnership allows a huge number of Qingdao tax payers (growing by around 100,000 annually) who have signed the agreement to enjoy the benefit of remote taxation services.

Insisting on Green Operation

Advocating a culture of thrift

The Bank proactively promoted a culture of thrift, in which we not only saved physical materials such as every piece of paper, every drop of water, and every unit of electricity, but also placed focus on the intangible aspects, such as, optimisation and reform of the banking process and administration to improve efficiency. Since 2010, we had conducted the “Weekly Inspection Practice” 379 times in total, including 45 times in 2017, to improve various aspects including the overall environment, security, environmental sanitation, service facilities, and business optimisation.

Case

Brainstorming by the Shi Bei Sub-branch to save energy

In 2017, the sub-branch issued the Notice on Practising Thrift, Increasing Revenue, and Reducing Expenses across the Sub-branch as well as the Green and Energy Conservation Proposal, and then collected a total of 56 proposals on energy conservation. Through the strict control by the sub-branch and the personal efforts of its staff, the total expense was reduced by over RMB 400,000.



Promoting green offices

In 2017, the Bank's electronic office system and mobile office mode continued to ensure convenient, smart, and user-friendly operations, significantly reducing consumption of resources including paper, power, and labour caused by hard-copy document circulation. To reduce the workload of branches and sub-branches and lower the labour and time costs, the Bank also added three mobile video terminal systems in 2017, which were used together with the original fixed video terminal systems to encourage branches and sub-branches to adopt video conferencing for lower resource consumption.

Setting up an operation examination system The Bank applied the system to written tests for automatic question selection and scoring, effectively reducing the labour, paper, ink, and other operating expenses and costs.

Driving green operational management

· The centralized service centre started official operation and achieved initial positive results of standardised processing at the head office.

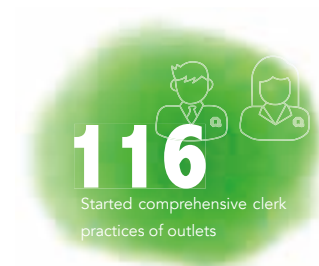
The centre was established in July 2017 to implement bank-wide centralised accounting, standardised business procedures, and real-time risk control, a step to achieve centralised business processing that features “standardised processing at the head office and lightweight operations at branches and sub-branches”. Phase I of business processing workload transfer to the centre was completed by the end of September 2017. The bills of the Bank's 46 branches and sub-branches in Qingdao for clearance in the city as well as the corporate remittance documents of the Bank's 115 subsidiaries were collected to the centre, which processed as many as 1,200 transactions daily on average and reduce the workforce by more than 40 people according to workload calculation.



1,200
Transactions daily on average

· Implementing comprehensive clerk practices bank wide and achieving a significant scale of lightweight sub-branches

A total of 116 outlets had started comprehensive clerk practices by the end of 2017, accounting for 91% of the total outlets of the Bank. The practices managed to downsize the operation clerk team by 125 people and some of the affected clerks were appointed as marketing personnel such as wealth managers and retail managers.



Constructing information systems

In 2017, the Bank constructed a total of 48 projects and 28 online projects. In addition, it enhanced equipment room and operation management for its data centres to improve automatic operation management. It also further optimised its system structure, stepped up preventive maintenance, and enhance monitoring and inspection to drive business continuity management and intelligent operation management.

Reusing wastes

The Bank paid much attention to negative impacts of electronic devices on the environment. We were very concerned about the environment protection indicators during device and supplier selection, and appointed a professional company for the second-use and harmless treatment of the waste electronic devices. The components meeting the re-use criteria were reused as spare products or parts to extend the lifecycle of such electronic devices, and to reduce the adverse effects that the electronic devices could have on the environment.

During office hours, we never produced any obviously hazardous waste and entrusted qualified professional agencies to deal with any hazardous waste in office in a normative manner.

We mainly provide clients with financial services, so we did not use any obvious packages during the operation.

Electronic device discarded by Bank of Qingdao in 2017

Item	Quantity (pieces)
PC (chassis)	155
Monitor	7
Printer	32
ATM	25
Self-service terminal	6

Note: The preceding data covers the devices confirmed by the head office as devices with residual values and disposed of by the head office.

Managing procurement

The Bank strictly controlled the procurement of goods and disposal of wastes. For procurement, it revised the Measures for the Administration of Centralized Purchasing of Bank of Qingdao and the Measures for the Administration of Evaluation Experts on Collective Procurement of Bank of Qingdao, and formulated the Measures for the Administration of Biddings of Bank of Qingdao and the Measures for the Administration of Evaluation Experts on Biddings of Bank of Qingdao. The Bank made its procurement standard that the products should be energy

saving and environmentally friendly, and gradually expanded the scope of supplier review. The Bank clearly specified in its bidding documents and contracts criteria on occupational health and safety management, compliance with laws and regulations on labour and remuneration, as well as environment protection, and hired professional cost consulting companies to perform reviews.

Saving energies

Energy consumption and greenhouse gas emission by Bank of Qingdao in 2017

Type	Unit	2017
Head office power consumption	10,000 kWhs	443
Head office water consumption	Ton	14,354
Head office oil consumption	Litre	64,778
Head office natural gas consumption	Cubic meter	18,252
Head office greenhouse gas emission	Ton carbon dioxide equivalent	5,044.77
——Direct greenhouse gas emission*	Ton carbon dioxide equivalent	177.73
——Indirect greenhouse gas emission**	Ton carbon dioxide equivalent	4,867.04

*Including greenhouse gas emission resulting from natural gas consumption and oil consumption

**Including greenhouse gas emission resulting from power consumption and municipal heating supply

The Bank advocated not to take elevators when moving within five floors, not to turn on lights when it was bright enough, and not to turn on air-conditioners in a comfortable temperature. It encouraged the staff to turn off all the switches before leaving the office, established a mechanism of recollecting the leftover water in the break room and reusing cleaning water to effectively save water, and put in place the Weekly Inspection Practice mechanism and security inspection mechanism through which the Bank checked the security, water supply, and power supply conditions of buildings, communicated the inspection results, performed management and supervision to ensure that thrift was carried out in all respects.

The Bank drastically improved its utilisation of vehicles by exerting a centralised management and unified arrangement policy, which significantly reduced the vehicle use frequency and the vehicle's operating cost. 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. In 2017, the vehicles of the head office generated a total of 1.21 tons of nitrogen oxide, 0.001 ton of sulfur dioxide, and 0.12 tons of particulate matters.

Fulfilling the green corporate social responsibility

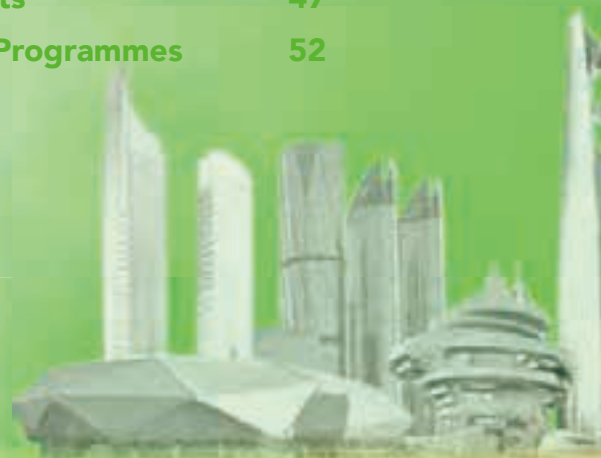
The Bank proactively organized CSR activities including garbage pick-up, green walkathon, and tree planting.



05

Giving Back to Society

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Enhancing Customer Service

It is one of our unique features to provide our customers with warm services. The Bank claimed the title of the 14th China's 500 Most Valuable Brands 2017 and the 12th Asia's Top 500 Brands 2017 in June and September 2017, respectively, and received the International Five-Star Diamond Award 2017 in December 2017. China Banking Association named Jiaozhou Sub-branch, Jinan Shungeng Sub-branch and Jinan Luoyuan Sub-branch an Outlet with Five-Star Civilised and Standardised Services in China's Banking Sector, and named the Business Department of Dongying Branch, the Business Department of Zibo Branch, Development Zone Sub-branch and Jimo Sub-branch an Outlet with Four-Star Civilised and Standardised Services in China's Banking Sector in December 2017.



Enhancing service quality

• Trainings on improving professional skills

In order to make our experience communicated and shared within the Bank, we organised and held workshops and trainings on an ongoing basis. We had different sorts of trainings in 2017, including new employee orientation for newly-recruited lobby managers, a training programme aiming to improve the service awareness and professional skills of lobby managers, coaching sessions for branch offices that started to operate, training courses on how to provide warmer services at each branch and sub-branch, and on wealth manager service system analysis, and other training programmes tailored for their own specific needs that were conducted at branches and sub-branches.

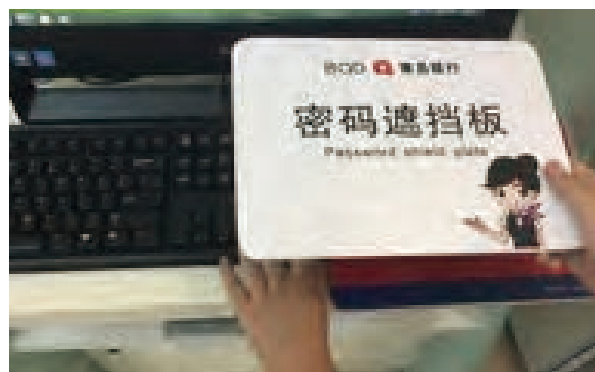


In order to fully implement our customer-centred service philosophy, proactively respond to the call to protect consumers' rights and interests as well as to strengthen the staff's awareness to treat customers fairly, we launched in 2017 a specific sign language training programme for lobby managers, and invited a sign language teacher from a school for deaf-mutes to demonstrate and explain common sign language that could be used when serving special customers. Our lobby managers were taught to use sign language to greet, offer business consulting, introduce business types, give general instructions, and guide customers to make and withdraw deposit on a self-service machine and type in passwords. With such training sessions, we improved our staff's ability to serve special customer groups.



· Improving outlets' facilities

We implemented positioning management for all the service facilities at each outlet. In addition, according to customers' needs for better lobby service experience, we had new user-friendly service facilities added at each outlet, including insulation plugs on power supply sockets, paper cup holders in waiting areas, password shield plates, cash cheque exercise books, and a warm notice indicating opening hours on weekends and public holidays.



· Adding more user-friendly facilities for special groups

We had more user-friendly facilities in place for special groups at each outlet to show our care for special groups. We had in the business lobby a children's area, baby chairs, wheelchairs, seats specially made and reserved for those in need, and a braille card. In addition, we posted a warm notice indicating a service number for special customers to call for help outdoors, and had safety handrails installed in the bathroom and a notebook keeping a record of donations.

In 2017, we expanded our service delivery, added password management, wealth management contracts, selection of bank card numbers, electronic cash enquiry and maintenance, and extended our over-the-counter service delivery so that customers who had special needs or difficulties to go out could receive banking services. Therefore, we improved our overall service capabilities.

· Implementing a service delivery review mechanism and a monitoring mechanism by secret inspectors

In 2017, we continued to hold on a quarterly basis a service delivery review meeting, at which all the praises and complaints received in the last quarter were discussed, how branches and sub-branches performed were evaluated on a consistent basis, and the key issues and the responding measures were identified. In doing so, we were able to make continuous progress and provide customers with better and more satisfactory services.

In order to improve the service delivery by lobby managers and wealth managers, we developed a guideline for monitoring lobby managers'

service delivery by customer experience indicators and a five-step integrated service for wealth managers. In addition, we also put in place a monitoring mechanism through which secret inspectors were appointed to make unannounced visits and check up on the lobby service delivery by lobby managers and wealth managers. Through all these monitoring activities, we identified the defects that we had in our services by post, and streamlined and developed a list of guidelines for improving service quality as well as a negative list in addressing those key and recurring issues. In particular, we took targeted measures to tackle those stubborn problems with our lobby service delivery.

Developing new types of financial products and services

· We sped up our efforts to promote "Yinyitong" (bank-hospital connect) projects.

Seven of the "Yinyitong" projects we had entered into in Qingdao landed in 2017. Dongying Branch, Dezhou Branch and Zibo Branch entered into another "Yinyitong" project, two of which landed and started to operate. With the bank card of Bank of Qingdao, you can complete self-service/reserved registration via self-service facilities in cooperative hospitals, and go through the whole process of seeking medical advice including paying diagnosis and treatment expenses.

· Rolling out debut QR payment collecting service

In 2017, the Bank launched QR payment collecting service for restaurant owners, merchants at farmers' markets and electronics markets, and other small and medium-sized business owners. We provided such merchants with convenient payment and settlement tools to help solve their problems with payment making and collecting they used to have.

· Launching fund supervision service for second-hand house buyers

In 2017, we launched the fund supervision service for customers that were on a second-hand housing loan of the Bank. The service aimed to ensure the down payment safety for a second-hand house buyer when the transfer of ownership of the house was being processed.

· Expanding product lines to meet multi-level needs of customers for wealth management

We launched Japan visa service. We introduced two precious metal companies, and expanded our precious metal product lines. We also rolled out a new net worth-related wealth management product line, "Caiyuangungun" (exclusively available every odd-number week), and "Caiyuangungun" (available every even-number week). To develop our ability to gain new customers, we launched new wealth management products targeting new customers. We developed more wealth management product lines so as to provide customers with more options.

In order to popularise financial knowledge, we staged the 6th Hairrong-caifu wealth management product campaign, which held on 1 June 2017 and ended on 31 August 2017. During the promotion period, we rolled out a series of promotions via both online and offline channels to customers for using our products to settle accounts, engage in daily activities, pay for bills, open a bank card of the Bank, engage in sports activities, and purchase our wealth management products. With such activities, we had our various lines of wealth management products that addressed different needs reach a wide range of customers. The campaign helped raise the awareness of both our brand as a bank and our retail banking service among the public in every geographical location where the Bank operated. Not only did we strengthen our customer stickiness and expand the size of customers we had, but also we sped up the strategic transformation of our retail banking service to one with fine operation and management.



Broadening service channels

· Setting up new outlets

Name of the indicator	Unit	2017	2016	2015
Business outlets	In number	128	111	100
Business outlets newly set up during the year	In number	17	11	24
Business outlets set up in rural areas (inclusive of community banks)	In number	4	4	3
Community sub-branches, and small- and micro-sub-branches	In number	17	15	11

· Self-service facilities

We had 101 self-service banks and 482 units of self-service facilities, through which cash withdrawal, deposit, money-transfer, account check and utility bill payment services were available to the public.

· Community banks, and small- and micro-sub-branches

As of the end of 2017, we had set up 15 community sub-branches and 2 small- and micro- sub-branches.

Promoting consumer finance

We proactively implemented the state policy to promote consumer finance, and made a big push to expand personal consumption loans to give full play to the role of finance in supporting and stimulating household consumption. We proactively conducted research on developing new online small-amount consumption loan products, and launched the small-amount consumption loan service in cooperation with a well-known internet company in 2017. The total number of the consumption loans we granted during the year reached 255,100, amounting to RMB 1.306 billion, and as of the end of 2017, the balance of such loans was RMB 965 million.

An Ju Dai, an online loan product we rolled out for customers that were on a personal housing loan, to meet their funding needs for house decoration, car purchase, paying for marriage-related expenses, and taking trips. As of the end of 2017, we handled pre-approvals for online An Ju Dai loans to a total of 40,000 existing customers that were on a personal housing loan and granted loans amounting to RMB 143 million.

We continued to expand the personal housing loans, and focused on addressing the needs of home-based property buyers. As of the end of 2017, the balance of personal housing loans reached RMB 24.129 billion, with an increase of RMB 5.864 billion compared to that at the beginning of the year.

Promoting employment and business start-ups

The Bank vigorously promoted small-amount secured loans and proactively promoted employment and business starting work. As of the end of 2017, the balance of small-amount secured loans amounted to RMB 387 million. In 2017, we accumulatively granted 1,222 units of small-amount secured loans with amounts of RMB 236 million, which drove employment for over 3,000 people.

Protecting consumers' rights and interests

In order to regulate the provision of financial products and services and protect financial consumers' legal rights and interests, we have developed the specific system for the protection of consumers' rights and interests based on the relevant laws and regulations, including the Law of the People's Republic of China on Commercial Banks, the Guiding Opinions of the General Office of the State Council on Strengthening the Protection of Financial Consumers' Rights and Interests (GuoBanFa [2015] No.81), and the Guidance of the China Banking Regulatory Commission on the Protection of Banking Consumers' Rights and Interests (YinJianFa [2013] No. 38). Such system comprises the Administrative Measures of the Protection of Consumers' Rights and Interests, the Working Procedure for the Protection of Consumers' Rights and Interests, the Administrative Measures for Handling Emergency Concerning Consumers' Rights and Interests, and the Administrative Measures of the Provision of Lobby Services. In 2017, according to the requirements of the Notice of the National Development and Reform Commission and the China Banking Regulatory Commission on Cancelling and Suspending the Charges for Some Basic Financial Services Provided by Commercial Banks (FaGaiJiaGeGui [2017] No. 1250), we cancelled small-amount account service fees and maintenance fees for accounts which had no movement for 1 year (inclusive) or over for corporate clients, and suspended fees for six items, including promissory notes and bank drafts fees, loss reporting fees, card fees, etc.

For the purpose of achieving our goals of building a harmonious and win-win relationship with customers and creating a better customer experience, which has always been our top priority, we have shaped a business growth model and a long-term mechanism that are driven by quality service. We start with regulating the design of products and services, and focus on addressing the problems. We have put in place the oversight and control mechanism for active intervention in six situations. In doing so, we give top priority to the protection of consumers' rights and interests to ensure that customers are treated impartially, fairly and honestly. In addition, we, on a regular basis, review our standard product and service contract for terms that relate to the protection of consumers' rights and interests and revise terms that may prevent us from doing so; we ensure that we keep customers informed of the relevant risk of the wealth management products we release; we keep our charge items transparent, and put up on a conspicuous spot the notice of the CBRC stating the seven aspects that a financial institution shall not do and the four items required to be released by a financial institution, and our service fee schedule; we understand the needs of special groups, and we make our services available for those that are unable to move around through door-to-door services; we have launched voice verification codes that facilitate the use of online banking remittances by visually impaired individuals; we adhere to the confidentiality principle and ensure the security of customer information.



255,100

The total number of the consumption loans during the year



RMB **24.129** billion

The balance of personal housing loans at the end of 2017



Over **3,000**

Drove employment

· Rolling out new consumer protection brand and continuing to popularise financial knowledge

In 2017, the Bank developed and rolled out “Qingcheng”, a consumer protection brand, to advocate the provision of sincere services and the protection of the rights and interests of customers. In addition, we continued to spread financial knowledge via various channels, such as Qingdao Radio’s “Finance Classroom” programme, WeChat public accounts, business outlets, and videos. We carried out different activities and initiatives in communities, businesses, schools, and barracks, such as “3.15 Financial Consumer Rights Day” initiative, special tours to popularise financial knowledge, and campaigns to make financial knowledge reach every household, and every rural community, as well as a one-month campaign activity to raise public awareness of preventing and combating illegal fund-raising activities, and other campaign activities on combating telecom and internet fraud, and money-laundering. The Bank was named the Advanced Organisation in the Banking Sector in Qingdao for Popularising Financial Knowledge for four consecutive years.

On 20 July 2017, we attended the China Banking Regulatory Commission’s 120th regular press conference – for the CBRC Qingdao Office to report the work on the protection of consumers’ rights and interests, and under the theme of “deepening services with unique characteristics”, we introduced the long-term mechanism we had established for and the innovative approaches we had developed to the protection of consumers’ rights and interests, and answered questions from reporters.

· Improving customer complaints mechanism

According to the regulations concerning the protection of consumers’ rights and interests by the China Banking Regulatory Commission and the People’s Bank of China, we revised twice the Bank’s Administrative Measures for Handling Customer Complaints in 2017.

We established and improved the mechanism for handling customers’ problems rapidly in 7 public holidays (24 hours). We embedded a mechanism for solving and processing customer problems into both online and offline service processes, and connected the functions of the front, middle and back offices so that we made concerted efforts to solve problems in the interests of consumers. We never followed the same old routine and got indifferent. Instead, we fully implemented the Bank’s service concept that “We Work Harder to Make You feel Warm and Assured” to respond positively to customer needs and solve difficult business problems.

As of the end of 2017, 1,057 cases of customer complaints were received. We achieved a 99.81% satisfaction rate.



· Ensuring information and fund security

In order to ensure the security of customers’ information and fund, we actively implemented targeted measures for the management of the product sales process and introduced a mechanism of keeping audio and video records in 2017. We organised special trainings and held wealth managers’ regular meetings to strengthen the guidance on how to keep audio and video records of the wealth management product sales process. At the same time, we introduced a system of oversight combining a bank-wide special self-examination and randomly selected outlets for regular spot checks. We also issued the Measures for Product Sales Management and Keeping Audio and Video Records (Second Edition) according to the latest regulatory requirements and in light of those common problems we encountered in practice.

In addition, we were also committed to standardising and regulating consumers’ personal information management. In 2017, we formulated the Measures for Customers’ Information Security Management (“the Measures”). We clearly defined the collection, storage, and use of customer information and required our staff to strictly follow such requirements when processing business on a daily basis. According to the Measures, it is strictly forbidden to disclose customer information to any person or any organisation without authorisation; there are strict procedures for inquiring and using a personal credit report; no one shall check up on a personal loan applicant or a personal credit report unless it is authorised by the relevant individual in writing; no one shall disclose any information of a borrower and any relevant personnel to the basic financial information database operated by the People’s Bank of China unless it is authorised by the relevant individual in writing, and such authorisation example should be attached to the borrower’s contract.

· Launching campaigns on combating false money

We organised the 2017 online anti-counterfeiting currency knowledge quiz, and launched campaigns to raise public awareness of anti-telecom frauds, anti-illegal fundraising activities, anti-counterfeiting features of the fifth set of RMB (2015 new version), serial number recognition knowledge and standards for exchanging damaged Renminbi. Our campaigns were carried out in communities, schools, companies, and stations, and focused on community residents, middle-aged and elderly people, accounting personnel working at corporates, individual industrial and commercial households, and students at school. A total of more than 2,600 people participated in the activities and campaigns we conducted. We distributed more than 14,000 copies of promotion materials, and had promotional videos repeatedly played at various business outlets, and our campaigns reach more than 30 corporate merchants and 8 schools, to effectively enhance public awareness and their ability to recognise false money.



Operating in Compliance with the Laws and Regulations

We have always followed the principle of operating in compliance with the laws and regulations. According to the requirements of the Notice of the China Banking Regulatory Commission on Issuing the Guidelines on Compliance Risk Management in Commercial Banks, we have developed the Compliance Risk Management Policy for the purpose of strengthening the basis for the Bank's internal control and compliance management and optimising the Bank's overall management system. We guard against the compliance risk by building a three-line defence, which including business department, compliance department

and audit department; conducting compliance related speech contests, Q&A, and risk alerts; performing internal control, launching virtual sub-branches, employing independent external assessors; and releasing a list of negative staff behaviours.

In 2017, we issued the Regulations on Compliance Risk Management and the Regulations on System Management (the Third Edition), to further improve our internal control and compliance management system, and our ability to perform effective compliance risk management.

Internal control and compliance management

· Inspection mechanism

We have established a sound mechanism for internal compliance monitoring, including "Weekly Inspection Practice", "Behaviours Check for Compliance Risk", and "Operations Check for Compliance Risk". On a quarterly basis, we hold internal control review meetings, and launch virtual sub-branches to perform an audit. We have well combined inspections carried out for key areas with routine management and internal control measures.

In 2017, against the three non-compliance acts, the three types of arbitrage and the four inappropriate practices, we conducted self-examination across the Board of Directors, the Board of Supervisors and senior management, and across our financial market services to identify any credit risk and to take responding measures to address any chaotic situations.

· System construction

It has always been our goal to put in place a well-developed system that's easy to be implemented. While pursuing the goal, we primarily reached a dynamic approach to system management, a two-way communication manner instead of a one-way method in developing the system, and a more active approach to the implementation of the system. In 2017, we revised the Regulations on System Management and introduced lifelong liability for personnel for causing any system-related event, expanded the scope for soliciting opinions on system construction, and released regulations on the formulation of the system. In addition, we summarised our work on system construction over the past five years. Based on the summary, we organised activities aiming to develop a standardised format along with an implementation guidance as an effective way to formulate a well-developed system. We also introduced a mechanism of oversight combining inspection and evaluation so as to ensure the formulation of a well-developed system.

· Reporting system

We have established a reporting system for non-compliances and illegal acts. In 2017, We completed the 2016 Self-assessment Report on Internal Control of Bank of Qingdao, 2016 Compliance Risk Management Report of Bank of Qingdao, 2016 Operational Risk Management Report of Bank of Qingdao, and 2016 Anti-Money Laundering Risk Management Report of Bank of Qingdao.

· Supervision over internal audit

According to the 2017 audit plan, we carried out special audit on trade finance business, performance review and robust benefits, and financial market business. Entrusted by the Ministry of Human Resources, we conducted 21 resignation audits and economic responsibility audits; we carried out business inspections for the "three violations" in accordance with the regulatory requirements; we organised audit on wealth management business; we organised post-evaluation over new business; we performed post-evaluation over institutions newly set up, including Weifang Branch and Laiwu Branch; we conducted coaching sessions for the launch of Linyi Branch and Ji'ning Branch; we organised the supervision over the internal audit for 7 sub-branches; our virtual sub-branches performed audit for over 11 operating entities and we also conducted follow-up visits; we had four internal control assessment meetings at the Bank level; we formulated the Administrative Measures for Control over the Internal Audit of Work on Protection of Consumers' Rights and Interests ([2017] No. 493) to continuously improve the Bank's control over the internal audit.

· Efforts to combat money laundering

According to the regulations of the People's Bank of China on combating money laundering as well as the actual needs for combating money laundering, we have developed the relevant system to provide a basis for anti-money laundering efforts. The system comprises the working mechanism for combating money laundering, customer ID identification and conservation of customer information, customer money laundering and terrorist financing risk assessment, high-value transactions, suspicious transactions and terrorist financing monitoring, new products (or services) for money laundering risk assessment, identification of business types with high money laundering risk, anti-money laundering investigation assistance, trainings on anti-money laundering, and performance review over anti-money laundering. In 2017, in order to better perform anti-money laundering related job responsibilities, and refine the requirements for combating money laundering work, we revised the Bank's existing system for combating money laundering according to the Measures for the Administration of Financial Institutions' Reporting of High-Value Transactions and Suspicious Transactions (hereinafter referred to as the Order No.3) and its supporting documents, and the requirements of the Measures for the Administration of Anti-Money Laundering Classification and Grading of Financial Institutions (for Trial Implementation). With the revision, we improved the system for combating money laundering and made it more specific so as to facilitate our anti-money laundering efforts. According to the requirements of the Notice of the People's Bank of China on Strengthening the Administration of Account Opening and the Follow-up Control Measures for Suspicious Transaction Reports (YinFa [2017] No.117), we restated the requirements for customer ID identification for account opening, and set forth the requirements for controls over suspected transaction accounts. Through conducting compliance oversight, we became more effective in preventing and combating money laundering.

In order to improve the effectiveness of our anti-money laundering monitoring, we adjusted the original high-value transaction and suspicious transaction rules according to the latest requirements of the Order No. 3, and based on the suspicious characteristics of the crimes resulting in money laundering crimes, we established an autonomous monitoring model and continuously made adjustment to make it more in line with the current anti-money laundering work situation, the regulatory and risk control requirements. In order to improve our ability to guard us against sanctions and terrorist financing risk, we upgraded our blacklist monitoring function, and introduced the Dow Jones Watchlist, to effectively block and intercept money-laundering, terrorism-related and sanction-related transactions.

We have proactively conducted various trainings and campaigns on combating money laundering. New employees are required to take trainings on anti-money laundering before starting work. Those that haven't taken trainings on anti-money laundering as required are not allowed to engage in jobs related to anti-money laundering; anti-money laundering training is conducted at least on a monthly basis and anti-money laundering trainings and campaigns are documented at each branch and sub-branch; the Head Office holds an examination on the anti-money laundering business every year so as to improve the staff's sensitivity to money laundering acts and strengthen their awareness of anti-money laundering. In addition, every year, we have an anti-money laundering awareness month, when we carry out campaigns in communities, schools and companies, and have videos re-played on a LED screen in the business lobby explaining money laundering characteristics and traps, to help the public realise the harms that anti-money laundering has on individuals and society and therefore say no to money laundering acts.

Standardising code of ethics

We have formulated the following measures, including the Administrative Measures for Integral Management of Staff's Non-Compliances, a Dynamic Model for Staff's Everyday Conduct Management, a Negative List of Tellers' Behaviours, and the Measures for the Administration of Staff's Non-Compliances Reporting. Such measures are designed to set forth the requirements for the professional ethics, professional discipline, professional image and working atmosphere for our staff, and guide them to observe professional ethics and disciplines. In 2017, there were no corruption charges against our staff.

In the year of 2017, the Board of Directors continued to implement the Professional Norms and Value Disciplines for the Board of Directors and Senior Management of Bank of Qingdao. This document not only clarified the duties and the standards that the directors and senior management shall fulfil and meet, but also encouraged them to carry out their duties in an honest and diligent manner and ensures that they perform their duties effectively.

In 2017, the Board of Supervisors continued to implement the Approach for Assessing Performance of the Board of Directors and Directors of Bank of Qingdao, the Approach for Assessing Performance of Supervisors of Bank of Qingdao, and the Approach for Assessing Performance of Senior Management and Senior Management Personnel of Bank of Qingdao. Performance review was carried out via various channels, including self-assessment, assessment by the Board of Supervisors and external assessment. During the year, we continued to improve our performance review system which held the Board of Supervisors in responsible for assessing performance of the Board of Directors, the Board of Supervisors and senior management.

Improving Party conduct and building a clean administration

We have always implemented the requirements for integrity imposed on the financial sector and those who are engaged in the industry. We have attached great importance to improving Party conduct and building a clean administration, implemented cadres' integrity and self-discipline management, carried out the four forms of discipline supervision and enforcement, and strengthened the professional behaviours management. In doing so, we effectively mitigate any potential risk before it actually occurs.

In 2017, we strictly implemented the Bank's Opinions on Improving Party Conduct, Building a Clean Administration and Fighting Corruption, the Bank's Confirmation System, and the Opinions on Performing the Party Committee's Responsibility for Improving Party Conduct and Building a Clean Administration and on Implementing the Party Central Committee's Decisions on Exercising Full and Strict Party Self-Governance, and the Honest Conversation System issued by Qingdao Municipal Party Committee. Based on our implementation of such measures, we developed and issued a list of responsibilities to be assumed by the Party Committee of the Head Office and the Party officials, and a list of oversight responsibilities to be assumed by the Commission for Discipline Inspection for improving Party conduct and building a clean ad-

ministration. In addition, we improved the Measures for the Administration of Staff's Non-Compliances Reporting and a negative list for staff's behaviours. We allowed for corruption case reports via the hotline and e-mail we released.

In addition, we had the management signed a letter of statement specifying the goals and their responsibilities for improving Party conduct and building a clean administration. On an annual basis, Management members, according to the business line and duties they manage and assume, have regular conversations with the relevant responsible personnel. During such conversations, requirements are put forward for strict Party self-governance, strict political discipline and political rules, and implementation of the responsibility system for improving Party conduct and building a clean administration. We continued to uphold the system for having a conversation with candidates for middle management and key posts to clarify their integrity issues before appointment. In doing so, we were able to identify any problems with our Party members early so that we can send reminders and talk through the issues to prevent them from getting worse.

As of the end of the year, the Bank got involved in no corruption cases, including bribery and extortion.



Case

We carry out the "Weekly Case" anti-corruption education on the Bank's internal website, and organise trips to Jinggangshan and Yan'an, where we have special sessions and activities that aim to strengthen the beliefs of the Party members and cadres and further enhance their integrity and self-discipline awareness so that they can stay determined against corruption.



Timely disclosure of information

We strictly abided by the regulatory requirements, including 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 legal rights and interests of the shareholders and other stakeholders. In 2017, we released the

statutory announcements and disclosed information in compliance with the regulations to demonstrate our image as a responsible bank to the capital markets. In addition, we released the Environmental, Social and Governance Report for the first time to disclose our work on how we performed our corporate social responsibility.

· Issuing statutory announcements in compliance with the regulations

During the year, we issued 17 regular reports and 41 interim statutory announcements. The regular reports included performance result announcements, annual and interim reports, and monthly returns of changes of securities. The interim statutory announcements related to issuance of offshore preferred stocks, progress on A-share listing application, issuance of tier-2 capital bonds, changes in directors, and materials prepared for general meetings of shareholders.

· Issuing non-compulsory announcements

To actively display the highlights of the Bank in pursuing business growth, we released 3 non-compulsory interim announcements during the year, which related to the major strategic cooperation agreements that we entered into and Qingdao Qingyin Financial Leasing Co., Ltd. commencing to operate.

Strengthening the protection of intellectual property rights

We have always attached great importance to the protection of intellectual property rights, and have formulated the Administrative Measures for Intellectual Property Rights in accordance with national laws and regulations, including the Patent Law of the People's Republic of China, the Trademark Law of the People's Republic of China, and the Copyright Law of the People's Republic of China. We have strictly regulated the management of intellectual property rights, and improved the intellectual property rights protection system. Meanwhile, we are also committed to creating distinctive brands, and giving full play to the role of intellectual property rights in supporting financial innovation and business development. As of 31 December 2017, we had the exclusive rights to use a total of 183 registered trademarks in China, covering a

wide range of financial services. In making continuous improvement to the existing trademark system, we, based on the platform of Qingyin Charitable Foundation, applied for the registration of "Qingyin Love Fund" series of trademarks to create a charity trademark series. In doing so, we wish to continuously enhance our soft power and highlight our commitment to supporting charity programmes. While expanding the scope that our efforts to protect intellectual property rights cover, we fully recognise the legal rights of any third parties. We have made it a key principle to protect intellectual property rights through the whole operation and management processes so as to guard us against risks of intellectual property infringement. There were no major intellectual property infringements during the year.



Safeguarding Employees' Rights and Interests

Classification		As at 31 December 2017		
		Total number	Percentage(%)	Turnover rate(%)
Headcount		3,545	—	5.42
By gender	Male employees	1,617	45.61	2.60
	Female employees	1,928	54.39	2.82
By age group	Under 30 (inclusive)	1,690	47.68	2.91
	31 to 40 (inclusive)	991	27.95	1.41
	41 to 50 (inclusive)	713	20.11	0.62
	Over 50	151	4.26	0.48
By geographical region	Employees from Shandong Province	3,545	100	5.42
By education background	High school graduates or below	58	1.63	—
	Junior college graduates	410	11.57	—
	Bachelors	2,480	69.96	—
	Masters	583	16.45	—
	PhDs	14	0.39	—
New employees		425	—	—
Employees of ethnic groups		47	—	—

In accordance with the national requirements for dispatched employment, we have further enhanced the management of dispatched employment. We have developed 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 for each position complied with the Labour Law of the People's Republic of China and the relevant provisions of the labour contracts. During 2017, we did not employ any child labour or have employees who were injured or dead due to work during our daily operation.

In addition, we fully safeguarded employees' rights to work and rest according to the laws, and clearly stipulated the working hours, rest time and leaves, labour protection and working conditions in the contracts. We did not impose any mandatory (overtime) situation. We complied with the relevant laws and regulations on employees' health and safety, and on environment.

We signed a labour contract with every contract employee according to the Labour Law and the relevant provisions of the contract. In terms of the labour management, we have developed the regulations and relevant implementation guidelines for internal use, including the Attendance and Holiday Management System and the Measures for the Administration of Employment Termination. With such regulations, we safeguard employees' labour rights in accordance with the laws. We pay basic social security insurance for the employees, including basic pension, basic medical insurance, unemployment insurance, work-related injury insurance and maternity insurance, and have in place such welfare systems as housing fund, corporate annuity and supplementary medical insurance, to ensure better pension and medical security for the staff.



Promotion

We have in place two promotion systems, one for general administrative personnel and one for professional personnel. Based on their actual work performance, general administrative personnel are promoted to a higher rank through our internal competitive selection process or recommendation, which are carried out according to the Bank's Measures for the Administration of Manager Selection and Appointing and the Measures for the Administration of Cadres. The whole promotion system for professional personnel is designed to expand the career development for the Bank's professionals, and the performance review is conducted according to the relevant regulations we have developed for different types of professionals.



Safeguarding rights and interests

· Compensation and benefits

The Bank's employee benefits consist of basic compensation, variable compensation and welfare income. Welfare income includes housing fund, social security insurance, and corporate annuity. We pay for employee's benefits and every insurance, housing fund, and corporate annuity in full and in a timely manner every month. We adopt the standard working hour system and make a reasonable arrangement of the working hours. We have in place a paid leave system in accordance with the Regulations on Paid Leaves for Employees. Employees can enjoy their paid leaves once they complete all the procedures required for taking a paid leave.

· Ensuring the provision of services

Advocating a caring corporate culture, we have built staff canteens, reading rooms, shower rooms, activity rooms etc., to provide a clean and warm working and service environment. We also carry out "Weekly Inspection Practice" and "Daily Discovery Practice" to continuously improve the working and service environment.

We attach great importance to creating a safe working environment and ensuring that our employees have no work-related injury, which is one of our significant goals. We also carry out planned campaigns to raise safe production awareness, including high-rise building firefighting and escape training, contingency plan drills and emergency response drills. In 2017, we gave out test papers for the Safety Awareness Month initiative and released the answers, conducted lesson learning from safety accidents, as well as firefighting and escape drills, and emergency response drills for a robbery scenario in the middle of a cash replenishment on a self-service facility. In addition, in order to raise their safety awareness, we conducted safety knowledge trainings to new employees before they started work.

· Democratic management

We hold the Labour Union member (employee) representative conference once a year at the Head Office level, and twice at both the branch and sub-branch levels. On 30 March 2018, we convened the fifth Labour Union member (employee) representative conference in the large conference room (Room 509) on the fifth floor of the Head Office. A total of 248 formal representatives attended the meeting. The meeting was presided over by Comrade Jiang Fuxin, a member of the Party Committee of the Bank.

Seven resolutions were approved at the meeting, including the Resolution on the Fourth Labour Union Committee's Work Report, Resolution on the Labour Union's Financial Work Report, Resolution on the Labour Union Funds Audit Report, and Resolution on the Amendments to the Administrative Measures for Staff's Early Retirement. After due consideration, the new Labour Union Committee and the Committee for Union Funds Inspection were elected. Also at this meeting, employee supervisors were elected for the 7th Board of Supervisors of the Bank.

We keep updating the contact information of all senior management members to ensure that the staff can have direct communications with management to discuss about the issues detected, and raise opinions or suggestions regarding the business development and internal management. Our staff can choose to communicate in person or via text messages, phones, letters, e-mails, etc.

We continued to carry out "Daily Discovery Practice". In 2017, there were altogether 839 forms soliciting for issues and suggestions that we collected through this activity. Such issues and suggestions well represented the problems that we had and the areas we needed to work on, including making improvement to our business system, electronic channels and business process.

Caring for employees' physical and mental health

· Health examination

Every year, we organise our staff to receive a health examination at a first-class hospital at grade 3 (the highest level in the three-grade and six-level classification system for hospitals in China). We also organise female employees to receive an extra health examination to provide timely care for them and to safeguard their health.

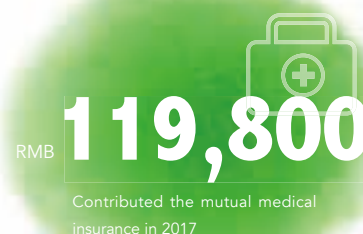
· Health knowledge lectures

The Labour Union of the Bank invited the former director of the Emergency Department of Qingdao Women's and Children's Hospital to the Head Office to give a lecture on common fatal diseases, personal health management, and first aid measures on 9 March 2017. The lecture was also broadcast live to staff at each branch and sub-branch. The lecture not only helped gain health knowledge, and methods to change any bad habit or incorrect health concept, but also offered guidance on how to deal with stress from work and everyday life, and how to stay healthy.

Humanistic care for employees

· Increasing financial aid to employees in financial difficulty

To protect the vital interests of our employees, we have set up the mutual medical insurance scheme. We contributed RMB 119,800 to the scheme in 2017, and the claim cases we handled in the year reached 217 person-times, with compensation payments totalling RMB 128,300. In addition, we also visited employees in financial difficulty and their families, and during the New Year's Day and the Spring Festival period in 2017, we distributed a total of RMB 89,000 as relief payments to 19 employees who were sick or in financial difficulty.



· Public holiday benefits

To celebrate each Labour Day, we visit the recipients of the Bank's Role Model Worker Award and the Out-standing Worker Award. We also carry out a special initiative for safeguarding female employees' interests to celebrate International Women's Day each year. To mark the Anniversary of the Bank, we organise employees that perform well to concerts or other activities that benefit their health.



More recreational options available for employees

In order to provide our staff with more recreational options after work, the Labour Union of the Bank has established the Staff House and made improvement to it on an ongoing basis. Within the Staff House, there is a yoga room, work-out room, reading room, nursery room, an exhibit area for showcasing employees' calligraphy work and paintings, ping-pong tables, and billiard tables. There are also women's changing room and men's changing room with shower stalls and toilets. We have developed a complete management measures for the staff house. The

staff house not only opens to the staff on a daily basis, but also becomes the venue for various activities organised by the Labour Union, including lantern riddle guessing on Lantern Festival, activities for celebrating International Women's Day, and work-out sessions for the staff. In addition, we have set up 15 different staff clubs so far. Three of them were established in 2017, namely Bicycling Club, Fishing Club and Yoga Club.

Setting up a learning system

We have established Leyan Forum, a research platform for the purpose of promoting the staff's professional knowledge through research and communication, Lexue Class, a learning platform aiming to enhance the staff's business knowledge through internal trainings, and Ledu Salon, a reading platform for the purpose of enriching the staff's spiritual life through reading for knowledge. In establishing the research, learning and reading platforms, we have formed a three-aspect integrated learn-

· Lexue Class

We had five lectures under the Lexue Class in 2017. We trained our staff on Harvard training cases, the impact of financial technology on the Chinese economy, the current banking sector development after the 19th CPC National Congress, and business etiquette.

· Ledu Salon

We held eleven sessions under the Ledu Salon initiative in 2017, and shared books covering a wide range of subjects and genres, including *A Message to Garcia*, *The Smarter Screen: Surprising Ways to Influence and Improve Online Behaviour*, and *Civilisation: Utopia and Tragedy*. With the Ledu Salon initiative, we created an atmosphere advocating reading and sharing.

· Postdoctoral programme

On 10 November 2017, we held the 2017 initial, mid-term, and final oral defence for the postdoctoral programme of the Bank. One of the three postdoctoral candidates completed the thesis proposal defence and the other two passed the mid-term assessment. All of them received the unanimous consent of all the judges and successfully completed the postdoctoral programme. The successful completion of the 2017 initial, mid-term, and final oral defence for the postdoctoral

ing atmosphere. Such platforms not only provide powerful thought resources and support to promote our transformation to a growth model that facilitates the provision of more professional services with our own characteristics and under fine management, but also provide experimental and practical experience on how commercial banks, especially city commercial banks, set up their own research and service system.

· Leyan Forum

We held six sessions under the Leyan Forum initiative in 2017, covering the following topics: where the Chinese banks will go— double-track strategy, liquidity risk under post-interest rate marketisation, study on strategic choices and positioning of corporate customers, new mission of Chinese bankers— reshaping and operating the balance sheet, cultural and creative finance model and path exploration, and coexistence of opportunities and challenges — looking at the new regulations on asset management from the perspective of banks. In addition to sharing the research results, we also learned from the frontline service and research functions and injected their comments and wisdom into research results. In doing so, we improved the quality of the research results, and intensified efforts to turn the results into productivity.



(The 7th Leyan Forum)

programme marked the gradual progress that we had been making through the whole process from thesis proposal, research design, and mid-stage research to final completion. Not only was the postdoctoral programme better managed, but also we further promoted the integration of research and business pursuits and developed more ways to apply the research results to serving business growth.

Professional training and career development

We have always attached great importance to conducting professional trainings for our staff. We have continuously improved the training system by optimising training programmes and expanding training subjects in light of our overall development plan. In order to further enhance the knowledge and professional skills of our staff in general, we continued to promote the trainings for middle and senior management, professionals and new employees in 2017. The training sessions we had in 2017 covered 95,369 person-times, and the total number of them reached 2,370, representing an increase in the total number, frequency and person-times compared to last year.



· Implementation of Longyue Project

We carry out the training programmes targeting middle and senior management for the purpose of improving management, broadening their horizons, enhancing their ability to manage and control risks and having them lead by example. In 2017, we organised training courses for senior and middle management personnel at Harvard Business School, National University of Singapore and Cambridge University Churchill College.



The 2017 training programme at National University of Singapore



The 2017 training programme at Harvard Business School

· Professional trainings across business line

We have regular professional trainings across business line to meet the needs of the Bank for business development and of the staff for improving their professional skills. Such trainings include regular training courses for customer managers on a daily, weekly and monthly basis, the training camp for elites from the corporate client business, the training programme on combining marketing with the provision of service, centralised trainings for lobby managers on improving their ability to provide better and warmer services, and specific business trainings for customer service functions.



(The 2017 training camp for elites from the corporate client business)

· New employee orientation

We organised induction training for newly recruited college graduates, as well as new employees at Linyi Branch and Ji'ning Branch in 2017. A total of 230 people participated in the training, which included introduction to the Banks' corporate culture and risk and compliance system, and sessions to gain basic business knowledge and skills. We expanded the training subjects to include first aid measures, and stress and emotion management courses.



(The 2017 training new employee entry)

Supporting Charity and Poverty Alleviation Programmes

As a member of the community, we have made it our principle to proactively perform our corporate social responsibility. In order to achieve a harmonious relationship with society, we have proactively taken measures to perform our corporate social responsibility, engage our people in charity programmes, carry out targeted poverty alleviation programmes and support vulnerable groups in recent years.

Our people found a more meaningful way to mark the 21st anniversary of the Bank, and launched Qingyin Charitable Foundation on 20 November 2017. We also carried out donations on that day, which contributed RMB 2 million to the Qingyin Charitable Foundation.



(A group photo of the guests and the representatives from other twenty companies at the launching ceremony of Qingyin Charitable Foundation.)



(Our people are in line to make donations to the Qingyin Charitable Foundation)

Supporting vulnerable groups

In 2017, we continued to implement the initiative to spread financial knowledge in rural areas and understand the needs of the children of migrant workers. In addition, we regularly organised our volunteers to visit the elderly, left-behind children and the disabled. These actions further strengthened our image as a responsible bank.

Case

Zhejianglu Sub-branch conducted charity activities aiming to bring warmth to the sick and abandoned children in the welfare institution, and visited Qingdao Children's Welfare Home (the Blue-Sky Home), with well-prepared life and school supplies.





Case

Maidao Sub-branch conducted various charity activities in cooperation with the charity brand, CTWD in 2017. Such activities aimed to help autistic children and elderly people of no family.

Cai Jiayuan' s painting exhibition under the "Children from the Stars" programme for autistic children



C.T.W.D (a charity brand)

The lecture under the "Blue Action — With Love, You Are Not Alone" programme, aiming to help autistic adults get a job



Financial aid to college students

We have established "Qingyin Scholarship" at six universities, including Ocean University of China, Shandong University of Science and Technology, and Qingdao University. "Qingyin Scholarship" aims to help students from financially-challenged families to complete their education. We also have set up a sub-branch in Shandong University of Science and Technology and Qingdao University, respectively, to provide thousands of teachers and students on campus with convenient financial services.

Amounts paid and the number of students receiving the financial aid under the Qingyin Scholarship

Name of the university	Starting year	Amount of scholarship paid (in RMB 10,000)	Number of students receiving the financial aid
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
Shandong University	2017	50	100

We set up two special classes in the First Middle School and the Second Middle School of Anshun City to help 100 students from financially-challenged families complete their high school education. The programme started from 18 October 2014. The students made a special video to express their gratitude to us in 2017.



Staff volunteer activities in 2017

Date	Activity Name	Content	Location
5 March	Initiative to Learn from Lei Feng	(1) Pick up white garbage and promote environmental protection (2) Visit students at a school for the blind in Qingdao City	Communities, seaside, a school for the blind in Qingdao City
9 March - 14 March	Environmental Protection and Green Action	Plant trees	Shibei Sub-branch, Wusi Sub-branch, Binzhou Branch
5 April	The Army and the People Initiative	Conduct campaigns to promote financial knowledge	A navy barrack
4 May	Undertake Social Responsibility and Engage in Charity Programmes	Voluntary blood donations	Shibei Sub-branch
1 June - 2 June	"Help Realise Your Dream" Volunteer Programme	Autistic children's painting exhibition	Maidao Sub-branch
3 July	Let the Party Flag Shine Brighter	Volunteer Programmes in Fushan New Area	Fushan New Area
28 August	Blue Action — With Love, You Are Not Alone	Give lectures aiming to help autistic adults get a job	Maidao Sub-branch
8 September	Love Autistic Children	Visit autistic children	Yilin School for Autistic Students in Chengyang District, Qingdao
28 September - 29 September	Love and Support Initiative	Visit financially-challenged families due to a family member's major illness in three communities	Yan'an Sanlu Sub-branch
26 October - 28 October	The Double Ninth Festival Initiative	(1) Visit the elderly at Jimo College for Senior Citizens (2) Visit the elderly on Double Ninth Day (3) Engage in charity projects to celebrate Double Ninth Day (4) Care for the elderly — Hospice Care Centre programme	Jimo College for Senior Citizens Beizhong Community Xihai'an Sub-branch Hospice Care Centre
13 November - 15 November	Donate Clothes in Winter Days	Collect and donate old clothes	Hong Kong Zhonglu No.2 Sub-branch
25 December	The Warm Christmas Initiative	Visit and look after the elderly at Lekang Home for the Elderly in Qingdao	Lekang Home for the Elderly
September - October	Popularise Financial Knowledge in Community	Carry out the Financial Knowledge Month initiative to popularise financial knowledge in community	Yan'an Sanlu Sub-branch, Taidong Liulu Sub-branch, Maidao Sub-branch, Nanjing Lu Sub-branch, Yinchuan Lu Sub-branch, Donghai Xilu No.1 Sub-branch, Yan'an Erlu Sub-branch, Dongying Branch, Weihai Branch
March - November	Volunteer Activity to Popularise Financial Knowledge in Rural Areas	Improve financial services and popularise financial knowledge in rural areas to build new socialist countryside	Jimo, Pingdu, Laixi, Xihai'an, Chengyang
April - November	Understand the Needs of Children of Migrant Workers	(1) Give lectures on financial knowledge to students and practice lessons to students that are good at financial knowledge popularise the financial anti-fraud knowledge (2) Build an experience platform for practising gardening; and invite children to visit the elderly on Double Ninth Day	Ping'an Road No. 2 Primary School of Qingdao city



Prospects for 2018

In 2018, we'll focus our resources on achieving the following: promote the regional replacement of old growth drivers; better serve the real economy for its quality growth; improve administration; ensure compliance with the relevant laws and regulations; speed up transformation and promote an innovation-driven development; make progress while maintaining stability; make new advances for a new era; and foster new developments.

To promote economic growth, we'll commit ourselves to the provision of quality financial services for major national and regional development strategies, reform measures, and engineering projects; our policies will be weighted toward the support for the growth of the real economy, and entity enterprises will be the priority for credit expanding; we'll proactively implement the central government's policy to promote inclusive finance and support the growth of small, medium and micro-sized enterprises; we'll pursue technology and finance, and develop new investment, insurance and loan products and services to support the growth of hi-tech enterprises; we'll increase financial support for innovation-driven development, business start-up and innovation initiative; we'll promote local economic transformation and upgrading via new operational models, such as port finance, cultural and creative industry finance and clothing trade finance.

To strengthen environmental protection, we'll continue to explore new ways to improve the quality of our services online and with greater efficiency, and speed up our efforts to make our online services more intelligence technology-enabled, and improve mobile finance plus mobile office; we'll continue our efforts to reduce both material and energy consumption by promoting paperless over-the-counter services, replacing company stamps with the electronic seal system, and making files digitalised; we'll move forward our strategy to promote green finance,

and technology and finance, and support the growth of environmentally-friendly and energy-saving enterprises; we'll continue to advocate a thrift corporate culture, strengthen internal governance, and reduce water, power, gas and paper consumption per full-time employee (FTE).

To promote social progress, we'll adopt a holistic approach to strengthening the protection of financial consumers' rights and interests, and continue to conduct the existing charge-free services including account opening; we'll continue to engage in finance and targeted poverty alleviation programmes; We'll bring Qingyin Charitable Foundation to a whole new level and continue our financial aid to underprivileged students in Anshun, Guizhou and universities in Shandong Province; we'll implement a caring corporate culture and establish staff clubs to improve their welfare.

When the atmosphere is appropriate, we can concentrate efforts to move forward, and as the wind blows, you must set your sail. Looking forward, we'll follow the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, and proactively implement the requirements of both central and provincial governments. In addition, we'll conduct a comprehensive analysis of the current business environment and make well-judged conclusions so that we'll be able to ride the momentum and make a big push to explore new paths and measures to bring new business into being and make it grow. We'll be confident and determined in the measures we take and make concerted efforts across the Bank so that we'll make progress in all respects and realise quality growth for a new era.



Appendix

1. Independent Limited Assurance Report

The Board of Directors of Bank of Qingdao Company Limited:

We were engaged by the Board of Directors of Bank of Qingdao Co., Ltd. ("the Bank") to provide limited assurance on the 2017 Environmental, Social and Governance Report of the Bank for the year ended 31 December 2017 ("the ESG Report").

(1) Responsibilities of the Board of Directors

The Board of Directors of the Bank is solely responsible for the preparation and presentation of the 2017 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.

(2) 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 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.

(3) 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;
- 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; and
- 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 providing an opinion on the effectiveness of the Bank's systems and procedures.

(4) 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 is not prepared in all material respects in accordance with the SEHK's Guidelines.

KPMG Huazhen LLP

Beijing

6 July 2018

2. ESG Report Indicator Index

ESG Report Indicator Index

Subject Areas and Aspects	General Disclosures	In this report	KPIs	In this report
A.Environmental				
A1 Emissions	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	pages 32-34	A1.1 The types of emissions and respective emissions data	page 34
			A1.2 Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility)	page 34
			A1.3 Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility)	page 33
			A1.4 Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility)	page 33
			A1.5 Description of measures to mitigate emissions and results achieved	page 32-34
			A1.6 Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	pages 33-35
A2 Use of Resources	Policies on the efficient use of resources, including energy, water and other raw materials	page 32-34	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 10, page 34
			A2.2 Total water used and intensity (e.g. per unit of production volume, per facility)	page 10, page 34
			A2.3 Description of energy use efficiency initiatives and results achieved	pages 32-34
			A2.4 Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved	page 34
			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 30-35	A3.1 Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them	pages 30-35
B. Social				
B1 Employment	Information on the policies and compliance with relevant laws and regulations that have a significant impact 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 47-48	B1.1 Total workforce by gender, employment type, age group and geographical region	page 47
			B1.2 Employee turnover rate by gender, age group and geographical region	page 47

Subject Areas and Aspects	General Disclosures	In this report	KPIs	In this report
B2 Health and Safety	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	pages 47-49	B2.1 Number and rate of work-related fatalities	page 47
			B2.2 Lost days due to work injury	page 47
			B2.3 Description of occupational health and safety measures adopted, how they are implemented and monitored	pages 47-49
B3 Development and Training	Policies on improving employees' knowledge and skills for discharging duties at work; Description of training activities	pages 51	B3.1 The percentage of employees trained by gender and employee category (e.g. senior management, middle management)	Note 1
			B3.2 The average training hours completed per employee by gender and employee category	Note 1
B4 Labour Standards	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	page 47	B4.1 Description of measures to review employment practices to avoid child and forced labour	page 47
			B4.2 Description of steps taken to eliminate such practices when discovered	Not applicable
B5 Supply Chain Management	Policies on managing environmental and social risks of the supply chain.	page 33	B5.1 Number of suppliers by geographical region	Note 1
			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 33
B6 Product Responsibility	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	pages 42,46	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	pages 42
			B6.3 Description of practices relating to observing and protecting intellectual property rights	page 46
			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 42
B7 Anti-corruption	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	pages 43-45	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 45
			B7.2 Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored	pages 43-45
B8 Community Investment	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests	pages 52-54	B8.1 Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport)	pages 52-54
			B8.2 Resources contributed (e.g. money or time) to the focus area	pages 52-54

Note 1: The Bank will disclose the relevant information in a planned manner in the future.

3. Feedback from Readers

Thank you for reading the 2017 Environmental, Social and Governance Report of Bank of Qingdao Company Limited. For the purpose of enhancing information communication, better understanding and meeting your expectations and demands, providing more valuable information for you and other stakeholders and improving the Bank's ability to perform its corporate social responsibility, we hope that you can share with

us your valuable comments and suggestions on this report by completing the feedback form below and sending it to us via any of the following ways:

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1. Which kind of stakeholder are you?

- ☐ Customer ☐ Staff ☐ Government ☐ Regulator ☐ Shareholder ☐ Supplier
☐ Partner ☐ Community ☐ Environment ☐ Others

2. What do you think of this report in general?

- ☐ Poor ☐ Average ☐ Good ☐ Excellent

3. How well do you think Bank of Qingdao performs its corporate social responsibility for promoting economic growth?

- ☐ Poor ☐ Average ☐ Good ☐ Excellent

4. How well do you think Bank of Qingdao performs its corporate social responsibility for improving the environment?

- ☐ Poor ☐ Average ☐ Good ☐ Excellent

5. How well do you think Bank of Qingdao performs its corporate social responsibility for promoting social progress?

- ☐ Poor ☐ Average ☐ Good ☐ Excellent

6. Do you think that Bank of Qingdao meets your expectations and demands?

- ☐ No ☐ Average ☐ Yes

7. Do you think this report gives a true and fair picture of how Bank of Qingdao performs its corporate social responsibility for promoting economic, environmental and social progress?

- ☐ No ☐ Average ☐ Yes

8. Do you think this report is clearly stated and easy to understand?

- ☐ No ☐ Average ☐ Yes

9. Do you think the structure and typography of this report is suitable for reading?

- ☐ No ☐ Average ☐ Yes

10. Do you have any other comments or suggestions on this report or on how Bank of Qingdao can perform its corporate social responsibility better:

Thank you for your feedback and support!





BQD  青岛银行

青島銀行股份有限公司

BANK OF QINGDAO CO., LTD.