BQD 青岛银行

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

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

(H Shares Stock Code: 3866)

(Preference Shares Stock Code: 4611)

Announcement of Interim Results for the Six Months Ended 30 June 2018

The board of directors (the "**Board**") of Bank of Qingdao Co., Ltd. (the "**Bank**" or "**Bank of Qingdao**") is pleased to announce the unaudited interim results (the "**Interim Results**") of the Bank and its subsidiaries (the "**Company**") for the six months ended 30 June 2018 (the "**Reporting Period**") prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Hong Kong Listing Rules**"), including compliance with International Accounting Standard 34, *Interim Financial Reporting*, issued by the International Accounting Standards Board. The Board and its Audit Committee have reviewed and confirmed the Interim Results.

Unless otherwise specified, the currency of the amounts mentioned in this results announcement is Renminbi ("**RMB**").

1. CORPORATE INFORMATION

1.1 Basic Information of the Bank

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

1.2 Contact Persons and Contact Details

Secretary to the Board:	Lu Lan
Joint company secretaries:	Lu Lan, Lai Siu Kuen
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Company website:	http://www.qdccb.com/

2. FINANCIAL HIGHLIGHTS

2.1 Financial Data

Item	January to June 2018	January to June 2017	Year-on-year change
Business performance (RMB'000)			**Change (%)**
Net interest income	**1,736,292**	2,344,567	(25.94)
Net non-interest income	**1,393,819**	490,627	184.09
Operating income	**3,130,111**	2,835,194	10.40
Operating expenses	**(964,113)**	(792,826)	21.60
Impairment losses	**(516,515)**	(400,050)	29.11
Profit before taxation	**1,649,483**	1,642,318	0.44
Net profit	**1,330,876**	1,278,760	4.08
Net profit attributable to equity shareholders of the Bank	**1,321,444**	1,275,799	3.58
Per share (RMB)			**Change**
Basic earnings per share	**0.33**	0.31	0.02
Diluted earnings per share	**0.33**	0.31	0.02

Note: The changes in net interest income and net non-interest income were primarily due to the decrease in assets from which recognized interest income and the increase in assets from which recognized gains arising from investments as a result of the change of classification of financial assets after the Company adopted the new accounting standards for financial instruments for the first time, which resulted in the decrease in net interest income and the increase in net non-interest income.

2.2 Financial Indicators

Item	30 June 2018	31 December 2017	Change from the end of last year
Scale indicators (RMB'000)			**Change (%)**
Total assets	**302,159,196**	306,276,092	(1.34)
Of which: loans and advances to customers, net[1]	**104,310,963**	95,514,680	9.21
Total liabilities	**275,465,759**	280,152,883	(1.67)
Of which: deposits from customers	**166,199,611**	160,083,783	3.82
Share capital	**4,058,713**	4,058,713	–
Equity attributable to the equity shareholders of the Bank	**26,192,291**	25,629,854	2.19
Total equity	**26,693,437**	26,123,209	2.18
			Change
Net assets per share attributable to shareholders of the Bank[2] (RMB)	**4.52**	4.38	0.14

Item	January to June 2018	January to June 2017	Year-on-year change
Profitability indicators (%)			**Change**
Return on average total asset[3] (annualised)	**0.88**	0.91	(0.03)
Return on average equity[4] (annualised)	**14.79**	14.44	0.35
Net interest spread[5] (annualised)	**1.47**	1.62	(0.15)
Net interest margin[6] (annualised)	**1.35**	1.79	(0.44)
Net fee and commission income to operating income ratio[7]	**10.94**	18.28	(7.34)
Cost-to-income ratio[8]	**29.67**	26.94	2.73

Item	30 June 2018	31 December 2017	Change from the end of last year
Asset quality indicators (%)			**Change**
Non-performing loan ratio	**1.69**	1.69	–
Provision coverage ratio	**160.07**	153.52	6.55
Loan provision ratio	**2.70**	2.60	0.10
Indicators of capital adequacy ratio (%)			**Change**
Core tier-one capital adequacy ratio[9]	**8.90**	8.71	0.19
Tier-one capital adequacy ratio[9]	**12.72**	12.57	0.15
Capital adequacy ratio[9]	**16.79**	16.60	0.19
Total equity to total assets ratio	**8.83**	8.53	0.30
Other indicators (%)			**Change**
Liquidity coverage ratio	**139.30**	173.05	(33.75)
Liquidity ratio	**49.40**	56.36	(6.96)

Notes:

(1) Net loans and advances to customers = total loan and advances to customers – provision for impairment of loans and advances to customers measured at amortized cost.

(2) Net assets per share attributable to shareholders of the Bank = (equity attributable to shareholders of the Bank – other equity instrument)/the number of ordinary shares at the end of the period.

(3) Return on average total assets = net profit/average balance of total assets at the beginning and at the end of the period, of which the total assets at the beginning of 2018 are the balances after the adoption of new financial instruments standard.

(4) Return on average equity = net profit attributable to ordinary shareholders of the Bank/average balance of equity attributable to ordinary shareholders of the Bank at the beginning and at the end of the period, of which the equity attributable to the ordinary shareholders of the Bank at the beginning of 2018 is the balance after adoption of new financial instruments standard.

(5) Net interest spread = average yield on interest-earning assets – average cost rate of interest-bearing liabilities. The change in net interest spread was primarily because the gains relating to some financial assets were no longer stated as interest income after the Company adopted the new accounting standards for financial instruments for the first time. On a comparable basis, the net interest spread was 1.57%, representing a decrease of 0.05 percentage point as compared with the same period of previous year and remaining flat as compared with the previous year.

(6) Net interest margin = net interest income/average interest-earning assets. The change in net interest margin was primarily because the gains relating to some financial assets were no longer stated as interest income after the Company adopted the new accounting standards for financial instruments for the first time. On a comparable basis, the net interest margin was 1.73%, representing a decrease of 0.06 percentage point as compared with the same period of previous year and an increase of 0.01 percentage point as compared with the previous year.

(7) Net fee and commission income to operating income ratio = net fee and commission income/operating income.

(8) Cost-to-income ratio = (operating expenses – tax and surcharges)/operating income.

(9) The capital adequacy ratio and other relevant indicators listed in the above chart were calculated in accordance with the Regulation Governing Capital of Commercial Banks (Provisional) (《商業銀行資本管理辦法(試行)》) and other relevant regulatory regulations.

(10) During the Reporting Period, the Bank initially adopted the new financial instrument standards, but the data during the comparative period is not restated. Please refer to Note 2 "Basis of Preparation and Changes in Accounting Policies" of the financial report section in this results announcement.

3. MANAGEMENT DISCUSSION AND ANALYSIS

3.1 Review of the Economy Finance and Policy Environment

In the first half of 2018, the global economy posted a growth momentum on the whole. In particular, the US economy maintained a steady growth under the combined effects of several measures including the tax reform plan, infrastructure expansion and manufacturing revitalization. Under the influence of Sino-US trade wars and geopolitical conflicts, China was under pressure on export comparative advantages, manufacturing industry upgrades and global liquidity. China's economic and financial markets were facing tremendous shocks. However, these pressures and shocks had forced China to accelerate its pace in promoting structural deleveraging and reform policies.

In general, China's economy rendered a benign pattern featuring enhanced quality amid stable volume, increased employment, moderate inflation and better balance of international payments. With steady progress of the supply-side reform, economic development became more coordinated and industrial structure was gradually improved. A range of measures taken by the regulatory authorities to prevent risks, enhance supervision and shore up weakness yielded results as macro-economic risks became more controllable, shadow banks grew at a slowed pace and businesses including trust and outsourcing credit began to shrink. But this also made commercial banks bear the burden of business restructuring and asset and liability management.

In the context of gradual increase in pressures and challenges both domestically and overseas, the economic growth of Shandong Province has gradually slowed down in the first half of 2018. The economic slowdown has directly led to difficult development of the banking industry. The transformation and upgrading of the banking industry were still in a period of pain. The economic growth rate of Qingdao has also experienced a corresponding decline. However, supported by the meeting of Shanghai Cooperation Organization and strategy of replacing traditional drivers with new ones, the industries and service industry were growing amid stability, industrial structure was adjusted to be more optimal, new drivers kept emerging, and positive factors continued to increase.

3.2 Summary of Overall Operations

3.2.1 Status of key operational indicators achievement

(1) Total assets amounted to RMB302.159 billion, representing a decrease of RMB4.117 billion or 1.34% as compared with that at the end of the previous year;

(2) Total deposits amounted to RMB166.2 billion, representing an increase of RMB6.116 billion or 3.82% as compared with that at the end of the previous year;

(3) Total loans amounted to RMB107.184 billion, representing an increase of RMB9.123 billion or 9.30% as compared with that at the end of the previous year;

(4) Net profit amounted to RMB1.331 billion, representing a year-on-year increase of RMB52 million or 4.08%;

(5) Non-performing loan ratio was 1.69%, remaining flat as compared with that at the end of previous year; and provision coverage ratio and capital adequacy ratio were 160.07% and 16.79% respectively, both of which have increased as compared with that at the end of previous year;

(6) Return on average total assets was 0.88%, representing a year-on-year decrease of 0.03 percentage point, which was primarily due to the year-on-year increase of the Company's total assets, resulting in the increase of the average total assets for the current period; and

(7) Return on average equity was 14.79%, representing a year-on-year increase of 0.35 percentage point, which was primarily due to the increase in net profit attributable to ordinary shareholders of the Bank.

3.2.2 Major tasks of operational management

(1) *Sound improvement of quality and efficiency of operation, and further improvement of brand reputation*

During the Reporting Period, the Bank launched "improvement" program, firmly promoted the construction of interface banking, mobile finance, transaction banking and "investment banking+" ecological financial service platform, continuously expanded, consolidated and adjusted customer base, and drove the growth of liability business from the source. At the end of the Reporting Period, the Bank had 55 newly signed cash management accounts, and 193,300 retail customers and 184,600 mobile banking customers were newly added. More than 300 cloud payment customers were signed up or put online.

The Bank received recognition and compliment from social public attributable to its remarkable operating performance. In the World Bank Top 1000 List released by UK Bankers magazine, the Bank ranked No. 286, up 86 places as compared with that of the last year to make it into the top 300 for the first time. The Bank was ranked among the "China's 500 Most Valuable Brands" for 2018 issued by World Brand Lab once again, which made it the only financial institution from Shandong province ranked in the list for two consecutive years.

(2) *Professional management of assets and liabilities, and transformation from scale growth to efficiency improvement*

During the Reporting Period, the Bank specially established Asset and Liability Management Department under the Planning and Finance Department to further enhance the decision-making mechanism of Asset and Liability Management Committee, built monthly meeting system, and conduct overall management of the Bank's asset and liability structure. At the end of the Reporting Period, all major liquidity indicators of the Bank met regulatory standards, and the medium and long-term liquidity indicators continued to be optimized.

Meanwhile, the Company's profitability indicators improved significantly. By adjusting the listed deposits rate, arranging asset replacement cycles, and optimizing the proportion of various types of loans, during the Reporting Period, based on comparable caliber of last year, the Company's net interest margin increased by 1 base point from the last year. By optimizing the investment structure of financial market business, revitalizing the stock assets, and reducing investment and interbank liabilities, under the condition of meeting regulatory requirements, the line profit contribution[1] in the Company's financial market has not decreased but increased, with a year-on-year growth of 2.67 percentage points.

[1] Profit contribution represents the ratio of profit before tax of the line to the Company's profit before tax.

(3) *Acceleration of credit supply to serve the real economy and full implementation of inclusive finance*

The Bank closely focused on the significant project of conversion of new and old drivers in Shandong Province, increased credit supply and provided enterprises with direct financing through ways of structured financing and bond underwriting. As at the end of the Reporting Period, the balance of our loans increased by RMB9.123 billion as compared with that as at the end of the previous year. During the Reporting Period, the Bank also underwrote ten enterprise bonds with total sum of RMB6.270 billion. The Bank actively responded to the national policy, excavated the advantages of Shandong Province's manufacturing industry, found enterprises with new drivers in the traditional industry, and continuously increased the credit supply for the customers from high quality manufacturing industry. As at the end of the Reporting Period, the Bank's balance of manufacturing industry loans reached RMB19.717 billion, which increased by RMB2.846 billion as compared with that at the beginning of the year. The Bank actively implemented inclusive finance, deepened cooperation with Qingdao Science and Technology Bureau and financing guarantee company and launched new business models such as "guaranteed loan for technological enterprise" (見保即貸) and risk sharing. The Bank launched "Business Benefit Loan" (惠營貸), "Agriculture Benefit Loan" (惠農貸), "Chuangyi finance" (創易融) and other products, and issued small-amount consumption loans of RMB1.667 billion.

(4) *Prominent demonstration effect of technology finance and full implementation of special branches construction*

During the Reporting Period, the Bank handled the first business of technology finance "insurance loan", and launched "technology innovation loan", "easy loan for technology innovation", "insurance loan" and other new types of businesses one after another, resulting in further improving the product system. As at the end of the Reporting Period, technology finance credit balance amounted to RMB4.817 billion, derivative deposits balance amounted to RMB1.5 billion. After over six months of exploration, we gradually found out the business focus for culture finance to provide culture & creative enterprises with customized financial products and services. We have expanded coverage of our special branches, and the business specialties including listed finance, Huinong finance and service trade finance, have been gradually established.

(5) *Acceleration of the development of financial technologies and vigorous support for business development*

The Bank deeply integrated business and scientific and technological resources to improve business response efficiency and developing quality and efficiency of projects. We have completed the construction of 21 significant projects such as the phase I of paperless counters and the access to the NetsUnion Clearing platforms, which provided strong supporting for business development. In the revision of mobile financial 3.0, the "Face Recognition" platform project was officially put into production, the transfer limit of mobile banking was raised to RMB1 million, and the customer experience continued to be optimized. At the end of the Reporting Period, the number of mobile banking users reached 1.2879 million.

(6) *Unswervingly implementation of new regulatory policies and remarkable results for risk management*

Taking compliance operation as its focus of work and "active compliance" as its code of conduct, the Bank actively adapted to various new regulations while attaching equal importance to chaos governance and transformation development. Through comprehensive consideration of financial chaos inspection, during the Reporting Period, the Bank revised and formulated 61 regulations to further improve its internal control management system. By figuring out the credit risk background and having an active recourse of written-off loans, it established asset preservation and rapid disposal mechanism. It also fully promoted the management and control of non-accrual loans and actively promoted the progress of key risks mitigation. In accordance with the new requirements of asset management, the Bank vigorously promoted system upgrades, fully optimized asset allocation and enhanced product innovation and sales capabilities.

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

3.3.1 Financial performance summary

Unit: RMB'000

Item	**January to June 2018**	January to June 2017
Net interest income	**1,736,292**	2,344,567
Net fee and commission income	**342,487**	518,194
Net trading gains/(losses), net gains/(losses) arising from investments and other operating income, net	**1,051,332**	(27,567)
Operating expenses	**(964,113)**	(792,826)
Impairment losses	**(516,515)**	(400,050)
Profit before taxation	**1,649,483**	1,642,318
Income tax	**(318,607)**	(363,558)
Net profit	**1,330,876**	1,278,760
Of which: net profit attributable to shareholders of the Bank	**1,321,444**	1,275,799
net profit attributable to non-controlling interest	**9,432**	2,961

During the Reporting Period, the Company's profit before taxation amounted to RMB1.649 billion, representing a year-on-year increase of RMB7 million or 0.44%; net profit amounted to RMB1.331 billion, representing a year-on-year increase of RMB52 million or 4.08%; and effective income tax rate was 19.32%, representing a year-on-year decrease of 2.82 percentage points. The following table sets forth the impact of changes in our significant profit or loss items on the profit before taxation during the Reporting Period.

Unit: RMB'000

Item	**Amount**
Profit before taxation in the first half of 2017	1,642,318
Change in the first half of 2018	
Net interest income	(608,275)
Net fee and commission income	(175,707)
Net trading gains/(losses), net gains/(losses) arising from investments and other operating income, net	1,078,899
Operating expenses	(171,287)
Impairment losses	(116,465)
Profit before taxation in the first half of 2018	1,649,483

3.3.2 Operating income

During the Reporting Period, the Company's operating income amounted to RMB3.13 billion, representing a year-on-year increase of RMB295 million or 10.40%, of which, net interest income accounted for 55.47%, representing a year-on-year decrease of 27.23 percentage points, and net non-interest income accounted for 44.53%. The remarkable change in the composition of operating income is mainly due to the increase in financial assets at fair value through profit or loss and the decrease in financial assets from which recognized interest income according to provisions on classification and measurement of financial assets after the Company's adoption of the new accounting standards for financial instruments, which resulted in the corresponding increase in net gains arising from investments and the decrease in interest income. The following table sets forth the year-on-year comparison of the composition of our operating income during the Reporting Period.

Unit: %

Item	**January to June 2018**	January to June 2017
Net interest income	**55.47**	82.70
Net fee and commission income	**10.94**	18.27
Net trading gains/(losses), net gains/(losses) arising from investments and other operating income, net	**33.59**	(0.97)
Total	**100.00**	100.00

3.3.3 Net interest income

During the Reporting Period, the Company had net interest income of RMB1.736 billion, representing a year-on-year decrease of RMB608 million or 25.94%. The following table sets forth the average balance, interest income/expense and average annualised yield/cost rate of the assets and liabilities items of the Company for the periods indicated. The average balances of interest-earning assets and interest-bearing liabilities were daily average balances.

Unit: RMB'000

	January to June 2018			January to June 2017		
Item	**Average balance**	**Interest income/ expense**	**Average annualised yield/cost (%)**	Average balance	Interest income/ expense	Average annualised yield/cost (%)
Interest-earning assets						
Loans and advances to customers	**101,107,742**	**2,412,614**	**4.81**	91,563,093	2,155,414	4.75
Investment[1]	**113,377,563**	**2,534,605**	**4.51**	130,601,393	2,833,578	4.38
Deposits and placements with banks and other financial institutions[2]	**14,618,405**	**185,973**	**2.57**	19,946,462	261,680	2.65
Deposits with central bank	**24,971,505**	**188,787**	**1.52**	21,460,059	162,770	1.53
Long-term receivables	**5,064,684**	**131,266**	**5.23**	1,267,049	30,316	4.82
Total	**259,139,899**	**5,453,245**	**4.24**	264,838,056	5,443,758	4.15
Interest-bearing liabilities						
Deposits from customers	**160,024,453**	**1,432,119**	**1.80**	141,828,218	1,239,495	1.76
Deposits and placements from banks and other financial institutions[3]	**49,744,286**	**869,619**	**3.53**	60,418,480	976,052	3.26
Debt securities issued	**56,866,676**	**1,328,313**	**4.71**	43,740,667	866,929	4.00
Others	**3,971,042**	**86,902**	**4.41**	797,732	16,715	4.23
Total	**270,606,457**	**3,716,953**	**2.77**	246,785,097	3,099,191	2.53
Net interest income		**1,736,292**			2,344,567	

Notes:

(1) In Section 3.3.3, investments for the period include debt investments held for trading, financial investments at fair value through other comprehensive income and financial investments measured at amortized cost; investments for the previous period include financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and receivables.

(2) In Section 3.3.3, deposits and placements with banks and other financial institutions include financial assets held under resale agreements.

(3) In Section 3.3.3, deposits and placements from banks and other financial institutions include financial assets sold under repurchase agreements.

During the Reporting Period, average balance of interest-earning assets were RMB259.14 billion, representing a year-on-year decrease of RMB5.698 billion or 2.15%, mainly due to the decrease in investments from which recognized interest income according to provisions on classification and measurement of financial assets after the adoption of the new accounting standards for financial instruments, resulting in the corresponding decrease in investments stated as interest-bearing assets.

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

Unit: RMB'000

	January to June 2018 vs. January to June 2017		
Item	**Due to volume**	**Due to rate**	**Net increase/ (decrease)**
Assets			
Loans and advances to customers	229,957	27,243	257,200
Investment	(383,166)	84,193	(298,973)
Deposits and placements with banks and other financial institutions	(67,794)	(7,913)	(75,707)
Deposits with central bank	27,081	(1,064)	26,017
Long-term receivables	98,374	2,576	100,950
Change in interest income	**(95,548)**	**105,035**	**9,487**
Liabilities			
Deposits from customers	164,491	28,133	192,624
Deposits and placements from banks and other financial institutions	(187,328)	80,895	(106,433)
Debt securities issued	307,381	154,003	461,384
Others	69,475	712	70,187
Change in interest expense	**354,019**	**263,743**	**617,762**
Change in net interest income	**(449,567)**	**(158,708)**	**(608,275)**

3.3.4 Interest income

During the Reporting Period, the Company's interest income was RMB5.453 billion, representing a year-on-year increase of RMB9 million or 0.17%, mainly due to an increase in the yield on interest-earning assets. The interest income from loans and advances to customers and investments constituted the major part of the interest income of the Company.

Interest income of loans and advances to customers

During the Reporting Period, the Company's interest income of the loans and advances to customers was RMB2.413 billion, representing a year-on-year increase of RMB257 million or 11.93%. The following table sets forth the average balance, interest income and average annualized yield of each component of the loans and advances to customers of the Company for the periods indicated.

Unit: RMB'000

	January to June 2018			January to June 2017		
Item	**Average balance**	**Interest income**	**Average annualized yield (%)**	Average balance	Interest income	Average annualized yield (%)
Corporate loans	**70,432,273**	**1,701,352**	**4.87**	65,019,450	1,555,709	4.83
Personal loans	**30,675,469**	**711,262**	**4.68**	26,543,643	599,705	4.56
Total loans to customers	**101,107,742**	**2,412,614**	**4.81**	91,563,093	2,155,414	4.75

Interest income from investments

During the Reporting Period, the Company's interest income from investments amounted to RMB2.535 billion, representing a year-on-year decrease of RMB299 million or 10.55%, mainly due to the decrease in investments from which recognized interest income according to provisions on classification and measurement of financial assets after the adoption of the new accounting standards for financial instruments, resulting in the corresponding decrease in volume of investments.

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

During the Reporting Period, the Company's interest income from deposits and placements with banks and other financial institutions amounted to RMB186 million, representing a year-on-year decrease of RMB76 million or 28.93%, mainly due to a decrease in the volume of deposits and placements with banks and other financial institutions.

3.3.5 Interest expense

During the Reporting Period, the Company's interest expense was RMB3.717 billion, representing a year-on-year increase of RMB618 million or 19.93%, mainly due to an increase in the volume of interest-bearing liabilities and increase in cost rate of market funds. Interest expenses on deposits from customers and issued debt securities were a major part of interest expense of the Company.

Interest expense on deposits from customers

During the Reporting Period, the Company's interest expense on deposits from customers amounted to RMB1.432 billion, representing a year-on-year increase of RMB193 million or 15.54%. The following table sets forth the average balance, interest expense and average annualized cost rate of the Company's corporate deposits and personal deposits for the periods indicated.

Unit: RMB'000

	January to June 2018			January to June 2017		
Item	**Average balance**	**Interest expense**	**Average annualized cost rate (%)**	Average balance	Interest expense	Average annualized cost rate (%)
Corporate deposits from customers						
Demand	**59,739,406**	**210,696**	**0.71**	51,288,492	162,951	0.64
Time	**46,608,814**	**637,029**	**2.76**	40,473,561	498,551	2.48
Subtotal	**106,348,220**	**847,725**	**1.61**	91,762,053	661,502	1.45
Personal deposits from customers						
Demand	**17,913,853**	**28,606**	**0.32**	10,647,373	18,702	0.35
Time	**35,762,380**	**555,788**	**3.13**	39,418,792	559,291	2.86
Subtotal	**53,676,233**	**584,394**	**2.20**	50,066,165	577,993	2.33
Total deposits from customers	**160,024,453**	**1,432,119**	**1.80**	141,828,218	1,239,495	1.76

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

During the Reporting Period, the Company's interest expense on deposits and placements from banks and other financial institutions amounted to RMB870 million, representing a year-on-year decrease of RMB106 million or 10.90%, mainly due to a decrease in the volume of deposits and placements from banks and other financial institutions.

Interest expense on debt securities issued

During the Reporting Period, the Company's interest expense on debt securities issued amounted to RMB1.328 billion, representing a year-on-year increase of RMB461 million or 53.22%, mainly due to an increase in the volume and the cost rate of debt securities issued.

3.3.6 Net non-interest income

During the Reporting Period, the Company's net non-interest income amounted to RMB1.394 billion, representing a year-on-year increase of RMB903 million or 184.09%, mainly due to an increase in the financial assets at fair value through profit or loss according to provisions on classification and measurement of financial assets after the adoption of the new accounting standards for financial instruments, which resulted in the corresponding increase in net gains arising from investments. The net gains arising from investments in the period amounted to RMB951 million, representing an increase of RMB959 million as compared with -RMB8 million for the same period of last year.

The following table sets forth the major components of the Company's net non-interest income for the periods indicated.

Unit: RMB'000

Item	**January to June 2018**	January to June 2017
Fee and commission income	**373,336**	537,258
Less: fee and commission expense	**(30,849)**	(19,064)
Net fee and commission income	**342,487**	518,194
Net trading gains/(losses), net gains/(losses) arising from investments and other operating income, net	**1,051,332**	(27,567)
Total net non-interest income	**1,393,819**	490,627

3.3.7 Net fee and commission income

During the Reporting Period, the Company's net fee and commission income amounted to RMB342 million, representing a year-on-year decrease of RMB176 million or 33.91%, mainly due to a decrease in income of wealth management service fees.

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

Unit: RMB'000

Item	**January to June 2018**	January to June 2017
Fee and commission income		
Wealth management service fees	**144,994**	285,869
Agency service fees	**128,835**	105,372
Settlement fees	**16,423**	50,009
Custody and bank card service fees	**17,402**	25,044
Others	**65,682**	70,964
Total	**373,336**	537,258
Fee and commission expense	**(30,849)**	(19,064)
Net fee and commission income	**342,487**	518,194

During the Reporting Period, the Company's wealth management service fees amounted to RMB145 million, representing a year-on-year decrease of RMB141 million or 49.28%, mainly due to a decrease in the management fee for wealth management products issued by the Company; agency service fees amounted to RMB129 million, representing a year-on-year increase of RMB23 million or 22.27%, mainly due to an increase in the volume of asset management plans of structured financing business; settlement fees amounted to RMB16 million, representing a year-on-year decrease of RMB34 million or 67.16%, mainly due to a decrease in the volume of trade finance settlement business; custody and bank card service fees amounted to RMB17 million, representing a year-on-year decrease of RMB8 million or 30.51%, mainly due to a decrease in the volume of trust plans of structured financing business.

3.3.8 Net trading gains/(losses), net gains/(losses) arising from investments and other operating income, net

During the Reporting Period, the Company's net trading gains/(losses), net gains/(losses) arising from investments and other operating income, net amounted to RMB1.051 billion, representing a year-on-year increase of RMB1.079 billion. In particular, net trading gains amounted to RMB95 million, representing a year-on-year increase of RMB116 million, mainly due to the changes in exchange rate; net gains arising from investments amounted to RMB951 million, representing a year-on-year increase of RMB959 million, mainly due to an increase in the financial assets at fair value through profit or loss according to provisions on classification and measurement of financial assets after the adoption of the new accounting standards for financial instruments. The following table sets forth the major components of the Company's net trading gains/(losses), net gains/(losses) arising from investments and other operating income, net for the periods indicated.

Unit: RMB'000

Item	**January to June 2018**	January to June 2017
Net trading gains/(losses)	**94,640**	(21,068)
Net gains/(losses) arising from investments	**951,247**	(7,849)
Other operating income, net	**5,445**	1,350
Total	**1,051,332**	(27,567)

3.3.9 Net interest spread and Net interest margin

During the Reporting Period, the Company's net interest spread was 1.47%, representing a decrease of 0.15 percentage point over the same period of last year, and the net interest margin was 1.35%, representing a decrease of 0.44 percentage point over the same period of last year, mainly due to the decrease in assets from which recognized interest income and the increase in assets from which recognized gains arising from investments as a result of the change of classification of financial assets after the Company adopted the new accounting standards for financial instruments, which resulted in the decrease in the volume of investment included in interest-earning assets and the increase in the volume of interest-bearing liabilities, as well as the increased cost rate of market funds.

Calculated in comparable terms of last year, after the business income of some financial assets at fair value through profit or loss under the new standards was returned to interest income, net interest income amounted to RMB2.471 billion, representing a year-on-year increase of RMB126 million or 5.39%, the net interest margin stood at 1.57%, representing an year-on-year decrease of 0.05 percentage point and remaining flat as compared with the previous year. Net interest margin was 1.73%, representing a year-on-year decrease of 0.06 percentage point and an increase of 0.01 percentage point as compared with the previous year.

3.3.10 Operating expenses

During the Reporting Period, the Company's operating expenses amounted to RMB964 million, representing a year-on-year increase of RMB171 million or 21.60%; the cost-to-income ratio was 29.67%, representing a year-on-year increase of 2.73 percentage points. In particular, staff costs increased by RMB87 million or 22.48% on a year-on-year basis, mainly due to an increase in the staff number and personnel expenses; property and equipment expenses increased by RMB67 million or 33.39% on a year-on-year basis, mainly due to an increase in the original value of houses and buildings, resulting in an increase in provision for depreciation; tax and surcharges increased by RMB7 million or 22.70% on a year-on-year basis, mainly due to an increase in housing property tax. The following table sets forth the major components of the Company's operating expenses for the periods indicated.

Unit: RMB'000

Item	**January to June 2018**	January to June 2017
Staff costs	**473,897**	386,918
Property and equipment expenses	**267,798**	200,762
Tax and surcharges	**35,454**	28,894
Other general and administrative expenses	**186,964**	176,252
Total operating expenses	**964,113**	792,826

3.3.11 Impairment losses

During the Reporting Period, the Company's impairment losses amounted to RMB517 million, representing an increase of RMB116 million or 29.11% over the same period of last year. The following table sets forth the major components of the Company's impairment losses for the periods indicated.

Unit: RMB'000

Item	**January to June 2018**	January to June 2017
Deposits with banks and other financial institutions	**474**	–
Placements with banks and other financial institutions	**8,089**	–
Financial assets held under resale agreements	**(362)**	–
Loans and advances to customers	**526,238**	349,636
Receivables	**–**	20,000
Financial investments measured at amortized cost	**(36,311)**	–
Financial investments at fair value through other comprehensive income	**7,438**	–
Long-term receivables	**16,135**	27,226
Credit commitments	**(15,836)**	–
Others	**10,650**	3,188
Total impairment losses	**516,515**	400,050

Impairment losses from loans and advances to customers constituted the largest component of impairment losses. During the Reporting Period, the loan impairment losses amounted to RMB526 million, representing an increase of RMB177 million or 50.51% over the same period of last year, mainly corresponding to the situation of loan risks.

3.4 Analysis of Major Items of the Statement of Financial Position

3.4.1 Assets

As at the end of the Reporting Period, the Company's total assets amounted to RMB302.159 billion, representing a decrease of RMB4.117 billion or 1.34% as compared with that at the end of last year. The following table sets forth, as at the dates indicated, the components of the Company's total assets.

Unit: RMB'000

	30 June 2018		31 December 2017	
Item	**Amount**	**% of total**	Amount	% of total
Total loans and advances to customers	**107,184,370**	**35.47**	98,061,379	32.02
Provision for impairment on loans and advances to customers measured at amortized cost	**(2,873,407)**	**(0.95)**	(2,546,699)	(0.83)
Net loans and advances to customers	**104,310,963**	**34.52**	95,514,680	31.19
Financial investments at fair value through other comprehensive income	**43,339,816**	**14.34**	–	–
Financial investments measured at amortized cost	**75,044,780**	**24.84**	–	–
Available-for-sale financial assets	**–**	**–**	79,086,556	25.82
Held-to-maturity investments	**–**	**–**	38,644,926	12.62
Receivables	**–**	**–**	46,678,869	15.24
Cash and deposits with central bank	**30,077,660**	**9.95**	27,097,814	8.85
Deposits with banks and other financial institutions	**2,467,172**	**0.82**	1,107,946	0.36
Placements with banks and other financial institutions	**3,695,341**	**1.22**	2,882,727	0.94
Financial assets held under resale agreements	**2,723,551**	**0.90**	3,584,200	1.17
Financial assets at fair value through profit or loss	**26,759,067**	**8.86**	179,078	0.06
Long-term receivables	**6,058,862**	**2.01**	4,076,396	1.33
Derivative financial assets	**15,118**	**0.01**	–	–
Property and equipment	**3,061,334**	**1.01**	3,089,017	1.01
Deferred tax assets	**1,079,808**	**0.36**	1,084,286	0.35
Other assets	**3,525,724**	**1.16**	3,249,597	1.06
Total assets	**302,159,196**	**100.00**	306,276,092	100.00

3.4.1.1 Loans and advances to customers

As at the end of the Reporting Period, the Company's loans and advances to customers amounted to RMB107.184 billion, representing an increase of RMB9.123 billion or 9.30% as compared with that at the end of last year; net loans and advances to customers amounted to RMB104.311 billion, representing an increase of RMB8.796 billion or 9.21% as compared with that at the end of last year. The following table sets forth, as at the dates indicated, the loans and advances to customers of the Company by product type.

Unit: RMB'000

	30 June 2018		31 December 2017	
Item	**Amount**	**% of total**	Amount	% of total
Corporate loans	**69,941,382**	**65.26**	64,363,848	65.64
Discounted bills	**4,935,451**	**4.60**	2,951,203	3.01
Personal loans	**32,307,537**	**30.14**	30,746,328	31.35
Total loans and advances to customers	**107,184,370**	**100.00**	98,061,379	100.00
Less: Provision for impairment on loans and advances to customers measured at amortized cost	**(2,873,407)**	**/**	(2,546,699)	/
Net loans and advances to customers	**104,310,963**	**/**	95,514,680	/

Corporate loans

As at the end of the Reporting Period, the Company's total corporate loans amounted to RMB69.941 billion, representing an increase of RMB5.578 billion or 8.67% as compared with that at the end of last year, and accounted for 65.26% of the total loans and advances to customers, representing a decrease of 0.38 percentage point as compared with that at the end of last year. During the Reporting Period, the Company paid close attention to the economic development trends and made more efforts to prepare for quality projects in line with national industrial development policies. While supporting the development of real economy, the Company ensured effective prevention and control of risks and extended corporate loans preferentially to the transformation and upgrading of equipment manufacturing industry which is supported by the state, and to key economic sectors such as emerging sectors of strategic importance, energy conservation and environmental protection, and irrigation and water conservancy construction.

Discounted bills

As at the end of the Reporting Period, the Company's total discounted bills amounted to RMB4.935 billion, representing an increase of RMB1.984 billion or 67.24% as compared with that at the end of last year, and accounted for 4.60% of the total loans and advances to customers, representing an increase of 1.59 percentage points as compared with that at the end of last year. During the Reporting Period, the Bank, leveraging its product advantage, tapped its business potential and attracted a large group of quality customers with its bill business through such measures as credit quota and interest rate allocation. The Company also simplified business processes and improved business efficiency. Online discounting was available through the bill system, tentatively forming its competitive advantage in the industry.

Personal loans

As at the end of the Reporting Period, the Company's total personal loans amounted to RMB32.308 billion, representing an increase of RMB1.561 billion or 5.08% as compared with that at the end of last year, and accounted for 30.14% of total loans and advances to customers, representing a decrease of 1.21 percentage points as compared with that at the end of last year. During the Reporting Period, the Company focused on quality personal housing mortgage loan projects and small-amount consumption loans business, developed featured personal business loan business, and gradually adjusted and optimized the structure of personal credit assets.

3.4.1.2 Investment

As at the end of the Reporting Period, the Company's carrying value of investment amounted to RMB145.144 billion, representing a decrease of RMB19.446 billion or 11.81% as compared with that at the end of last year. As at the end of the Reporting Period, the Company's investments consist of financial assets at fair value through profit or loss, financial investments at fair value through other comprehensive income and financial investments measured at amortized cost. As at the end of last year, the Company's investments consist of financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and receivables.

The following table sets forth, as at the dates indicated, the components of the Company's investment portfolio.

Unit: RMB'000

Item	**30 June 2018** Amount	**30 June 2018** % of total	31 December 2017 Amount	31 December 2017 % of total
Financial assets at fair value through profit or loss	**26,759,067**	**18.44**	179,078	0.11
Financial investments at fair value through other comprehensive income	**43,339,816**	**29.86**	–	–
Financial investments measured at amortized cost	**75,044,780**	**51.70**	–	–
Available-for-sale financial assets	**–**	**–**	79,086,556	48.05
Held-to-maturity investments	**–**	**–**	38,644,926	23.48
Receivables	**–**	**–**	46,678,869	28.36
Total	**145,143,663**	**100.00**	164,589,429	100.00

Note: According to the convergence provisions of new financial instruments standards, the Company has not adjusted the comparative financial statements at the end of last year, but for the sake of understanding, the following analysis has adjusted the investment data at the beginning of the year according to the new financial instruments standards.

Financial assets at fair value through profit or loss

As at the end of the Reporting Period, the Company's carrying value of financial assets at fair value through profit or loss amounted to RMB26.759 billion, representing an increase of RMB26.580 billion as compared with that at the end of last year. The increase was primarily because the increase in financial assets at fair value through profit or loss after adopting the new accounting standards for financial instruments. According to the new accounting standards for financial instruments, the carrying value of financial assets at fair value through profit or loss as at the end of the Reporting Period recorded a decrease of RMB25.130 billion or 48.43% as compared with that at the beginning of the year (RMB51.889 billion), mainly due to reduced investments in funds, asset management products and wealth management products of commercial banks by the Company during the Reporting Period. The following table sets forth, as at the dates indicated, the components of the Company's financial assets at fair value through profit or loss.

Unit: RMB'000

Item	**30 June 2018**	31 December 2017
Debt securities issued by banks and other financial institutions	**–**	138,232
Debt securities issued by corporate entities	**–**	40,846
Asset management plans	**9,960,726**	–
Wealth management products issued by financial institutions	**5,918,355**	–
Trust fund plans	**4,729,568**	–
Investment funds	**6,150,418**	–
Total financial assets at fair value through profit or loss	**26,759,067**	179,078

Financial investments at fair value through other comprehensive income

As at the end of the Reporting Period, the Company's carrying value of financial investments at fair value through other comprehensive income amounted to RMB43.340 billion. This item was added due to the application of the new accounting standards for financial instruments. Under the new standards, the carrying value of financial investments at fair value through other comprehensive income as at the end of the Reporting Period recorded an increase of RMB9.706 billion or 28.86% as compared with that at the beginning of the year (RMB33.634 billion), mainly due to the increase of investments in debt securities issued by corporate entities and others. The following table sets forth, as at the date indicated, the components of the Company's financial investment at fair value through other comprehensive income.

Unit: RMB'000

Item	30 June 2018
Government bonds	**5,116,490**
Debt securities issued by policy banks	**11,212,278**
Debt securities issued by banks and other financial institutions	**11,543,870**
Debt securities issued by corporate entities	**12,591,804**
Asset management plans	**2,852,124**
Equity investments	**23,250**
Total financial investments at fair value through other comprehensive income	**43,339,816**

Financial investments measured at amortized cost

As at the end of the Reporting Period, the Company's carrying value of financial investments measured at amortized cost amounted to RMB75.045 billion. This item was added due to the application of the new accounting standards for financial instruments. Under the new standards, the carrying value of financial investments measured at amortized cost as at the end of the Reporting Period recorded a decrease of RMB4.301 billion or 5.42% as compared with that at the beginning of the year (RMB79.346 billion), mainly due to the decrease of bond investments. The following table sets forth, as at the date indicated, the components of the Company's financial investments measured at amortized cost.

Unit: RMB'000

Item	30 June 2018
Government bonds	**9,808,739**
Debt securities issued by policy banks	**15,433,720**
Debt securities issued by banks and other financial institutions	**10,312,553**
Debt securities issued by corporate entities	**1,536,342**
Asset management plans	**25,834,699**
Trust fund plans	**8,879,296**
Beneficiary rights in margin financing	**570,000**
Beneficiary certificates	**3,012,876**
Total financial investments measured at amortized cost	**75,388,225**
Less: provision for impairment losses	**(343,445)**
Net financial investments measured at amortized cost	**75,044,780**

Available-for-sale financial assets

As at the end of the Reporting Period, the Company's total available-for-sale financial assets amounted to 0, representing a decrease of RMB79.087 billion as compared with that at the end of last year, mainly because the classification of available-for-sale financial assets was cancelled due to the application of the new accounting standards for financial instruments. The following table sets forth, as at the date indicated, the components of the Company's available-for-sale financial assets.

Unit: RMB'000

Item	31 December 2017
Debt securities	30,332,516
Wealth management products issued by financial institutions	20,997,129
Asset management plans	13,912,231
Investment funds	8,634,391
Trust fund plans	5,187,039
Equity investments	23,250
Total available-for-sale financial assets	79,086,556

Held-to-maturity investments

As at the end of the Reporting Period, the Company's total held-to-maturity investments amounted to 0, representing a decrease of RMB38.645 billion as compared with that at the end of last year, mainly because the classification of held-to-maturity investments was cancelled due to the application of the new accounting standards for financial instruments. The following table sets forth, as at the date indicated, the components of the Company's held-to-maturity investments.

Unit: RMB'000

Item	31 December 2017
Government bonds	11,244,166
Debt securities issued by policy banks	14,748,401
Debt securities issued by banks and other financial institutions	10,888,829
Debt securities issued by corporate entities	1,763,530
Total held-to-maturity investments	38,644,926
Fair value of held-to-maturity investments	36,656,311

Receivables

As at the end of the Reporting Period, the Company's net receivables amounted to 0, representing a decrease of RMB46.679 billion as compared with that at the end of last year, mainly because the classification of receivables was cancelled due to the application of the new accounting standards for financial instruments. The following table sets forth, as at the date indicated, the components of the Company's receivables.

Unit: RMB'000

Item	31 December 2017
Asset management plans	29,459,861
Trust fund plans	13,530,830
Beneficiary certificates	3,322,063
Beneficiary rights in margin financing	505,720
Others	76,395
Total receivables	46,894,869
Less: provision for impairment losses	(216,000)
Net receivables	46,678,869

Investment in securities

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

Name of bond	Nominal value *(RMB10 thousand)*	Coupon rate	Value date	Maturity date	Term *(years)*	Remaining years to maturity *(years)*
17 Interest-bearing Government Bond 18	73,000	3.59%	2017/8/3	2027/8/3	10	9.10
13 Interest-bearing Government Bond 18	55,000	4.08%	2013/8/22	2023/8/22	10	5.15
17 Interest-bearing Government Bond 14	53,000	3.47%	2017/7/13	2022/7/13	5	4.04
13 Interest-bearing Government Bond 25	50,000	5.05%	2013/12/9	2043/12/9	30	25.46
17 Interest-bearing Government Bond 25	27,000	3.82%	2017/11/2	2027/8/2	10	9.10
13 Interest-bearing Government Bond 16	20,000	4.32%	2013/8/12	2033/8/12	20	15.13
12 Interest-bearing Government Bond 15	15,000	3.39%	2012/8/23	2022/8/23	10	4.15
01 Government Bond 11	8,000	3.85%	2001/10/23	2021/10/23	20	3.32
02 Government Bond 05	5,000	2.90%	2002/5/24	2032/5/24	30	13.91
09 Interest-bearing Government Bond 16	5,000	3.48%	2009/7/23	2019/7/23	10	1.06

3.4.2 Liabilities

As at the end of the Reporting Period, the Company's total liabilities amounted to RMB275.466 billion, representing a decrease of RMB4.687 billion or 1.67% as compared with that at the end of last year. The following table sets forth the components of the Company's total liabilities as at the dates indicated.

Unit: RMB'000

	30 June 2018		31 December 2017	
Item	**Amount**	**% of total**	Amount	% of total
Deposits from customers	**166,199,611**	**60.33**	160,083,783	57.14
Deposits from banks and other financial institutions	**22,991,359**	**8.35**	24,901,934	8.89
Borrowings from central bank	**3,107,134**	**1.13**	584,215	0.21
Placements from banks and other financial institutions	**7,331,465**	**2.66**	5,774,299	2.06
Derivative financial liabilities	**32,268**	**0.01**	353,220	0.13
Financial assets sold under repurchase agreements	**18,900,066**	**6.86**	11,899,583	4.25
Income tax payable	**240,245**	**0.09**	57,167	0.02
Debt securities issued	**48,151,859**	**17.48**	68,632,691	24.50
Other liabilities	**8,511,752**	**3.09**	7,865,991	2.80
Total liabilities	**275,465,759**	**100.00**	280,152,883	100.00

3.4.2.1 Deposits from customers

As at the end of the Reporting Period, the Company's total deposits from customers amounted to RMB166.200 billion, representing an increase of RMB6.116 billion or 3.82% as compared with that at the end of last year, and accounted for 60.33% of the Company's total liabilities, being the Company's primary source of funding. The following table sets forth, as at the dates indicated, the Company's deposits from customers by product type and customer type.

Unit: RMB'000

	30 June 2018		31 December 2017	
Item	**Amount**	**% of total**	Amount	% of total
Corporate deposits	**110,668,850**	**66.59**	107,274,155	67.01
Demand deposits	**64,233,929**	**38.65**	65,421,504	40.87
Time deposits	**46,434,921**	**27.94**	41,852,651	26.14
Personal deposits	**54,743,842**	**32.94**	52,225,500	32.62
Demand deposits	**18,211,769**	**10.96**	17,935,483	11.20
Time deposits	**36,532,073**	**21.98**	34,290,017	21.42
Outward remittance and remittance payables	**744,502**	**0.45**	566,193	0.36
Fiscal deposits to be transferred	**42,417**	**0.02**	17,935	0.01
Total deposits from customers	**166,199,611**	**100.00**	160,083,783	100.00

As at the end of the Reporting Period, the Company's demand deposits accounted for 49.61% of deposits from customers, representing a decrease of 2.46 percentage points as compared with that at the end of last year. Among those deposits, corporate demand deposits accounted for 58.04% of corporate deposits, representing a decrease of 2.95 percentage points as compared with that at the end of last year; and personal demand deposits accounted for 33.27% of personal deposits, representing a decrease of 1.07 percentage points as compared with that at the end of last year.

3.4.2.2 Deposits from banks and other financial institutions

As at the end of the Reporting Period, the Company's deposits from banks and other financial institutions amounted to RMB22.991 billion, representing a decrease of RMB1.911 billion or 7.67% as compared with that at the end of last year.

3.4.2.3 Debt securities issued

As at the end of the Reporting Period, the Company's debt securities issued amounted to RMB48.152 billion, representing a decrease of RMB20.481 billion or 29.84% as compared with that at the end of last year. Among those debt securities, the balance of certificates of interbank deposit decreased by RMB17.584 billion or 34.79% as compared with that at the end of last year, mainly due to the Company's moderate adjustments in the volume of certificates of interbank deposit taking into consideration of the requirements of both liquidity and interbank debt ratio; the balance of debt securities issued decreased by RMB2.897 billion or 16.02% as compared with that at the end of last year, mainly due to the maturity of the 5-year fixed-rate financial bonds issued by the Company in March 2013 with a face value of RMB2.9 billion.

3.4.3 Equity attributable to shareholders

At the end of the Reporting Period, the Company's equity amounted to RMB26.693 billion, representing an increase of RMB570 million or 2.18% as compared with that at the end of last year. The equity attributable to equity shareholders of the Bank amounted to RMB26.192 billion, representing an increase of RMB562 million or 2.19% as compared with that at the end of last year.

Unit: RMB'000

Item	**30 June 2018**	31 December 2017
Share capital	**4,058,713**	4,058,713
Other equity instruments	**7,853,964**	7,853,964
Capital reserve	**6,826,276**	6,826,276
Surplus reserve	**1,203,325**	1,203,325
General reserve	**3,969,452**	3,969,452
Other comprehensive income	**(41,677)**	(885,449)
Retained earnings	**2,322,238**	2,603,573
Total equity attributable to equity shareholders of the Bank	**26,192,291**	25,629,854
Non-controlling interests	**501,146**	493,355
Total equity	**26,693,437**	26,123,209

3.5 Analysis of Quality of Loans

During the Reporting Period, the Company continuously improved its credit structure and conducted centralized risk control and management; meanwhile, efforts were also made to enhance the dynamic monitoring of credit asset quality. In this context, the volume of credit assets remained stable growth; non-performing loan ratio remained flat as compared with the beginning of the year and provision coverage ratio edged up. As at the end of the Reporting Period, the total amount of loans of the Company was RMB107.184 billion, representing an increase of 9.30% as compared with the end of last year; total non-performing loans amounted to RMB1.810 billion, representing an increase of RMB151 million as compared with the end of last year; non-performing loan ratio was 1.69%, remaining flat as compared with the end of last year; provision coverage ratio of non-performing loans was 160.07%, representing an increase of 6.55 percentage points as compared with the end of last year; loan provision ratio rose 0.10 percentage point as compared with the end of last year to 2.70%.

3.5.1 Distribution of loans by five categories

Unit: RMB'000

Item	30 June 2018 Amount	30 June 2018 % of total	31 December 2017 Amount	31 December 2017 % of total
Normal Loan	**98,576,385**	**91.97**	91,057,486	92.86
Special mention Loan	**6,798,021**	**6.34**	5,345,060	5.45
Substandard Loan	**811,536**	**0.76**	535,614	0.55
Doubtful Loan	**936,412**	**0.87**	1,002,454	1.02
Loss Loan	**62,016**	**0.06**	120,765	0.12
Total loans to customers	**107,184,370**	**100.00**	98,061,379	100.00
Total non-performing loans	**1,809,964**	**1.69**	1,658,833	1.69

Under the five-category classification system for loan supervision, the non-performing loans of the Company belonged to the substandard, doubtful and loss categories. During the Reporting Period, the Company intensified the dynamic monitoring of credit asset quality, tightened risk control in key areas, enhanced the capability of coping with and handling risk loans; as a result, credit asset quality remained stable. As at the end of the Reporting Period, the proportion of substandard loans increased 0.21 percentage point as compared with the end of last year to 0.76%, and the proportion of doubtful loans decreased 0.15 percentage point as compared with the end of last year to 0.87%.

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

Unit: RMB'000

Item	30 June 2018				31 December 2017			
	Amount of loans	**% of total**	**Amount of non-performing loans**	**Non-performing loan ratio %**	Amount of loans	% of total	Amount of non-performing loans	Non-performing loan ratio %
Corporate loans	**74,876,833**	**69.86**	**1,486,790**	**1.99**	67,315,051	68.65	1,293,675	1.92
Working capital loans	**48,492,832**	**45.26**	**1,236,858**	**2.55**	46,782,433	47.71	1,064,983	2.28
Fixed asset loans	**20,744,622**	**19.35**	**224,964**	**1.08**	17,012,861	17.35	223,394	1.31
Import and export bills transactions	**464,502**	**0.43**	**–**	**–**	460,772	0.47	–	–
Discounted bills	**4,935,451**	**4.60**	**–**	**–**	2,951,203	3.01	–	–
Others	**239,426**	**0.22**	**24,968**	**10.43**	107,782	0.11	5,298	4.92
Retail loans	**32,307,537**	**30.14**	**323,174**	**1.00**	30,746,328	31.35	365,158	1.19
Personal housing loans	**26,092,044**	**24.34**	**23,722**	**0.09**	24,128,570	24.61	22,366	0.09
Personal business loans	**2,787,559**	**2.60**	**273,542**	**9.81**	3,265,881	3.33	314,483	9.63
Personal consumption loans	**1,902,618**	**1.78**	**12,322**	**0.65**	1,746,965	1.78	16,918	0.97
Others	**1,525,316**	**1.42**	**13,588**	**0.89**	1,604,912	1.63	11,391	0.71
Total loans to customers	**107,184,370**	**100.00**	**1,809,964**	**1.69**	98,061,379	100.00	1,658,833	1.69

During the Reporting Period, in response to the state's supply side reform and policy on the replacement of old drivers with new ones in Shandong province, the Company promptly formulated and adjusted credit policies, kept optimizing its credit structure, improved the risk control mechanism to maintain the stable growth of credit volume. As at the end of the Reporting Period, the proportion of corporate loans of the Company increased by 1.21 percentage points to 69.86% and its non-performing loan ratio increased by 0.07 percentage point as compared with the beginning of the year to 1.99%.

Meanwhile, the Company kept optimizing its personal credit asset structure, made the personal housing loans maintaining steady growth, moderately reduced the proportion of personal business loans, while steadily developed online consumer loans. Its retail loan business achieved stable development with declining non-performing loan ratio and improving asset quality; therefore, the proportion of retail loans decreased by 1.21 percentage points to 30.14% and non-performing loan ratio decreased by 0.19 percentage point as compared with the beginning of the year to 1.00%.

3.5.3 Distribution of loans and non-performing loans by industry

Unit: RMB'000

	30 June 2018				31 December 2017			
Item	**Amount of loans**	**Percentage of the total amount %**	**Amount of non-performing loans**	**Non-performing loan ratio %**	Amount of loans	Percentage of the total amount %	Amount of non-performing loans	Non-performing loan ratio %
Corporate loans	**74,876,833**	**69.86**	**1,486,790**	**1.99**	67,315,051	68.65	1,293,675	1.92
Manufacturing	**19,716,626**	**18.40**	**975,851**	**4.95**	16,870,734	17.20	748,086	4.43
Construction	**10,716,478**	**10.00**	**74,720**	**0.70**	9,192,196	9.37	75,420	0.82
Water, environment and public facility management	**9,521,638**	**8.88**	**–**	**–**	8,757,857	8.93	–	–
Wholesale and retail trade	**8,191,986**	**7.64**	**159,501**	**1.95**	7,275,598	7.42	221,219	3.04
Renting and business services	**7,924,665**	**7.39**	**9,519**	**0.12**	8,184,724	8.35	8,850	0.11
Real estate	**4,945,039**	**4.61**	**102,600**	**2.07**	4,148,613	4.23	100,000	2.41
Production and supply of electric and heating power, gas and water	**4,151,233**	**3.87**	**–**	**–**	3,838,368	3.91	1,500	0.04
Financial services	**3,693,154**	**3.45**	**–**	**–**	4,288,439	4.37	–	–
Transportation, storage and postal services	**2,390,487**	**2.23**	**21,999**	**0.92**	1,950,773	1.99	–	–
Others	**3,625,527**	**3.39**	**142,600**	**3.93**	2,807,749	2.88	138,600	4.94
Retail loans	**32,307,537**	**30.14**	**323,174**	**1.00**	30,746,328	31.35	365,158	1.19
Total loans to customers	**107,184,370**	**100.00**	**1,809,964**	**1.69**	98,061,379	100.00	1,658,833	1.69

During the Reporting Period, the Company continued to support real economic development, kept improving the risk asset portfolio, enhanced credit support for small and micro enterprises, real economy, replacement of old growth drivers with new ones, strategic emerging industries, etc., focused its risk control on financing in such fields as credit extension to groups, cross-district credit extension, real estate and local government financing, compressed and reduced the total number of industries falling in this scope as well as the "high pollution, high energy-consumption and over-capacity" industries, and improved the credit resource allocation. As at the end of the Reporting Period, 76.36% of the non-performing corporate loans of the Company concentrated in manufacturing and wholesale and retail trade industries. In particular, the non-performing loan ratio in the wholesale and retail trade industry decreased by 1.09 percentage points to 1.95%.

3.5.4 Distribution of loans and non-performing loans by region

Unit: RMB'000

Region	30 June 2018 Amount of loans	Percentage of the total amount %	Amount of non-performing loans	Non-performing loan ratio %	31 December 2017 Amount of loans	Percentage of the total amount %	Amount of non-performing loans	Non-performing loan ratio %
Qingdao	**60,589,747**	**56.53**	**745,001**	**1.23**	57,515,098	58.63	755,579	1.31
Weihai	**8,789,279**	**8.21**	**10,847**	**0.12**	7,537,049	7.69	18,105	0.24
Dongying	**8,114,519**	**7.57**	**509,647**	**6.28**	8,324,279	8.49	413,199	4.96
Jinan	**5,631,716**	**5.25**	**282,662**	**5.02**	6,633,966	6.77	260,925	3.93
Zibo	**5,464,571**	**5.10**	**97,915**	**1.79**	4,731,123	4.82	104,093	2.20
Weifang	**4,481,748**	**4.18**	**–**	**–**	3,148,658	3.21	–	–
Binzhou	**4,420,850**	**4.12**	**132,549**	**3.00**	3,164,601	3.23	92,119	2.91
Yantai	**4,341,471**	**4.05**	**8,176**	**0.19**	3,071,566	3.13	7,500	0.24
Zaozhuang	**1,568,528**	**1.46**	**154**	**0.01**	1,683,604	1.72	–	–
Dezhou	**1,396,720**	**1.30**	**23,013**	**1.65**	1,535,731	1.57	7,313	0.48
Linyi	**971,251**	**0.91**	**–**	**–**	162,303	0.17	–	–
Jining	**782,111**	**0.73**	**–**	**–**	283,000	0.29	–	–
Laiwu	**631,859**	**0.59**	**–**	**–**	270,401	0.28	–	–
Total loans to customers	**107,184,370**	**100.00**	**1,809,964**	**1.69**	98,061,379	100.00	1,658,833	1.69

During the Reporting Period, the Company adjusted its credit approval system and established a credit approval center respectively in Qingdao and Ji'nan to conduct centralized credit approval work. For areas with higher risks, the Company raised credit access standards to prevent regional systematic risks. The Company continuously improved the credit risk management level of its branches and sub-branches, and increased the risk management and control capabilities of non-local branches through daily supervision, assessment and evaluation. As of the end of the Reporting Period, Dongying and Ji'nan recorded a relatively high non-performing loan ratio.

3.5.5 *Distribution of loans and non-performing loans by type of collateral*

Unit: RMB'000

Region	30 June 2018 Amount of loans	Percentage in the total amount %	Amount of non-performing loans	Non-performing loan ratio %	31 December 2017 Amount of loans	Percentage in the total amount %	Amount of non-performing loans	Non-performing loan ratio %
Unsecured loans	**11,784,640**	**10.99**	**52,693**	**0.45**	10,323,398	10.53	50,165	0.49
Guaranteed loans	**35,440,190**	**33.06**	**1,325,967**	**3.74**	36,089,725	36.80	1,183,952	3.28
Mortgage loans	**43,260,493**	**40.37**	**425,304**	**0.98**	40,096,655	40.89	424,716	1.06
Pledged loans	**16,699,047**	**15.58**	**6,000**	**0.04**	11,551,601	11.78	–	–
Total loans to customers	**107,184,370**	**100.00**	**1,809,964**	**1.69**	98,061,379	100.00	1,658,833	1.69

During the Reporting Period, the Company strengthened risk prevention and control by requiring the addition of collateral or other risk mitigation measures. Specifically, the proportion of pledged loans increased by 3.80 percentage points to 15.58%; and the proportion of mortgage loans was 40.37%, the highest among all types of secured loans. The percentage of guaranteed loans, with a comparatively high non-performing loan ratio, decreased by 3.74 percentage points to 33.06%.

3.5.6 Loans to the top ten single borrowers

Unit: RMB'000

Top ten borrowers	Industry	Amount of loans as at the end of the Reporting Period	Percentage in net capital %	Percentage in total loans %
A	Water conservancy, environment and public utility management	1,443,000	4.16	1.35
B	Renting and business services	1,167,655	3.37	1.09
C	Water conservancy, environment and public utility management	970,000	2.80	0.90
D	Water conservancy, environment and public utility management	955,000	2.75	0.89
E	Construction	909,900	2.62	0.85
F	Financial services	900,000	2.59	0.84
G	Renting and business services	851,404	2.45	0.79
H	Renting and business services	800,000	2.31	0.75
I	Construction	730,000	2.10	0.68
J	Real estate	665,810	1.92	0.62
Total		9,392,769	27.07	8.76

As at the end of the Reporting Period, the total amount of loans of the Company's top ten single borrowers was RMB9.393 billion, accounting for 27.07% of the net capital of the Company and representing 8.76% of the total amount of loans of the Company; and the loan balance of the largest single borrower was RMB1.443 billion, accounting for 4.16% of the net capital of the Company.

3.5.7 Distribution of loans by overdue period

Unit: RMB'000

Overdue period	**30 June 2018** Amount	Percentage of total loans (%)	31 December 2017 Amount	Percentage of total loans (%)
Overdue for 3 months (inclusive) or less	**2,254,228**	**2.10**	1,551,189	1.58
Overdue for over 3 months to 1 year (inclusive)	**1,126,655**	**1.05**	916,246	0.93
Overdue for over 1 year to 3 years (inclusive)	**895,074**	**0.84**	932,357	0.95
Overdue for over 3 years	**137,802**	**0.13**	112,977	0.12
Total overdue loans	**4,413,759**	**4.12**	3,512,769	3.58
Total loans to customers	**107,184,370**	**100.00**	98,061,379	100.00

As at the end of the Reporting Period, the overdue loans of the Company amounted to RMB4.414 billion, representing an increase of RMB901 million as compared with that at the end of last year; the overdue loans accounted for 4.12% of the total loans of the Company, representing an increase of 0.54 percentage point as compared with that at the beginning of the year. Particularly, the loans overdue for 3 months (inclusive) or less reached RMB2.254 billion, accounting for 51.07% of the overdue loans, representing an increase of 6.91 percentage points as compared with that at the beginning of the year; and the loans overdue for over 3 months amounted to RMB2.16 billion, accounting for 48.93% of the overdue loans, dropping by 6.91 percentage points as compared with that at the beginning of the year. The Company adopted a relatively strict classification standard, according to which loans with all or partial principals or interests overdue for more than 1 day (inclusive) were classified as overdue loans. The ratio of loans overdue for more than 90 days to non-performing loans was 1.19, representing an increase of 0.01 as compared with that at the beginning of the year.

3.5.8 Repossessed assets and provision for impairment

As at the end of the Reporting Period, the total amount of the repossessed assets of the Company was RMB6 million since no provision for impairment was made and the net amount of repossessed assets was RMB6 million.

3.5.9 Changes in provision for impairment of loans

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

The Company re-measures expected credit losses on each balance sheet date. In addition, the Company regularly reviews a number of key parameters and assumptions involved in the process of determining impairment provision based on the expected credit loss model, including division of loss stages, probability of default, loss given default, exposure at default, discount rate, forward-looking adjustment and other adjustment factors.

In 2017, the Company regularly reviewed loans, advances and financial investment portfolios to assess whether there is any impairment loss and to assess the specific amount of impairment loss in the event of impairment. Objective evidence of impairment includes observable data showing a significant decline in the expected future cash flows of individual loans, advances and financial investments, observable data showing negative changes in the debtor's repayment status in the relevant financial asset portfolios, or asset default within a portfolio due to changes in the economic situation of a country or region.

The amount of impairment losses on loans, advances and financial investments assessed on an individual basis is the net decrease in the present value of the expected future cash flows of such financial assets. When assessing the impairment losses of the above financial assets on a portfolio basis, the amount of the impairment loss is determined based on the historical loss experience of the assets with credit risk characteristics similar to those of the above financial assets, as well as adjusted in accordance with the observable data reflecting the current economic situation and the management's judgment based on historical experience. The management regularly reviews the methods and assumptions used in estimating future cash flows, so as to reduce the difference between the expected and actual losses.

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

Unit: RMB'000

Item	**January to June 2018**	2017
Balance at the beginning of the period/year	**3,127,265**	2,303,446
Charge/(release) for the period/year	**526,238**	1,284,514
(Transfer out)/transfer in for the period/year	**(12,179)**	1,501
Write-offs for the period/year	**(744,140)**	(1,042,762)
Balance at the end of the period/year	**2,897,184**	2,546,699

As at the end of the Reporting Period, the Company's balance of provision for impairment of loans (including discounted bills) amounted to RMB2.897 billion, representing an increase of RMB350 million or 13.76% as compared with that at the end of last year; the provision coverage ratio reached 160.07%, representing an increase of 6.55 percentage points as compared with that at the end of last year; the provision rate of loans stood at 2.70%, representing an increase of 0.10 percentage point as compared with that at the end of last year. From 1 January 2018, the Company performed impaired accounting and confirmed loss provision based on the expected credit losses, and the provision for impairment of loans at the end of the reporting period increased.

3.5.10 Countermeasures taken against non-performing assets

During the Reporting Period, the major measures of the Bank on management of non-performing assets are detailed as follows:

1. The Bank intensified the dynamic monitoring of credit asset quality, elevated the coping and handling capabilities of risk loans, improved management of major risk signal screening, implemented warning tracking management, further improved large-sum credit risk emergency system, improved the response speed and effectiveness for litigation preservative measures taken against risk loans, and gained the initiative in disposal.

2. The Bank intensified the clearing of non-performing assets, quickened the clearing and receiving of non-performing loans through litigation, reinforced the coordination with the judicial departments of various levels, promoted the rapid disposal of assets, promptly cancelled the loans verified as non-performing, heightened the subsequent clearing and receiving of the assets cancelled, strengthened the communications and cooperation with industry association and interbank, positively took part in the combined reduction and treatment of non-performing assets and risks and fully guaranteed and maintained our legitimate interests.

3. The Bank enhanced the ability and team construction of asset preservation, regularly organized the learning and training of relevant laws and regulations, emphasized policy studies and individualized studies, arranged discussions, training and learning, and facilitated non-performing asset disposal and effective implementation of legal rights protection through judicial ways.

3.5.11 Credit extension to group customers and risk management

The Bank adhered to the principles of "implementing unified credit extension, providing an appropriate amount, employing classified management, conducting real-time monitoring and adopting a leading bank system" in extending credit to group customers.

To prevent large-sum credit risk and enhance centralized management of group customers, the Bank established the Large-sum Credit Extension Review Committee composed of senior management, which was in charge of reviewing the business in which total credit amount extended to group customers exceeded 10% of net capital, or in which total credit amount extended to a single customer exceeded 5% of net capital.

The Bank not only paid constant attention to main businesses of group customers but also stepped up prevention of risks associated with long position financing, excessive credit extension and guarantee circle. The Bank enhanced risk control of group customers by establishing the family trees of group customers and implementing unified credit extension to group customers. In extending credit, staff responsible for examination and approval combined the general credit limit with special credit limit to calculate the total credit limit extended to the group, so as to realize the dynamic management of unified credit extension to group customers.

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

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

3.6 Analysis of Capital Adequacy Ratio and Leverage Ratio

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

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

3.6.1 Capital adequacy ratio

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

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

Unit: RMB'000

Item	30 June 2018	31 December 2017
Total core tier-one capital		
Share capital	**4,058,713**	4,058,713
Qualifying portion of capital reserve	**6,826,276**	6,826,276
Surplus reserve and general reserve	**5,172,777**	5,172,777
Retained earnings	**2,322,238**	2,603,573
Other comprehensive income	**(41,677)**	(885,449)
Qualifying portion of non-controlling interests	**231,480**	155,327
Core tier-one capital deductions	**(170,661)**	(197,454)
Net core tier-one capital	**18,399,146**	17,733,763
Other tier-one capital	**7,884,828**	7,874,674
Net tier-one capital	**26,283,974**	25,608,437
Net tier-two capital	**8,414,161**	8,197,676
Net capital base	**34,698,135**	33,806,113
Total credit risk-weighted assets	**172,723,228**	180,791,585
Total market risk-weighted assets	**23,580,942**	12,629,951
Total operational risk-weighted assets	**10,372,103**	10,287,348
Total risk-weighted assets	**206,676,273**	203,708,884
Core tier-one capital adequacy ratio	**8.90%**	8.71%
Tier-one capital adequacy ratio	**12.72%**	12.57%
Capital adequacy ratio	**16.79%**	16.60%

As at the end of the Reporting Period, the Company's capital adequacy ratio amounted to 16.79%, representing an increase of 0.19 percentage point as compared with that at the end of last year; the core tier-one capital adequacy ratio stood at 8.90%, representing an increase of 0.19 percentage point as compared with that at the end of last year. Changes in capital adequacy ratio during the Reporting Period are mainly attributable to the increase in net core tier-one capital caused by increased other comprehensive income of the Company in the first half of the year.

3.6.2 Leverage ratio

The leverage ratio of commercial banks shall not be less than 4% in accordance with the Measures for the Administration of the Leverage Ratio of Commercial Banks (Revision) promulgated by the CBIRC and taking effect from 1 April 2015. As at the end of the Reporting Period, the Company's leverage ratio was 8.21% as calculated according to the Measures for the Administration of the Leverage Ratio of Commercial Banks (Revision), which was higher than the regulatory requirements of the CBIRC.

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

Unit: RMB'000

No.	Item	Balance as at 30 June 2018
1	Total consolidated assets	**302,159,196**
2	Consolidated adjustments	**–**
3	Customer assets adjustments	**–**
4	Derivative adjustments	**26,466**
5	Securities financing transactions adjustments	**–**
6	Off-balance sheet items adjustments	**17,952,632**
7	Other adjustments	**(170,661)**
8	Balance of assets on and off balance sheet after adjustments	**319,967,633**

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

Unit: RMB'000

No.	Item	Balance as at 30 June 2018
1	Assets on the balance sheet (excluding derivatives and securities financing transactions)	**299,420,527**
2	Less: tier-one capital deductions	**(170,661)**
3	The balance of assets on the balance sheet after adjustments (excluding derivatives and securities financing transactions)	**299,249,866**
4	Replacement cost of various types of derivatives (net of qualified margins)	**15,118**
5	Potential risk exposure in various derivatives	**26,466**
6	The sum of collaterals deducted from the balance sheet	**–**
7	Less: assets receivables formed due to qualified margins	**–**
8	Less: the balance of derivative assets formed due to transactions with central counterparties for providing clearing service for the customers	**–**
9	Notional principal for sold credit derivatives	**–**
10	Less: the balance of sold credit derivatives assets which can be deducted	**–**
11	The balance of derivatives assets	**41,584**
12	The balance of accounting assets for securities financing transactions	**2,723,551**
13	Less: the balance of securities financing transactions assets which can be deducted	**–**
14	Counterparty credit risk exposure to securities financing transactions	**–**
15	The balance of securities financing transactions assets formed due to securities financing transactions by proxy	**–**
16	The balance of securities financing transactions assets	**2,723,551**
17	The balance of items off balance sheet	**17,952,632**
18	Less: the balance of items off balance sheet reduced due to credit conversion	**–**
19	The balance of items off balance sheet after adjustments	**17,952,632**
20	Net tier-one capital	**26,283,974**
21	The balance of assets on and off balance sheet after adjustments	**319,967,633**
22	Leverage ratio	**8.21%**

3.7 Segment Reporting

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

Unit: RMB'000

Item	**January to June 2018** Segment profit before taxation	**January to June 2018** Ratio (%)	January to June 2017 Segment profit before taxation	January to June 2017 Ratio (%)
Corporate banking	**743,320**	**45.06**	731,698	44.55
Retail banking	**250,408**	**15.18**	324,809	19.78
Financial market business	**624,426**	**37.86**	577,886	35.19
Un-allocated items and others	**31,329**	**1.90**	7,925	0.48
Total	**1,649,483**	**100.00**	1,642,318	100.00

Unit: RMB'000

Item	**January to June 2018** Segment operating income	**January to June 2018** Ratio (%)	January to June 2017 Segment operating income	January to June 2017 Ratio (%)
Corporate banking	**1,580,842**	**50.51**	1,393,885	49.17
Retail banking	**658,612**	**21.04**	600,174	21.17
Financial market business	**820,480**	**26.21**	785,736	27.71
Un-allocated items and others	**70,177**	**2.24**	55,399	1.95
Total	**3,130,111**	**100.00**	2,835,194	100.00

3.8 Other Financial Information

3.8.1 Analysis of off-balance sheet items

The Company's off-balance sheet items include credit commitments, operating lease commitments and capital commitments, etc. Credit commitments are the most important parts and as at the end of the Reporting Period, the balance of credit commitments reached RMB17.532 billion. For details, please refer to Note 21 to the financial report section of this results announcement.

3.8.2 Overdue and outstanding debts

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

3.8.3 Pledge of assets

As at the end of the Reporting Period, the Company pledged part of its assets as collateral under repurchase agreements, deposits from banks and other financial institutions, borrowings from central bank and deposits from customers. For details, please refer to Note 21 to the financial report section of this results announcement.

3.9 Business Development Strategy

Facing the increasingly severe domestic and overseas economic and financial conditions and ever-changing reform and development situation, the Company stuck to the strategy of characteristic, comprehensive and differentiated development based on the philosophy of sound development. The Company accelerated the development of financial technology, upgraded the Bank from a capital intermediary following the new finance trend, and gave play to the advantage of interface banking to achieve connection and cooperation among business, customers and technology. The Company achieved strength complementation and resource integration by strengthening the cooperation with Internet financing platforms to provide customers with all-round and comprehensive financial services.

In respect of retail banking business, the Bank acquired a massive number of customers via interface banking, built a retail ecosystem through three types of interfaces (namely, scenario, service and data), and fully explored various life scenarios for local citizens, so as to expand the local customer base. Besides, it accelerated exploration and innovation in the consumption finance field and deeply uncovered medium- and high-end customers, to improve customer values; kept enhancing the application level of internet and financial technology, to effectuate low-cost coverage of long-tail customers. Regarding corporate banking business, the Bank exerted great efforts in such sectors as public sector finance, listed enterprise finance and featured finance, innovated and developed quality enterprises in featured industries including port, service trade, subway, technical innovation and cultural and creative industry, strengthened customer study, developed powerful transaction banking products and deepened investment banking products, so as to create differentiated competitive edges via professional and customized services. Regarding small- and micro-finance, the Bank centered on developing small and micro enterprise customers in the technological innovation industry and cultural creative industry, kept tapping customer value, developed customers up and down the supply chain of large corporate customers, continued to diversify featured credit products for small and micro enterprises, created a mode of developing customers in batches, and switched to "circle", "chain" and "platform" marketing. Regarding financial market business, in the face of strict regulatory policies and control over macro-prudential assessment, the Bank timely adjusted investment strategies, optimized inter-bank liability structure, established a diversified and decentralized cooperative institution system, and enhanced liquidity management and the capacity of risk management and control.

3.10 Overview of Business Development

3.10.1 Retail banking

During the Reporting Period, the Bank deeply implemented the "promotion" plan across the Bank in respect of its retail banking and kept promoting the interface banking projects, achieving remarkable results in various interface businesses; the Bank accelerated development of the salary payment agency service, raised overall assets and deposits of customers for which agency payment service is provided; the Bank spared no effort to promote QR code payment and the regulatory business of second-hand housing assets, which effectively promoted the sustainable growth of retail deposits. Meanwhile, the Company gave full play to the joint pulling effect of individual credit, gradually formed the characteristic supply chain finance, and steadily carried out small-amount consumption loans. During the Reporting Period, the operating income of retail banking business was RMB659 million, representing a year-on-year increase of 9.74%, and accounting for 21.04% of the Company's operating income.

1. Retail deposits

As at the end of the Reporting Period, the Bank's balance of retail deposits reached RMB54.744 billion, representing an increase of RMB2.518 billion or 4.82% as compared with the end of the previous year, accounting for 32.94% of the balance of various deposits. In particular, demand deposits reached RMB18.212 billion, representing an increase of RMB277 million or 1.54% as compared with the end of the previous year. As at the end of the Reporting Period, the total number of bank cards issued to retail customers reached 3,307,700, up by 0.02% as compared with the same period last year; the cumulative transaction volume amounted to RMB41.137 billion, up by 9.69% as compared with the same period last year.

The Bank kept promoting the strategy of interface banking. As at the end of the Reporting Period, the Bank signed and put in operation 42 one-card-through projects, with the cumulative number of cards issued reaching 3.31 million, representing an increase of 190,000 cards as compared with the end of the last year, initially achieving the interconnection of bank cards and industry applications; the number of cooperative hospitals of the Bank Hospital Pass reached 12, which accumulated 22,000 retail customers, and the salaries paid by the Bank as agent surpassed RMB63 million on a monthly basis. The Bank has established partnership with 11 parks, campuses and communities, with the total number of customers in the parks reaching 52,500, representing an increase of 6,200 customers as compared with that as at the end of the last year. In addition, specific to institutions without charging systems, the Bank launched the "cloud payment" businesses, covering various fields such as nursery fees, tuition fees, party membership dues, property fees and management fees. As at the end of the Reporting Period, the number of online customers signed for "cloud payment" businesses exceeded 300. During the Reporting Period, the Bank achieved payment amounts of RMB89.30 million, representing an increase of RMB46.68 million as compared with that as at the end of the last year, and the frequency of payment of 110,000, representing an increase of 50,000 as compared with that as at the end of the last year.

The Bank combined corporate business and personal business to develop the agency payment of salaries. During the Reporting Period, the Bank launched an activity themed "season of new agency payment customers", and cumulatively signed with 14,202 enterprises for agency payment. Meanwhile, the Bank actively conducted corporate-personal business linkage with cooperative enterprises, carried out cross marketing, issued exclusive wealth management products and deeply developed customers.

Aggregate code settlement business became a new growth driver of the savings business. During the Reporting Period, the Bank continued to energetically develop aggregate code settlement business, which not only provided a convenient and favourable payment and settlement tool for merchants, but also brought the Bank the low-cost deposits at the same time. As at the end of the Reporting Period, the number of existing merchants using aggregate code settlement business reached 26,172, representing an increase of 2,271 customers as compared with that as at the end of the last year, with the average daily balance of savings deposits reaching RMB281 million, representing an increase of RMB40 million as compared with that as at the end of the last year.

The regulatory business of second-hand housing assets registered stable development. During the Reporting Period, the Bank continued to energetically develop the regulatory business of down payment of loans for second-hand housing and kept deposits and promoted growth of the deposit service while ensuring safety of customers' assets during the second-hand housing transaction. During the Reporting Period, the Bank handled a total of 2,962 regulatory businesses of second-hand housing assets, with the regulatory assets adding up to RMB1.371 billion, and recorded stable savings deposit of RMB542 million.

In addition, the Bank continuously developed new customers and found out existing customers to drive the growth of retail deposits by marketing "service gold digging", selling of noble metals in festivals and other activities at pilot outlets and business halls.

2. *Retail loans*

As at the end of the Reporting Period, the balance of retail loans of the Bank was RMB32.308 billion, representing an increase of RMB1.561 billion or 5.08% as compared with the end of the previous year, accounting for 30.14% of the balance of various loans, representing a decrease of 1.21 percentage points as compared with the end of the previous year. The Bank gave full play to the joint pulling effect of housing mortgage loans in the retail loan businesses, gradually formed the characteristic supply chain finance, and achieved stable development in the business of Internet-based small-amount consumption loans.

The comprehensive contribution of customers was enhanced in relation to housing loans. The Bank actively leveraged its quality mortgage loan projects, improved financial assets, and made best use of credit limit to drive the increase in customer base and financial assets, enhance the comprehensive contribution of customers and raise the comprehensive income of housing loans. As at the end of the Reporting Period, the balance of personal housing loans was RMB26.092 billion, representing an increase of RMB1.963 billion as compared with the beginning of the year.

Characteristic supply chain financing businesses were gradually formed. The Bank further expanded the number of core cooperative enterprises on supply chain financing businesses and cumulatively issued RMB716 million of loans to nearly 900 distributors of over ten domestic core enterprises in fast-moving consumer goods sector. As at the end of the Reporting Period, the loan balance was RMB389 million, representing an increase of RMB36 million or 10.20% as compared with the same period last year.

The business of small-amount consumption loans registered sustainable growth. The Bank cooperated with well-known Internet companies to carry out the small-amount consumption loan business. During the Reporting Period, the Bank cumulatively issued 260,800 loans totalling RMB1.667 billion. As at the end of the Reporting Period, the loan balance was RMB1.403 billion.

Regarding loan quality, during the Reporting Period, the Company attached great importance to risk management of retail loans, achieved remarkable results in control of non-performing loans, realized the decrease of both retail non-performing loans and non-performing loan ratio, and maintained overall stable quality of retail loans. As at the end of the Reporting Period, the balance of retail non-performing loans was RMB323 million, representing a decrease of RMB42 million or 11.50% as compared with the beginning of the year. The retail non-performing loan ratio was 1.00%, down by 0.19 percentage point as compared with the beginning of the year.

3. Retail customers and customer asset management

During the Reporting Period, the Bank continued to develop and seek potential retail customers. The number of customers kept rising at a steady pace, as did the proportion of medium and high-end customers. As at the end of the Reporting Period, the number of retail customers of the Bank reached 3,770,100, representing an increase of 193,300 or 5.40% as compared with the beginning of the year. The assets deposited by retail customers in the Bank reached a total of RMB116.467 billion. Representing an increase of 7.91% as compared with the end of the previous year. In particular, the number of customers with over RMB200,000 financial assets was up to 146,200, representing an increase of 11,100 as compared with the beginning of the year, with a total of RMB95.317 billion assets deposited in the Bank, accounting for 81.84% in the total assets deposited by retail customers in the Bank and representing an increase of 0.60 percentage point as compared with the end of the previous year.

4. Wealth management and private banking business

As at the end of the Reporting Period, the number of customers with over RMB2,000,000 assets under management totalled 6,012, representing an increase of 416 over the end of last year, with a total of RMB26.701 billion assets maintained at the Bank, representing an increase of RMB1.293 billion than the end of last year, and the growth rate reached 7.43% and 5.09%, respectively.

During the Reporting Period, the Bank cumulatively sold RMB8.15 billion of open-end funds as agent, and recorded RMB258 million of premiums from insurance agency; the income from fund agency business came to RMB9 million, up by 503.84% year on year, which was primarily attributable to the increase in customers purchasing resulting from improvement in the operations of selling funds as agent and ability to create value for customers of the Bank; the income from insurance agency business was RMB10 million, up by 45.53% year on year, which was primarily attributable to the increase in the sales volume of the wealth management insurance with premium paid in a lump sum.

As for wealth management business, during the Reporting Period, the Bank continued to fortify the process management and professional and standardized business operations of wealth management business. The comprehensive ability of wealth management business personnel was improved through training phase by phase. On customer base operation, the Bank made active and intensive efforts to tamp the business foundation and further improve sustainable development of the business.

As for private banking business, during the Reporting Period, guided by the "customer-centered and market-oriented" operation philosophy, the Bank kept refining the operation system of private banking business and enriching the privileged product lines including exclusive series wealth management, collective trust and special fund account, and strived to improve professional service ability, so as to meet the financial demands of high net-worth customers, providing high net-worth customers, families and enterprises with private and personalized financial and non-financial services, which enlarged the scales of customer and assets.

5. *Customer service management*

During the Reporting Period, to further deepen experience orientation, the Bank continuously polished the temperature and perception of offline service experience by dint of refined management, and created efficient, warm and professional service experience from such aspects as service scenario design, service delivery capacity and field service management under the basic goal of "enhancing experience, improving efficiency and creating good reputation". Meanwhile, the Bank steadily promoted value-based offline channel services, enhanced customer perception and attraction, conducted "service gold digging" projects across the Bank and built a new cross-selling service system aiming to establish long-term cooperative relationship.

From standardized services to warm services and further to value-based services, the Bank continuously improved its core competencies through iterative service upgrades. In 2018, the Bank ranked the 407th with RMB7.268 billion brand values in the list of "China's top 500 most valuable brands" issued by the World Brand Lab, moving forward 11 places year on year.

3.10.2 Corporate banking business

During the Reporting Period, the Bank proactively coped with changes in the operating environment of the corporate banking business, established a professional team for investment banking, improved the transaction banking product system, and expanded our featured finance to areas including inclusive finance and listed enterprise finance, facilitating the increase of corporate deposits and customer loyalty through our dedication to building a comprehensive, professional and characteristic corporate banking business. During the Reporting Period, the operating income from corporate banking business was RMB1.581 billion, representing a year-on-year increase of 13.41%, accounting for 50.51% of the Company's operating income.

1. Corporate deposits

As at the end of the Reporting Period, the Bank's corporate deposit balance was RMB110.669 billion, representing an increase of RMB3.395 billion or 3.16% as compared to that at the end of the previous year, accounting for 66.59% of the balance of various deposits. Among these deposits, demand deposits was RMB64.234 billion, representing a decrease of RMB1.188 billion or 1.82% as compared with that at the end of the previous year.

During the Reporting Period, in response to deepened marketization of interest rate, the Bank conducted optimization and upgrading for information technology systems including open-end wealth management and cash management systems, continually enhancing our service capabilities for corporate customers. Leveraging products such as cash management, certificates of deposits with huge sums and structured deposits, the Bank continually enhance product competitiveness and expand low cost corporate deposits. Meanwhile, the Bank increased marketing efforts towards core liability customers. During the Reporting Period, 18 new key customers with an annual daily average deposit of more than RMB10 million were added to increase the daily average deposit by RMB5.24 billion, effectively leveraging the traction of high-profile customers and abundant project funding for corporate deposits. The Bank strengthened the collaboration with organizations such as government guiding funds, venture capital funds and private equity funds and effectively attracted large custody funds. New fund custody deals were increased by 24 during the Reporting Period and corporate deposits increased by RMB2.123 billion.

2. Corporate loans

At the end of the Reporting Period, the Bank's corporate loan balance (including discounted bills) was RMB74.877 billion, representing an increase of RMB7.562 billion or 11.23% as compared with that at the end of the previous year, accounting for 69.86% of the total loans, representing an increase of 1.21 percentage points as compared with that at the end of the previous year.

In terms of loan releasing, during the Reporting Period, the Bank actively supported the supply-side structural reforms, strived to serve the real economy, gave priority to supporting manufacturing industry, and realized the lean of credit resources to the real economy. At the same time, the Bank continued to support infrastructure construction and shanty-town renovation, and to strengthen support to inclusive finance, small and micro enterprise financing, and Sannong financing. The Bank seized the opportunity of replacement of old drivers with new ones to meet the loan needs of industrial upgrading, technological transformation and energy conservation and environmental protection projects of traditional enterprises, and supported a number of environmental remediation projects such as urban public transport development green environmental protection transportation projects, urban garbage treatment projects and sewage treatment projects. At the end of the Reporting Period, the Bank's loan balance of manufacturing industry was RMB19.717 billion, representing an increase of RMB2.846 billion or 16.87% over the beginning of the year, accounting for 26.33% of the Bank's total corporate loans. The balance of green credit was RMB8.074 billion, representing an increase of RMB757 million or 10.34% over the beginning of the year, accounting for 10.78% of the total corporate loans of the Bank.

3. *Corporate customers*

At the end of the Reporting Period, the number of corporate customers of the Bank has reached 134,900, representing an increase of 10,100, or 8.05% as compared with that at the end of previous year.

The Bank focused on financial needs of strategic customers and continued to optimize cash management, bank-corporate direct linkage and other products to enhance service capabilities for its group customers. Among them, the number of corporate customers through the direct linking between banks and enterprises was 35 with 64,526 transactions, representing an increase of 21.25% as compared with that in the same period of the previous year; a transaction amount of RMB28.003 billion, representing an increase of 33.20% as compared with that in the same period of the previous year, and 55 new cash management customers were signed, with a deposit of RMB885 million. It implemented interface banking strategy and established connecting platforms with government departments such as the State Administration for Industry and Commerce, State Administration of Taxation, the Bureau of Land and Resources, so as to achieve mass acquisition of customers and collective project marketing, including the construction of 13 bidding system platforms with land and public resource centers in Yantai, Zibo, Jining, Zaozhuang, and Dezhou, with a deposit of RMB200 million.

4. *Corporate products*

During the Reporting Period, the Bank continued to innovate and enrich its products, with the use of product portfolio and program-based marketing methods to enhance customer contribution, so that the product system of the corporate business was continuously improved.

In regard to trade finance, combined with the characteristics of Qingdao as a port city, the Bank launched the trade finance products "Yin Guan Bao" (銀關保) and "Yin Mao Tong" (銀貿通), among which the "Yin Guan Bao" is a new indemnity product with award of "Top Ten Financial Product Innovation Award" in the "2018 China Financial Innovation Award" held by the Banker magazine.

In regard to financial technology, through cooperation with venture capital institutions and policy-based bonding companies, the Bank launched the "insurance loan", "technology innovation loan", "technology innovation Easy loan", and other special businesses, worked with venture capital institutions to meet the comprehensive financial needs of enterprises, established four technology and financial featured sub-branches, and expanded the scope of technology financial products services.

3.10.3 Financial market business

During the Reporting Period, in response to macro-control policies including strict supervision, deleveraging and risk prevention, the Bank took active actions to transform its financial market business from growing in size to increasing efficiency to continuously improve the investment quality and efficiency. During the Reporting Period, the financial market business revenue was RMB820 million, representing a year-on-year increase of 4.42%, accounting for 26.21% of the Company's operating income.

1. *Proprietary investment*

During the Reporting Period, the Bank optimized its investment structure by reducing Special Purpose Vehicle investment and increasing high-liquidity bond investment. As at the end of the Reporting Period, the Bank's investment reached RMB145.487 billion, representing a decrease of RMB19.318 billion or 11.72% on a year-on-year basis. In particular, the bond investment reached RMB77.556 billion, representing an increase of RMB8.323 billion or 12.02% on a year-on-year basis. The moderate growth in bond investment was mainly attributable to the increase in investment in high-liquidity assets such as government bonds and credit bonds to support the development of the real economy. The non-standard investment reached RMB67.931 billion, representing a decrease of RMB27.618 billion or 28.90% on a year-on-year basis. which was mainly attributable to the decrease in the wealth management products issued by financial institutions and monetary fund investment.

2. *Interbank business*

During the Reporting Period, the Bank strengthened study and judgment on monetary policies and market liquidity. On the one hand, it expanded financing channels via many ways to reduce the proportion of interbank liabilities; on the other hand, it reasonably matched the term structure of interbank liabilities to lower the cost of interbank liabilities. As at the end of the Reporting Period, the Bank's balance of interbank deposits was RMB23.149 billion, representing a decrease of 7.51% as compared with that at the end of the previous year and accounting for 8.56% of the total liabilities of the Bank. In particular, the Bank's interbank demand deposit accounted for 10.85%, up by 4.07 percentage points as compared with that at the end of the previous year. The balance of interbank deposit certificates issued amounted to RMB32.964 billion, representing a decrease of 34.79% as compared with that at the end of the previous year. Issuance of interbank deposit certificates accounted for 12.19% of the total liabilities of the Bank.

During the Reporting Period, the delivery amount of bonds of the Bank in the interbank market nationwide was RMB3,202.3 billion. In the ranking of delivery amount of bonds set by China Central Depository & Clearing Co., Ltd. in the first half of 2018, the Bank ranked No. 31 among national financial institutions and No. 9 among city commercial banks. Besides, the Bank obtained the qualification for primary dealers in the open market business in 2018 and became the sole financial institution as a legal person that has obtained such a qualification in Shandong Province.

3. *Asset management*

The Bank continued to intensify efforts for innovation of wealth management products and promote the net-worth transformation of products, thereby witnessing steady increase in wealth management scale. As at the end of the Reporting Period, the balance of wealth management products was RMB61.805 billion, representing an increase of RMB11.351 billion or 22.50% on a year-on-year basis. In particular, the balance of non-principal-guaranteed wealth management products was RMB54.791 billion and the balance of principal-guaranteed wealth management products was RMB7.015 billion. All wealth management products have produced expected earnings. During the Reporting Period, wealth management products issued amounted to RMB192.816 billion. The service fee revenue from wealth management products was RMB145 million.

Since the issuance of the Guiding Opinions on Regulating the Asset Management Business of Financial Institutions (《關於規範金融機構資產管理業務的指導意見》), the Bank has been carrying out the wealth management business strictly in accordance with the requirements of new regulations; granted a relatively high performance standards for net worth products, guided customers to change their investment concept and gradually accepted net worth products. As at the end of the Reporting Period, net worth products reached 10, up by 7 as compared with that at the beginning of the year. The balance amounted to RMB4.511 billion, representing an increase of RMB3.92 billion as compared with that at the beginning of the year.

During the Reporting Period, the Bank was honoured by Banking Wealth Management Registration and Entrustment Center as "2017 Outstanding City Commercial Bank of National Banking Financial Information Registration" and received "2017 Golden Bull Wealth Management Bank Award" from China Securities Journal · Golden Bull Wealth Management.

4. *Investment banking*

The Bank provided direct financing services for corporate customers based on comprehensive utilization of bond underwriting and structural financing, so as to serve real economies and promote adjustment and improvement of asset structure and business revenue structure of the Bank.

The Bank witnessed a rapid development of bond underwriting and issuance business, with the products covering debt financing instruments, direct financing instruments for wealth management, debt financing plans and other main varieties of interbank market. During the Reporting Period, the Bank underwrote to issue 10 bonds of various types, with RMB6.27 billion raised in total.

Given the complicated economic situation for structural financing, the Bank made an in-depth investigation and analysis in the market to find potential customers. During the Reporting Period, the balance of structured finance of the Bank amounted to RMB23.029 billion, representing an increase of RMB252 million or 1.11% on a year-on-year basis.

3.10.4 Distribution channels

3.10.4.1 *Physical distribution channels*

The business outlets of the Bank are based in Qingdao with a footprint extending to other regions of Shandong Province. As at the end of the Reporting Period, the Bank set up 130 business outlets in 13 cities, namely, Qingdao, Jinan, Dongying, Weihai, Zibo, Dezhou, Zaozhuang, Yantai, Binzhou, Weifang, Laiwu, Liyi and Jining in Shandong Province, including one headquarter business department, one branch, and 76 sub-branches in Qingdao. The Bank's holding subsidiary BQD Financial Leasing Company Limited ("**BQD Financial Leasing**") was headquartered in Qingdao and had an office in Shanghai.

3.10.4.2 *Self-service banking channels*

During the Reporting Period, the Bank kept improving the service ability and service level of self-service banking channels and completed transformation of dynamic password locks of self-service devices, so as to further reduce operational risks. As at the end of the Reporting Period, the Bank had 3 off-bank self-service banks, 99 in-bank self-service banks, 473 self-service devices, including 95 self-service ATMs, 256 self-service CRSs, and 122 self-service terminals, providing services such as withdrawal, deposit, transfer, account enquiry and payment. During the Reporting Period, the Bank had 2,598,100 self-service bank transactions with a transaction amount of RMB9.968 billion.

3.10.4.3 *Electronic banking channels*

The Bank paid close attention to the development and innovation of Internet finance and technology finance in and outside the industry, actively responded to the challenges from inside and outside of the industry and sped up practicing the concept of "building an IT-based bank". During the Reporting Period, the Bank kept promoting intelligent upgrading of mobile banking and enriching transaction scenarios while maintaining a steady development of online banking, resulting in a sustained increase in mobile channel customers. At the end of the Reporting Period, the Bank's electronic banking accounting transactions accounted for 95.61%, representing an increase of 1.99 percentage points as compared with that at end of the last year.

(1) Online banking

During the Reporting Period, the online banking business of the Bank kept steady development and the customer size and transaction volume remained basically stable. As at the end of the Reporting Period, the Bank recorded 85,200 corporate customers of online banking, representing an increase of 14.06% as compared with that at the end of the previous year; 3,437,800 transactions, representing an increase of 25.66% as compared with that in the same period of the previous year; a transaction amount of RMB755.491 billion, representing an increase of 79.42% as compared with that in the same period of the previous year. The Bank recorded 713,300 individual customers of online banking, representing an increase of 2.23% as compared with that at the end of the previous year; 58,243,600 transactions, representing an increase of 49.29% as compared with that in the same period of the previous year; a transaction amount of RMB320.83 billion, representing an increase of 6.78% as compared with that in the same period of the previous year.

(2) Mobile finance

During the Reporting Period, the mobile banking user size and transaction volume of the Bank maintained rapid growth. As at the end of the Reporting Period, the Bank recorded 1,287,900 registered mobile banking customers, representing an increase of 15.70% as compared with that at the end of the previous year; 29,626,900 transactions, representing an increase of 5.45% as compared with that in the same period of the previous year; a transaction amount of RMB167.807 billion, representing an increase of 44.18% as compared with that in the same period of the previous year. The volume of wealth management products sold via mobile banking was constantly improved. The sales amount of wealth management products in the first half of 2018 totalled RMB42.957 billion, representing an increase of 51.35% as compared with that in the same period of the previous year.

The Bank sped up building of intelligent and personalized mobile banking. During the Reporting Period, the Bank completed transformation of face recognition in mobile banking, reasonably laid out various marketing modules in the application, and accurately launched marketing contents according to different characteristics of different customers, so as to make a solid step toward mobile banking featuring "different faces of different customers".

The Bank strengthened scenario creation of mobile banking and kept enriching scenario transactions. The Bank conducted scenario-based customer group operation to first relieve customer pain points. It focused on improving cloud payment and cloud recharge business to solve the pain point of cash collection of kindergartens, schools and enterprises and public institutions, so as to build an effective mode for obtaining customers in batches with low costs.

3.10.4.4 *Information technology*

The Bank adhered to the strategy of comprehensively implementing scientific and technological innovation, and elevated "excellence in technology" to a bank-wide strategy, promoted application of emerging technologies such as big data, cloud computing, artificial intelligence and mobile network in products, services, channels and business mode innovation, therefore successfully achieving the strategic business goals for the Reporting Period and promoting the improvement of the core competence of the whole bank.

The Bank kept promoting integration and innovation of technology and business to improve its business support ability. By referring to the organizational form and management method of the mixed alliance of fintech companies, the Bank deeply integrated business and science & technology resources and improved integration and agility of IT and businesses, so as to constantly improve the quality and efficiency of project development.

During the Reporting Period, the Bank stepped up innovative application of such technologies as cloud computing, big data and artificial intelligence in scientific and technological projects, continued to push forward the strategy of "interface banking" and completed the construction of several key projects including new functional projects of interface banking, credit card, bill business, intelligent fast counter system and paperless counter projects. Smart outlets under construction by the Bank will provide customers with more intelligent and personalized one-stop lobby services. Intelligent Customer Ralationship Management (CRM) projects can help realize integration and analysis of internal and external data and deeply explore the value of big data, so as to lay a scientific and technological base for intelligence transformation of the Bank. In respect of infrastructure construction, mPaaS mobile platform developed by the Bank in cooperation with leading fintech companies will provide mobile applications with one-stop solutions covering development, testing, operation maintenance and operation and provide a powerful support for data-based and fine operation management.

The Bank kept improving business continuity management and information security system, to improve its ability of system security protection. During the Reporting Period, centered on the requirements for safeguarding network security proposed during the SCO Summit, the Bank carried out an omnibearing security checking and hidden danger elimination for infrastructures in machine rooms, basic software and hardware devices, Internet systems and other business systems in three centers of two places and all the branches and sub-branches, improved security protection systems, security reinforcement measures and emergency guarantee plans and held drills of emergency response plans, so as to ensure reliable, stable, continuous and efficient operation of information systems in an all-round way. The Bank attached great importance to information security management, kept improving its ability to prevent and control IT risks, enhanced IT governance system and internal control construction and Internet security protection, carried out third-party security testing evaluation for Internet business systems, and successfully passed recertification audit for information security management system (ISO27001), so as to effectively prevent technology risks.

During the Reporting Period, the Bank enhanced efforts for attracting, exciting and training scientific and technological talents and kept introducing excellent scientific and technological talents and innovating training mechanisms, means and methods, so as to effectively improve the overall quality of employees and the ability of independent research and development of the team.

3.10.5 Business of BQD Financial Leasing

BQD Financial Leasing was established on 15 February 2017 upon initiation by the Bank and registered in Qingdao. The Bank held 51% equity of BQD Financial Leasing. Guided by national industry policies, BQD Financial Leasing mainly carried out businesses related to financial leasing of large and medium-sized equipment for industries such as healthcare, cultural tourism and cause of people's livelihood, so as to serve real economies, meet the lessees' personalized needs in such aspects as purchase of equipment, promotion of sale, revitalization of assets, tax burden equilibrium and improvement of financial structure and provide new financial leasing services including financing of funds and assets, asset management and economic consulting.

As at the end of the Reporting Period, BQD Financial Leasing had a registered capital of RMB1 billion, 46 employees, RMB6.352 billion of total assets and RMB1.023 billion of net assets. During the Reporting Period, it recorded a net profit of RMB19.2488 million.

3.11 Risk Management

3.11.1 Credit risk management

Credit risk refers to the risk arising from the failure by an obligor or a party concerned to meet its obligations in accordance with agreed upon terms. The Bank is exposed to credit risk primarily through loan portfolio, investment portfolio, undertakings and commitments.

Pursuant to regulatory requirements, the Bank, taking into consideration the capability and intention of the borrowers to repay the loan, coupled with other factors such as guarantor, collateral and overdue payment, has implemented twelve-category classification and management on corporate credit assets based on the regulatory five-category loan classification. The loan classification is launched by the responsible management institution and confirmed by the credit management department of the head office or branches, while personal loans and business card are subject to regulatory five-category loan classification and confirmed by the system in accordance with the number of overdue days.

The credit management department takes a leading role in the credit risk management and regularly reports to the management and the risk management and consumer protection committee of the Board on risk management. During the Reporting Period, the Bank adhered to the risk control principle of "active compliance, strict risk control and strengthening of internal control" and kept intensifying efforts for credit risk management from such aspects as customer structure, business structure, risk management system, credit foundation management and relief of non-performing loans. During the Reporting Period, the Bank intensified credit risk management mostly in the following aspects:

1. Further improved risk control mechanism and realized centralized approval of credit. During the Reporting Period, the Bank adjusted the risk management mechanism and set up a credit extension approval center in Qingdao and Jinan, respectively, so as to centralize credit extension approval. According to regulatory requirements and actual situation of business development, the Bank comprehensively sorted out and promptly improved the existing rules and regulations to ensure standard business operation.

2. Improved its credit policies in time in compliance with the national policy guide. To better reflect the orientation of credit policies and support expansion of frontline businesses, the Bank increased policies on replacement of old drivers with new ones and management of policy exceptions in the credit policies of 2018. Regarding inventory business, the Bank established a sound long-term credit management system and improved the credit structure. For the incremental credit, the Bank strictly controlled incremental risks, accelerated industrial structural adjustment by the list system and industry limit and other ways, and strictly controlled enterprises in "high pollution, high energy-consumption, over-capacity" industries.

3. Continued to improve the credit risk management of branches and sub-branches. The Bank revised the measures for evaluation of credit management of branches and sub-branches and assessed the credit management of branches and sub-branches via such indicators as quality of credit assets, overdue payment of principal and interest and file management, to actually improve the credit risk management ability and standard of the whole bank; worked out risk management measures for cross-district branches, enhanced risk management and control for cross-district branches via such ways as daily supervision and evaluation and established an effective credit management system for cross-district branches.

4. Enhanced risk control in key areas. The Bank attached great importance to risk management and control in key risk areas, with its focus placed on financing in such fields as credit extension to large enterprise groups, cross-district credit extension, real estate and local government financing. The Bank conducted self-inspection and checking by working out and arranging special work plans and via "weekly self-inspection". The Bank enhanced "before-loan investigation, loan-granting review and after-loan inspection" work to strictly control incremental risk.

5. Enhanced study and judgment on complicated economic environment. During the Reporting Period, given frequent bond defaults, increased difficulty in corporate bond financing and drastic volatility of the stock market, the Bank conducted an investigation on bond financing risk of credit customers and risks concerning stock pledge business of listed companies in time and set up a regular self-inspection mechanism to eliminate hidden risks.

3.11.2 Liquidity risk management

Liquidity risk is the risk that a commercial bank is unable to obtain funds on a timely basis or obtain funds at a reasonable cost to sustain its asset growth or meet repayment obligations when it falls due even if a bank remains solvent.

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

Adhering to the principle of separating the functions of formulation, implementation and supervision of liquidity risk management policies, the Company has established a liquidity risk management and governance structure, specified the roles, responsibilities and reporting procedures of the Board, the board of supervisors, the senior management, special committees and related banking departments in liquidity risk management to improve the effectiveness of liquidity risk management. The Company adheres to a prudent liquidity risk preference philosophy well-suited for the current development stage of the Company. The current liquidity risk management policy and system are in line with the regulatory requirements and the needs for the Company's own management.

The Company manages liquidity risk by adopting a mode of coordination by the head office and cooperation by sub-branches; manages liquidity based on the regulatory requirements and principle of prudence; and conducts unified management for liquidity through quota management, plan adjustments, active liability and internal fund transfer pricing (FTP).

The Company measures, monitors and identifies liquidity risks through two dimensions including short-term provision, and structural and emergency provision, closely monitors various quota indicators at a fixed frequency and conducts stress tests on a regular basis to decide whether the Company is able to meet the liquidity requirements in emergency. In addition, the Company has formulated a liquidity emergency plan, and examines and reviews the emergency plan regularly.

The Company holds an appropriate amount of assets with liquidity to ensure liquidity needs and unpredictable demand for payment in the ordinary course of business can be met. The Company's assets are mainly funded by deposits from customers. The internal control system for liquidity risk management of the Company is sound and complies with regulations. A special internal audit for liquidity risk is carried out every year and an independent audit report is produced and submitted to the Board.

During the Reporting Period, the Company's deposits from customers maintained steady growth, and the asset-liability structure was constantly improved, and the Company intensified liquidity risk management mostly in the following aspects:

1. Actively promoted growth of various deposits, consolidated the base of deposit-taking businesses, strived to enhance the marketing effort in steady and low cost common deposits, and gradually improved the overall stability of liabilities; adjusted the asset-liability structure, improved the asset-liability mismatch and controlled it at a reasonable level.

2. Actively cooperated with the People's Bank of China in developing such businesses as open market operation, mid-term lending facility, relending and rediscount and witnessed increasingly diversified fund sources and more reasonable term match. While making provision arrangements in advance, the Company kept enhancing monitoring of various liquidity risk limitations to ensure they comply with all the supervision indicators.

3. In strict accordance with the Measures for the Liquidity Risk Management of Commercial Banks issued by the CBIRC, the Company designed many stress test scenarios covering single bank level, market level and mixed level according to its own business scale, nature and complexity and risk status, so as to regularly conduct a stress test on liquidity risk.

3.11.3 Market risk management

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

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

The internal control system for market risk management of the Company is sound and complies with regulations, and the Board, senior management and various departments have clear duties. Every year, the Company carries out a special internal audit for market risk and produces an independent audit report and submits it to the Board.

In strict compliance with the requirements of the CBIRC, the Company comprehensively utilized such information systems as 1104 system, OPICS risk system and China Bond Integrated Business Platform to monitor capital occupation concerning market risk.

3.11.3.1 Analysis of interest rate risk

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

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

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

During the Reporting Period, the Company, adhering to the principle of stability and prudence, continuously enhanced its capability of independent pricing and made more efforts in interest rate analysis and management. Firstly, it actively adjusted the structure of assets and liabilities, and strengthened the measurement and monitoring of indicators such as net interest margin, net interest spread and deposit-loan spread. Secondly, it adjusted the nominal rate of RMB deposits and differentiated pricing strategy by analyzing factors such as deposit structure in the bank, customers' sensitivity to interest rate and inter-bank pricing level. Thirdly, it conducted refined analysis and evaluation on the interest rate of products of various business lines to provide effective data support for the Bank's timely adjustment of pricing strategy.

3.11.3.2 Analysis of interest rate sensitivity

The Company assesses the potential impact of movements in interest rates on the Company's net interest income via sensitivity analysis. The following table sets forth the results of the interest rate sensitivity analysis based on the assets and liabilities as at 30 June 2018 and 31 December 2017.

Unit: RMB'000

Item	**30 June 2018 Increase/ (Decrease)**	31 December 2017 Increase/ (Decrease)
Change in annualised net interest income		
Interest rates increase by 100 bps	**(586,487)**	(399,892)
Interest rates decrease by 100 bps	**586,487**	399,892

3.11.3.3 Analysis of exchange rate sensitivity

The following table sets forth the results of the exchange rate sensitivity analysis based on the assets and liabilities as at 30 June 2018 and 31 December 2017.

Unit: RMB'000

Item	**30 June 2018 Increase/ (Decrease)**	31 December 2017 Increase/ (Decrease)
Increase/(decrease) in annualised net profit		
Foreign exchange rates increase by 100 bps	**9,661**	9,747
Foreign exchange rates decrease by 100 bps	**(9,661)**	(9,747)

3.11.4 Operational risk management

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

The Bank focused on the work of preventing systematic operational risks and major operational risks; the Board set an acceptable operational risk level and had the senior management supervise and evaluate the adequacy and effectiveness of the internal control system; the senior management, according to the acceptable operational risk level set by the Board, formulated systematic systems, procedures and methods and took relevant risk control measures to prevent operational risks in an all-round way. Furthermore, the Bank applied effective risk prevention and control means to ensure effective identification, evaluation and supervision of operational risks, constantly improved operational risk management capability, and gradually elevated risk prevention and control level. During the Reporting Period, the Bank strengthened operational risk management in the following areas:

1. Focusing on its key businesses and key areas, the Bank conducted various forms of self-examination and inspection, rectified problems in a self-knowledge and self-government manner, stopped up loopholes of business management, strangled risks in the cradle, and strictly controlled the spread of operational risks.

2. Realized comprehensive monitoring of operational risks through system monitoring, risk screening, internal inspection, business line supervision and other forms, collected and analyzed key indicators of operational risks and loss data and gave early warnings, and improved internal process construction to cut off operational risks in an all-round manner.

3. Strengthened safety construction of information technology system and business continuity management, promoted the construction of business continuity system, improved the construction of emergency plan system, and intensified daily emergency drills to ensure the safe operation of the system.

4. Continued to promote the construction of operational risk system and cultural propaganda, increased employees' awareness of compliance operations, conducted inspections on abnormal behaviors of employees, and strengthened staff on-the-job management.

5. Did well in protection of information about outsourcing service agents, conducted risk assessment on outsourced services, and strengthened risk control and inspection during the execution of outsourcing projects.

3.12 Social Responsibility

In terms of economic responsibility, in line with the trend of deepened national supply-side reform and the acceleration of replacement of old growth drivers with new ones in Shandong Province, the Bank actively provided financial services for major national and regional development strategies, major reforms and major construction projects, provided much more support for enterprises with new growth drivers from traditional industries and emerging industries, so as to support the development of real economy in an all-round way. In response to the central government's call to develop "Inclusive Finance", the Bank supported the development of small, micro and medium-sized enterprises, and launched products like "Business Benefit Loan" and "Agriculture Benefit Loan", and set up four sub-branches featuring technology finance and four sub-branches featuring "Agriculture Benefit Loan" business to promote featured operation for small enterprises business. At the same time, in response to the call of innovation-driven development and "mass entrepreneurship and innovation" for job creation, the Bank supported local economic transformation and upgrading with featured business models such as port finance, cultural creative finance, and service trade finance.

In terms of environmental responsibility, the Bank continued to adopt a green development concept and developed green finance. At the end of the Reporting Period, loan balance of the Bank's green credit project was RMB8.074 billion, representing an increase of RMB757 million or 10.34% over the beginning of the year. The Bank continued to promote green services, worked on increasing the quality and efficiency of online services, and accelerated the construction of intelligent, personalized and scene-based mobile banking. Focusing on optimizing cloud payment and cloud recharge businesses, the Bank signed cooperation contracts with more than 300 merchants, with a total of more than 30,000 customers. The Bank continuously optimized such smart operation modes as mobile finance + mobile officing, reduced material and energy consumption by promoting paperless counter and electronic seal, paid attention to the impact of electronic equipment on the environment, and insisted on secondary use and harmless disposal of used electronic equipment. Adhering to frugality culture, the Bank strengthened internal management, conducted "weekly inspection tour" and security patrol to urge all staff members to save water, electricity, gas and paper, and organized public welfare activities such as picking up garbage, taking green walks and planting trees to make its contribution to environmental protection.

In terms of social responsibility, the Bank further enhanced the ability of serving customers, improved the service facilities of outlets, provided more humanized services for special groups, and created a new experience of surprising services for customers. The Bank comprehensively strengthened the protection of rights and interests of financial consumers, and built a multi-dimensional financial knowledge education system guided by "Qingcheng" consumer rights protection brand. The Bank created a "Financial Knowledge Small Classroom" program to provide formative financial education for youngsters; carried out a number of publicity activities themed on "financial knowledge promotion into villages" and popularized financial knowledge in communities, colleges, supermarkets and rural areas, and anti-money laundering, anti-counterfeiting, etc. The Bank promoted the development and expansion of Bank of Qingdao Charitable Foundation in Qingdao City, and actively launched financial poverty alleviation and targeted poverty alleviation. In the first half of the year, the Bank donated money to poverty alleviation projects such as road hardening and lamp installation in a County in Pingdu City. At the same time, the Bank carried out various forms of public welfare activities and volunteer services such as "heart-warming" activities, care for new citizens, and public welfare lectures in communities, schools and rural areas. Practicing a culture of caring for employees, the Bank not only created a development and growth platform for employees but also paid attention to the physical and mental health of employees by adding staff clubs and carrying out a variety of cultural and sports activities, which kept improving the well-being of employees.

3.13 Protection of Consumer Rights

During the Reporting Period, under the concept of "deepening management, promoting being proactive about compliance, making transformation and innovation and making progress while maintaining stability", the Bank carried out its consumer rights protection work following the latest regulatory policies, and gave full play to the institutional advantages as a legal entity. Meanwhile, by focusing on product and service design, and highlighting the distinctive advantages of "Qingxin" service and Customer right protection brand "Qingcheng", and new ideas of publicity and education of financial knowledge, the Bank continuously optimized its organizational structure, consolidated its management foundation, strengthened assessment and training, increased publicity and educational efforts, implemented the entity responsibility, and promoted the overall improvement of consumer rights protection work.

1. Strengthen senior leadership, improve institutional mechanisms, and enhance endogenous motivation

   Firstly, give full play to the role of the Board, senior management and working committee on consumer rights protection of the Bank in the working mechanism of consumer rights protection, deepen ideological understanding, and pay more attention to the consumer rights protection. Secondly, give full play to the functions of the working committee on consumer rights protection, streamline horizontal and vertical work processes, deepen process reengineering, and improve work efficiency. Thirdly, improve the "three-in-one" organizational structure consisting of the working committee for consumer rights protection, professional departments, and branches and sub-branches, establish a contact mechanism, and create synergies in consumer rights protection.

2. Formulate an annual plan, consolidate system basis, and strengthen system constraints

   Firstly, formulate an annual plan for consumer rights protection, improve the weak links, and promote the in-depth development of consumer rights protection; secondly, further sort out, evaluate and improve the consumer rights protection system, and make it more scientific, streamlined and normalized through "addition, supplement, amendment and establishment"; thirdly, improve the system compilation, break down the assessment indicators and daily work requirements of regulatory authorities to facilitate implementation by various departments and branches and sub-branches, implement the system as a matter of urgency, stand up for the authoritativeness of the system, and strengthen supervision and examination.

3. Highlight brand leadership, practice the concept of "education first", and improve effectiveness of publicity and education

   Firstly, adhering to the concept of "Qingcheng Xiaobao, Zhiyuan Zhizhen" concerning consumer rights protection, exploit the brand value of "Qingcheng" consumer rights protection, strengthen the establishment of an independent, normalized and innovative publicity and education mechanism, and build an official WeChat of "Manhua Xiaobao" and financial knowledge publicity brands such as "Financial Knowledge into Primary School" and "Financial Knowledge into Community"; secondly, actively organize "3.15 Consumer Rights Day", "Keep Your Money Safe" and other publicity activities themed on illegal fund-raising to practice its social responsibility; thirdly, strengthen the assessment and evaluation of publicity and education, and include the developments of publicity and education work of various outlets into the rating assessment of consumer rights protection to ensure the effectiveness of publicity and education.

4. Intensify trainings for consumer rights protection, focus on concept leadership, and increase the awareness of consumer rights protection

   Firstly, include the contents of consumer rights protection into the employee training system, strengthen the concept leadership and enhance the endogenous motivation; secondly, carry out service themed series activities to enhance service awareness and improve the level of warm service; thirdly, improve the information exchange platform, make full use of the contacts, and build a smooth and effective communication and coordination mechanism.

5. Standardize sales behavior, practice "Inclusive Finance", and implement the entity responsibility

   Firstly, strengthen product and service process management, and enhance review on consumer rights protection to achieve pre-risk control; secondly, continue to improve the "double recording" work, carry out self-examination of sales behavior, standardize sales of products, and enhance customer experience; thirdly, take the initiative to practice the concept of "Inclusive Finance", focus on solving problems of "difficulties in and high costs of financing" for small and micro enterprises, adopt preferential credit policies for financing needs related to agriculture, rural areas and farmers, and continue to deepen technology finance innovation, to contribute to the technological innovation and development and replacement of old drivers with new ones in Qingdao City and Shandong Province.

3.14 Development Plan for the Second Half of 2018

3.14.1 Operating situation analysis for the second half of the year

In the second half of 2018, Fed interest rate hike gave rise to the decrease of global base currency supply, which imposed impacts on currency exchange rates and the prices of risk-bearing assets. China's economy maintained steady growth momentum, while different adverse factors were emerging. At present, we see a tightening regulatory environment, decelerating economic growth despite signs of stabilization, a hope in easing monetary environment, unchanged pressure on risk landscape and accelerating financial technology development. In response to a more complicated environment, the Bank will focus on the overall deployment of the "upgrading scheme", continue to consolidate its customer base, firmly enhance its operating capacity and make all efforts to perform well in featured small, medium and micro finance.

3.14.2 Development guidance for the second half of the year

In the second half of 2018, the Bank will adhere to the operation philosophy of "deepening management, being proactive about compliance, making transformation and innovation and making progress while maintaining stability". In addition, efforts will be made to effectively implement the "upgrading scheme", improve operating and managing efficiency and effectiveness as a whole, ensure stable increase of deposits, advocate active compliance, and exercise solid control and prevention of different risks, with a view to ensuring completion of the annual work plan.

3.14.3 Measures to be adopted for the second half of the year

(1) Cooperating with various parties to consolidate and further expand liability business;

(2) Focusing on penetration to promote the differentiation and specialization of wholesale business;

(3) Exploring profoundly to upgrade retail business;

(4) Transforming and exploring potentials to enhance its operating capacity in the financial market;

(5) Adopting strict and refined management to strengthen comprehensive risk control concept and standard;

(6) Promoting efficiency and quality to optimize financial technology support;

(7) Conducting smart operation to improve operating and managing efficiency;

(8) Solidifying bases to promote refined and efficient management.

4. OTHER EVENTS

4.1 Earnings and Dividends

The profit of the Company for the first six months ended 30 June 2018 and the financial position of the Company as at the same date are set out in the financial report of this results announcement.

4.1.1 Dividends on ordinary shares

Pursuant to the resolutions considered and passed at the 2017 annual general meeting of the Bank on 15 May 2018, the Bank had distributed 2017 cash dividends on 25 May 2018 to shareholders of domestic shares and H shares whose names appeared on the share register of the Bank on 24 May 2018, in accordance with the profit distribution plan to distribute a cash dividend of RMB0.20 per share (tax inclusive).

No ordinary dividend distribution and no transfer from capital reserve to share capital were made by the Bank in 2018 during the interim period.

4.1.2 Dividends on offshore preference shares

The Bank held a general meeting on 15 March 2017 to consider and approve the Resolution on the Plan for the Non-public Issuance of Offshore Preference Shares by Bank of Qingdao Co., Ltd. (《關於青島銀行股份有限公司境外非公開發行優先股方案的議案》), authorizing the Board to decide on and deal with issues relating to dividend payment to the offshore preference shareholders in accordance with the issuance terms. The dividend distribution plan for offshore preference shares has been considered and approved at the Board meeting held on 24 August 2018.

1. *Dividend distribution plan for offshore preference shares*

    (1) Interest-bearing period: from 19 September 2017 (inclusive) to 19 September 2018 (exclusive)

    (2) Record date: 18 September 2018

    (3) Dividend payment date: 19 September 2018

(4) Recipients: persons registered on the register of preference shareholders as of the closing of relevant clearing systems on 18 September 2018.

(5) Tax deduction: the Bank is required to withhold income tax at a rate of 10% when distributing dividends on offshore preference shares in accordance with the requirements of relevant laws. According to relevant provisions of the terms and conditions of offshore preference shares, relevant taxes and fees shall be borne by the Bank.

(6) Dividend rate and amount of payment: the initial dividend rate before the first repricing date determined by the terms and conditions of offshore preference shares is 5.50% per annum (such dividend rate is after-tax dividend rate, which is the actual dividend rate received by the offshore preference shareholders). Based on the interest-bearing principal, dividend date and withholding income tax rate of offshore preference shares, the amount of offshore preference shares dividends is determined as follows:

The Bank will distribute a dividend of US$73.5167 million for preference shares, of which US$66.165 million was paid to preference shareholders and US$7.3517 million was withheld for income tax.

2. *Implementation measures for the dividend scheme of offshore preference shares*

The Bank will distribute dividends for offshore preference shares to registered offshore preference shareholders of the Bank on the record date. The Bank of New York Depository (Nominees) Limited, as the nominee of Euroclear Bank SA/NV and Clearstream Banking S.A., was the only shareholder of offshore preference shares of the Bank whose names appeared on the register of members on the record date. Payment by the Bank to The Bank of New York Depository (Nominees) Limited or payment in accordance with its instructions was deemed to have fulfilled the Bank's obligation to pay dividends on offshore preference shares. If the final investors have any doubts about the subsequent transfer of relevant dividends to the final investor after entering the clearing system, the final investors shall check with their respective depository or intermediary.

4.2 Use of Proceeds

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

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

4.3 Changes in Directors, Supervisors and Senior Management

During the Reporting Period, according to the resolution at the 2017 annual general meeting of the Bank, Mr. Deng Youcheng was elected as a non-executive director and Ms. Fang Qiaoling was elected as an independent non-executive director. Their qualifications as directors have been approved by the Qingdao Supervisory Commission of the China Banking Regulatory Commission on 27 June 2018 and they have assumed office on the same date. Mr. Wang Jianhui, a former non-executive director, ceased to be a non-executive director of the Bank from May 2018, and Mr. Wang Zhuquan, a former independent non-executive director, ceased to be an independent non-executive Director since June 2018.

During the Reporting Period, Mr. Zhang Lanchang was newly elected as a shareholder supervisor of the Bank according to the resolution at the 2017 annual general meeting of the Bank, and Mr. Wang Dawei and Mr. Meng Xianzheng were elected as employee supervisors of the Bank according to the resolution of the fifth meeting of the member (employee) representative congress of the Bank. From May 2018, Mr. Sun Guoliang, a former shareholder supervisor, ceased to be a shareholder supervisor of the Bank, and Mr. Sun Jigang and Mr. Xu Wansheng, the former employee supervisors, ceased to be the employee supervisors of the Bank.

During the Reporting Period, save as disclosed above, there were no other changes in the directors or supervisors of the Bank; and there was no changes in senior management of the Bank.

4.4 Purchase, Sale and Redemption of Listed Securities

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

4.5 Statement of Compliance with the Hong Kong Listing Rules

The Bank has adopted the required standard in the "Model Code for Securities Transactions by Directors of Listed Issuers" (the "**Model Code**") as set out in Appendix 10 of the Hong Kong Listing Rules as the code of conduct regarding securities transactions by directors and supervisors of the Bank. Having made enquiries to all directors and supervisors, it was confirmed that they had complied with the above Model Code during the Reporting Period.

During the Reporting Period, the Bank strictly complied with the code provisions set out in the Corporate Governance Code contained in Appendix 14 of the Hong Kong Listing Rules, and, where appropriate, adopted the recommended best practices therein.

4.6 Audit Committee

The audit committee of the Bank has reviewed the accounting standards and practices adopted by the Bank with the management and has reviewed the Interim Results for the six months ended 30 June 2018.

5. FINANCIAL REPORT

Consolidated Statement of profit or loss and other comprehensive income
for the six months ended 30 June 2018 – unaudited
(Expressed in thousands of Renminbi, unless otherwise stated)

	Six months ended 30 June	
	2018	2017
Interest income	**5,453,245**	5,443,758
Interest expense	**(3,716,953)**	(3,099,191)
Net interest income	**1,736,292**	2,344,567
Fee and commission income	**373,336**	537,258
Fee and commission expense	**(30,849)**	(19,064)
Net fee and commission income	**342,487**	518,194
Net trading gains/(losses)	**94,640**	(21,068)
Net gains/(losses) arising from investments	**951,247**	(7,849)
Other operating income, net	**5,445**	1,350
Operating income	**3,130,111**	2,835,194
Operating expenses	**(964,113)**	(792,826)
Impairment losses	**(516,515)**	(400,050)
Profit before taxation	**1,649,483**	1,642,318
Income tax expense	**(318,607)**	(363,558)
Net profit for the period	**1,330,876**	1,278,760
Net profit for the period	**1,330,876**	1,278,760
Net profit attributable to:		
Equity shareholders of the Bank	**1,321,444**	1,275,799
Non-controlling interests	**9,432**	2,961

	Six months ended 30 June	
	2018	2017
Other comprehensive income:		
Items that will not be reclassified to profit or loss		
– Remeasurements of defined benefit plan	**(1,005)**	848
Items that may be reclassified subsequently to profit or loss		
– Net movement in the investment revaluation reserve of available-for-sale financial assets	**–**	(405,367)
– Changes in fair value of debt instruments at fair value through other comprehensive income	**409,729**	–
– Credit losses of debt instruments at fair value through other comprehensive income	**12,770**	–
Other comprehensive income, net of tax	**421,494**	(404,519)
Total comprehensive income	**1,752,370**	874,241
Total comprehensive income attributable to:		
Equity shareholders of the Bank	**1,742,938**	871,280
Non-controlling interests	**9,432**	2,961
Basic and diluted earnings per share (in RMB)	**0.33**	0.31

Consolidated Statement of financial position
as at 30 June 2018 – unaudited
(Expressed in thousands of Renminbi, unless otherwise stated)

	30 June 2018	31 December 2017
Assets		
Cash and deposits with central bank	**30,077,660**	27,097,814
Deposits with banks and other financial institutions	**2,467,172**	1,107,946
Placements with banks and other financial institutions	**3,695,341**	2,882,727
Financial assets at fair value through profit or loss	**26,759,067**	179,078
Derivative financial assets	**15,118**	–
Financial assets held under resale agreements	**2,723,551**	3,584,200
Loans and advances to customers	**104,310,963**	95,514,680
Financial investments at fair value through other comprehensive income	**43,339,816**	–
Financial investments measured at amortised cost	**75,044,780**	–
Available-for-sale financial assets	**–**	79,086,556
Held-to-maturity investments	**–**	38,644,926
Receivables	**–**	46,678,869
Long-term receivables	**6,058,862**	4,076,396
Property and equipment	**3,061,334**	3,089,017
Deferred tax assets	**1,079,808**	1,084,286
Other assets	**3,525,724**	3,249,597
Total assets	**302,159,196**	306,276,092
Liabilities		
Borrowings from central bank	**3,107,134**	584,215
Deposits from banks and other financial institutions	**22,991,359**	24,901,934
Placements from banks and other financial institutions	**7,331,465**	5,774,299
Derivative financial liabilities	**32,268**	353,220
Financial assets sold under repurchase agreements	**18,900,066**	11,899,583
Deposits from customers	**166,199,611**	160,083,783
Income tax payable	**240,245**	57,167
Debt securities issued	**48,151,859**	68,632,691
Other liabilities	**8,511,752**	7,865,991
Total liabilities	**275,465,759**	280,152,883
Equity		
Share capital	**4,058,713**	4,058,713
Other equity instrument		
Including: preference shares	**7,853,964**	7,853,964
Capital reserve	**6,826,276**	6,826,276
Surplus reserve	**1,203,325**	1,203,325
General reserve	**3,969,452**	3,969,452
Other comprehensive income	**(41,677)**	(885,449)
Retained earnings	**2,322,238**	2,603,573
Total equity attributable to equity shareholders of the Bank	**26,192,291**	25,629,854
Non-controlling interests	**501,146**	493,355
Total equity	**26,693,437**	26,123,209
Total liabilities and equity	**302,159,196**	306,276,092

Consolidated Statement of changes in equity

for the six months ended 30 June 2018 – unaudited

(Expressed in thousands of Renminbi, unless otherwise stated)

	Attributable to equity shareholders of Bank									
	Share capital	Other equity instrument	Capital reserve	Surplus reserve	General reserve	Other comprehensive income	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 31 December 2017	**4,058,713**	**7,853,964**	**6,826,276**	**1,203,325**	**3,969,452**	**(885,449)**	**2,603,573**	**25,629,854**	**493,355**	**26,123,209**
Changes in accounting policies	–	–	–	–	–	**422,278**	**(791,031)**	**(368,753)**	**(1,641)**	**(370,394)**
Balance at 1 January 2018	**4,058,713**	**7,853,964**	**6,826,276**	**1,203,325**	**3,969,452**	**(463,171)**	**1,812,542**	**25,261,101**	**491,714**	**25,752,815**
Profit for the period	–	–	–	–	–	–	**1,321,444**	**1,321,444**	**9,432**	**1,330,876**
Other comprehensive income	–	–	–	–	–	**421,494**	–	**421,494**	–	**421,494**
Total comprehensive income	–	–	–	–	–	**421,494**	**1,321,444**	**1,742,938**	**9,432**	**1,752,370**
Appropriation of profit:										
– Cash dividends	–	–	–	–	–	–	**(811,748)**	**(811,748)**	–	**(811,748)**
Balance at 30 June 2018	**4,058,713**	**7,853,964**	**6,826,276**	**1,203,325**	**3,969,452**	**(41,677)**	**2,322,238**	**26,192,291**	**501,146**	**26,693,437**
Balance at 1 January 2017	4,058,713	–	6,826,276	1,013,649	3,696,090	63,144	1,978,101	17,635,973	–	17,635,973
Profit for the period	–	–	–	–	–	–	1,275,799	1,275,799	2,961	1,278,760
Other comprehensive income	–	–	–	–	–	(404,519)	–	(404,519)	–	(404,519)
Total comprehensive income	–	–	–	–	–	(404,519)	1,275,799	871,280	2,961	874,241
Contribution by shareholders										
- Non-controlling interests of a new subsidiary	–		–	–	–	–	–	–	490,000	490,000
Appropriation of profit:										
- Cash dividends	–	–	–	–	–	–	(811,742)	(811,742)	–	(811,742)
Balance at 30 June 2017	4,058,713	–	6,826,276	1,013,649	3,696,090	(341,375)	2,442,158	17,695,511	492,961	18,188,472
Balance at 1 July 2017	4,058,713	–	6,826,276	1,013,649	3,696,090	(341,375)	2,442,158	17,695,511	492,961	18,188,472
Profit for the period	–	–	–	–	–	–	624,453	624,453	394	624,847
Other comprehensive income	–	–	–	–	–	(544,074)	–	(544,074)	–	(544,074)
Total comprehensive income	–	–	–	–	–	(544,074)	624,453	80,379	394	80,773
Contribution by shareholders										
- Capital injection by other equity shareholders	–	7,853,964	–	–	–	–	–	7,853,964	–	7,853,964
Appropriation of profit:										
- Appropriation to surplus reserve	–	–	–	189,676	–	–	(189,676)	–	–	–
- Appropriation to general reserve	–	–	–	–	273,362	–	(273,362)	–	–	–
Balance at 31 December 2017	4,058,713	7,853,964	6,826,276	1,203,325	3,969,452	(885,449)	2,603,573	25,629,854	493,355	26,123,209

Consolidated Cash flow statement
for the six months ended 30 June 2018 – unaudited
(Expressed in thousands of Renminbi, unless otherwise stated)

	Six months ended 30 June	
	2018	2017
Cash flows from operating activities		
Profit before taxation	**1,649,483**	1,642,318
Adjustments for:		
Impairment losses	**516,515**	400,050
Depreciation and amortisation	**196,286**	155,292
Accreted interest on credit-impaired/impaired loans	**(29,876)**	(16,874)
Unrealised foreign exchange (gains)/losses	**(59,088)**	18,711
Net gains on disposal of long-term assets	**(40)**	(19)
Dividend income	**(1,100)**	(700)
Losses from changes in fair value	**26,013**	46,938
Net (gains)/losses arising from investment	**(1,312,230)**	8,549
Interest expense on debt securities issued	**1,328,313**	866,929
Interest income generated from non-operating activities	**(2,533,920)**	(2,828,570)
	(219,644)	292,624
Changes in operating assets		
Net increase in deposits with central bank	**(1,001,385)**	(1,675,138)
Net (increase)/decrease in deposits with banks and other financial institutions	**(200,000)**	1,066,566
Net increase in placements with banks and other financial institutions	**(1,065,070)**	(770,000)
Net increase in loans and advances to customers	**(9,896,545)**	(7,552,361)
Net decrease/(increase) in financial assets held under resale agreements	**859,200**	(21,535,860)
Net decrease in financial assets held for trading	**–**	321,321
Net increase in other operating assets	**(2,293,355)**	(2,988,526)
	(13,597,155)	(33,133,998)
Changes in operating liabilities		
Net increase/(decrease) in borrowings from central bank	**2,522,919**	(1,964,408)
Net decrease in deposits from banks and other financial institutions	**(1,910,575)**	(23,203,938)
Net increase/(decrease) in placements from banks and other financial institutions	**1,557,166**	(726,758)
Net increase/(decrease) in financial assets sold under repurchase agreements	**7,000,483**	(982,665)
Net increase in deposits from customers	**6,115,828**	15,692,353
Income tax paid	**(148,084)**	(358,287)
Net increase/(decrease) in other operating liabilities	**623,576**	(185,826)
	15,761,313	(11,729,529)
Net cash flows generated from/(used in) operating activities	**1,944,514**	(44,570,903)

	Six months ended 30 June	
	2018	2017
Cash flows from investing activities		
Proceeds from disposal and redemption of investments	**52,712,059**	70,489,172
Net cash received from investment gains and interest	**3,748,339**	3,045,391
Proceeds from disposal of property and equipment, intangible assets and other assets	**1,907**	326
Payments on acquisition of investments	**(32,310,321)**	(60,865,866)
Payments on acquisition of property and equipment, intangible assets and other assets	**(112,592)**	(343,466)
Net cash flows generated from investing activities	**24,039,392**	12,325,557
Cash flows from financing activities		
Capital contribution from investment to subsidiary	**–**	1,000,000
Proceeds from debt securities issued	**40,540,627**	75,082,063
Repayment of debt securities issued	**(62,010,000)**	(61,360,000)
Interest paid on debt securities issued	**(542,930)**	(392,930)
Dividends paid	**(808,788)**	(354,964)
Net cash flows (used in)/generated from financing activities	**(22,821,091)**	13,974,169
Effect of foreign exchange rate changes on cash and cash equivalents	**131,232**	(7,498)
Net increase/(decrease) in cash and cash equivalents	**3,294,047**	(18,278,675)
Cash and cash equivalents as at 1 January	**9,678,330**	32,398,447
Cash and cash equivalents as at 30 June	**12,972,377**	14,119,772
Net cash flows generated from operating activities include:		
Interest received	**2,973,099**	2,710,681
Interest paid	**(2,208,163)**	(2,054,686)

Notes to the unaudited interim financial report

(Expressed in thousands of Renminbi, unless otherwise stated)

1 BACKGROUND INFORMATION

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

The Bank changed its name from Qingdao City Cooperative Bank Co., Ltd. to Qingdao City Commercial Bank Co., Ltd. in 1998 according to LuyinFu [1998] No. 76 issued by Shandong Branch of the PBOC. The Bank changed its name from Qingdao City Commercial Bank Co., Ltd. to Bank of Qingdao Co., Ltd. in 2008 according to YinJianFu [2007] No.485 issued by the formerly China Banking Regulatory Commission (the "CBRC").

The Bank obtained its financial institution licence No. B0170H237020001 from the Qingdao branch of the CBRC. The Bank obtained its business license with a unified social credit code 91370200264609602K from the Administration for Industry and Commerce of Qingdao City, and the registered office is located at Building No. 3, No. 6 Qinling Road, Laoshan District, Qingdao, Shandong Province, the People's Republic of China (the "PRC"). The share capital of the Bank is RMB4.059 billion as at 30 June 2018. In December 2015, the Bank's H-shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (Stock code: 3866).

The Bank has 13 branches in Jinan, Dongying, Weihai, Zibo, Dezhou, Zaozhuang, Yantai, Binzhou, Weifang, Qingdao Westcoast, Laiwu, Linyi and Jining as at 30 June 2018. The principal activities of the Bank and its subsidiary (collectively the "Group") are the provision of corporate and personal deposits, loans and advances, settlement, financial market business, financial leasing and other services as approved by the regulatory authority. The Bank mainly operates in Shandong Province.

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

2 BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES

(1) Basis of preparation

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*, issued by the International Accounting Standards Board ("IASB").

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2017 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2018 annual financial statements. Details of any changes in accounting policies are set out in Note 2(2).

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

This interim financial report contains condensed financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2017 annual financial statements. The condensed interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs").

The financial information relating to the financial year ended 31 December 2017 that is included in the interim financial report as comparative information does not constitute the Group's statutory annual financial statements for that financial year but is derived from those financial statements.

(2) Changes in accounting policies

The IASB has issued a number of new IFRSs and amendments to IFRSs that are first effective for the current accounting period. The principal effects of these IFRSs are as follows:

IFRS 15 "Revenue from contracts with customers"

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised.

IFRS 15 also introduces extensive qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. An entity may adopt IFRS 15 on a full retrospective basis. Alternatively, it may choose to adopt it from the date of initial application by adjusting opening balances at that date. Transitional disclosures are different depending on the approach adopted by the entity.

The adoption will not have any material impact on the financial position and the financial result of the Group.

IFRS 9 "Financial instruments"

IFRS 9 Financial Instruments ("IFRS 9") introduces new requirements for classification and measurement of financial assets, including the measurement of impairment for financial assets, hedge accounting and disclosure. IFRS 9 is effective for annual periods beginning on or after 1 January 2018 on a retrospective basis.

Classification and measurement

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

- The classification for debt instruments is determined based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the asset. On initial recognition the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL. If a debt instrument is classified as FVOCI, then interest revenue, impairment, foreign exchange gains/losses and gains/losses on disposal will be recognised in profit or loss.

- For equity investments, the classification is FVTPL regardless of the entity's business model. The only exception is if the equity investment is not held for trading and the entity irrevocably elects to designate that investment as FVOCI. If an equity investment is designated as FVOCI, then only dividend income on that investment will be recognised in profit or loss. Gains and losses on that investment will be recognised in other comprehensive income without recycling.

The classification and measurement requirements for financial liabilities under IFRS 9 are largely unchanged from IAS 39, except that IFRS 9 requires the fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liability's credit risk to be recognised in other comprehensive income (without reclassification to profit or loss).

Impairment

The new impairment model in IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" ("ECL") model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure either a 12-month expected credit loss or lifetime expected credit loss, depending on the asset and the facts and circumstances, which will result in an early recognition of credit losses.

Hedge accounting

IFRS 9 does not fundamentally change the requirements relating to measuring and recognising ineffectiveness under IAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting.

Disclosure

IFRS 9 requires extensive new disclosures, in particular about hedge accounting, credit risk and expected credit loss.

Transition

The Group is required to adopt IFRS 9 from 1 January 2018. The group plans to use the exemption from restating comparative information and recognises any transition adjustments against the opening balance of net assets at 1 January 2018.

On 1 January 2018, the effects of IFRS 9 on the Group are as follows:

Items:	Classification under IAS 39	Classification under IFRS 9	Note	Carrying amount under IAS 39 as at 31 December 2017	Reclassification	Remeasurement	Carrying amount under IFRS 9 as at 1 January 2018
Deposits with banks and other financial institutions	Loans and receivables	Financial assets measured at amortised cost		1,107,946	–	(495)	1,107,451
Placements with banks and other financial institutions	Loans and receivables	Financial assets measured at amortised cost		2,882,727	–	(1,696)	2,881,031
Financial assets held under resale agreements	Loans and receivables	Financial assets measured at amortised cost		3,584,200	–	(1,811)	3,582,389
Interest receivable	Loans and receivables	Financial assets measured at amortised cost		2,039,205	–	(47,785)	1,991,420
Loans and advances to customers	Loans and receivables	Financial assets measured at amortised cost		95,514,680	(2,938,712)	(588,325)	91,987,643
		Financial assets at fair value through other comprehensive income	*A*	–	2,938,712	12,491	2,951,203
Financial assets at fair value through profit or loss	Financial assets at fair value through profit or loss	Financial assets at fair value through profit or loss		179,078	(179,078)	–	–
		Financial assets at fair value through other comprehensive income	*B*	–	179,078	–	179,078
Available-for-sale financial assets	Available-for-sale financial assets	Financial assets at fair value through other comprehensive income	*C*	79,086,556	(51,658,288)	–	27,428,268
		Financial assets at fair value through profit or loss	*D*	–	44,311,592	19,868	44,331,460
		Financial assets measured at amortised cost	*E*	–	7,346,696	428,146	7,774,842
Held-to-maturity investments	Held-to-maturity investments	Financial assets measured at amortised cost		38,644,926	(2,744,464)	(8,140)	35,892,322
		Financial assets at fair value through other comprehensive income	*A*	–	2,744,464	72,192	2,816,656
Receivables	Loans and receivables	Financial assets measured at amortised cost		46,678,869	(10,844,534)	(155,616)	35,678,719
		Financial assets at fair value through profit or loss	*D*	–	7,630,671	(72,862)	7,557,809
		Financial assets at fair value through other comprehensive income	*A*	–	3,213,863	(4,310)	3,209,553
Long-term receivables	Loans and receivables	Financial assets measured at amortised cost		4,076,396	–	(4,466)	4,071,930
Sub-total				273,794,583	–	(352,809)	273,441,774
Others				–	–	(141,050)	(141,050)
Deferred tax assets				1,084,286	–	123,465	1,207,751
Total				274,878,869	–	(370,394)	274,508,475

The Group has adopted IFRS 9 from 1 January 2018. There were a net increase of RMB422 million in other comprehensive income (after tax) and a net decrease of RMB791 million in retained profits (after tax) arising from the new requirements on classification and measurement of financial assets listed above as compared with that recognised under IAS 39.

Notes:

A. Certain loans and advances to customers held by the Group, and certain debt instruments originally classified as receivables or held-to-maturity investments were held within a business model whose objective on the transition date was to collect contractual cash flows and sell financial assets. In addition, their contractual cash flows were identified as solely payments of principal and interest on the principal amount outstanding. Therefore, these assets were classified as financial assets at FVOCI under IFRS 9.

B. Certain debt instruments originally classified as financial assets at fair value through profit or loss were held within a business model whose objective on the transition date was to collect contractual cash flows and sell financial assets. In addition, their contractual cash flows were identified as solely payments of principal and interest on the principal amount outstanding. Therefore, these assets were classified as financial assets at FVOCI under IFRS 9. The fair value of these debt instruments as at 30 June 2018 was 140 million. Assuming that these financial assets were not reclassified upon transition to IFRS 9, gains arising from changes in their fair value during the current period that would have been recognised in the profit or loss was RMB2 million.

C. The reclassified and remeasured financial assets include certain non-trading equity investments (RMB23.25 million) designated irrevocably by the Group as financial assets at FVOCI on the transition date.

D. Certain debt instruments originally classified as receivables or available-for-sale financial assets, the contractual cash flows of which were not identified as solely payments of principal and interest on the principal outstanding. Therefore, these assets were classified as financial assets at FVTPL under IFRS 9.

E. Certain debt instruments originally classified as available-for-sale financial assets were held within a business model whose objective on the transition date was to collect contractual cash flows. In addition, their contractual cash flows were identified as solely payments of principal and interest on the principal outstanding. Therefore, these assets were classified as financial assets measured at amortised cost under IFRS 9. The fair value of these debt instrument as at 30 June 2018 was 5.845 billion. Assuming that these financial assets were not reclassified upon transition to IFRS 9, gains arising from changes in their fair value during the current period that would have been recognised in other comprehensive income was RMB207 million.

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Group's impairment allowance balance as at 1 January 2018.

	Allowance for impairment losses under IAS 39 as at 31 December 2017	Reclassification	Remeasurement	Allowance for impairment losses under IFRS 9 as at 1 January 2018
Loans and advances to customers *(Note (i))*	2,546,699	–	580,566	3,127,265
Financial investments measured at amortised cost	216,000	–	163,755	379,755
Financial investments at fair value through other comprehensive income – debt instruments	–	–	24,831	24,831
Credit commitments	–	–	141,050	141,050
Long-term receivables	68,389	–	4,466	72,855
Others	899	–	4,002	4,901
Total	2,831,987	–	918,670	3,750,657

Note:

(i) Loans and advances to customers include discounted bills which are recognised at fair value through other comprehensive income.

The Group has applied the classification and measurement requirements (including impairment) of IFRS 9 retrospectively. The Group recognised any difference between the previous carrying amount under IAS 39 and the carrying amount at the beginning of the reporting period that includes the date of initial application (on 1 January 2018) in the opening retained earnings or other comprehensive income. Comparative information has not been restated.

The Group does not adopt any issued but not yet effective international financial reporting standards, interpretation and amendments.

3 NET INTEREST INCOME

	Six months ended 30 June	
	2018	2017
Interest income arising from		
Deposits with central bank	**188,787**	162,770
Deposits with banks and other financial institutions	**9,671**	23,333
Placements with banks and other financial institutions	**52,706**	34,123
Loans and advances to customers		
– Corporate loans and advances	**1,596,552**	1,483,120
– Personal loans and advances	**711,262**	599,705
– Discounted bills	**104,800**	72,589
Financial assets held under resale agreements	**123,596**	204,224
Investments	**2,534,605**	2,833,578
Long-term receivables	**131,266**	30,316
Sub-total	**5,453,245**	5,443,758
Interest expense arising from		
Deposits from banks and other financial institutions	**(422,665)**	(593,555)
Placements from banks and other financial institutions	**(150,016)**	(76,920)
Deposits from customers	**(1,432,119)**	(1,239,495)
Financial assets sold under repurchase agreements	**(296,938)**	(305,577)
Debt securities issued	**(1,328,313)**	(866,929)
Others	**(86,902)**	(16,715)
Sub-total	**(3,716,953)**	(3,099,191)
Net interest income	**1,736,292**	2,344,567

Notes:

(1) Interest expense on financial liabilities with maturity over five years mainly included the interest expense on tier-two capital bonds issued.

(2) Total interest income arising from financial assets that are not at fair value through profit or loss for the six months ended 30 June 2018 amounted to RMB5,453 million (six months ended 30 June 2017 amounted to RMB5,439 million).

Total interest expense arising from financial liabilities that are not at fair value through profit or loss for the six months ended 30 June 2018 amounted to RMB3,717 million (six months ended 30 June 2017 amounted to RMB3,099 million).

(3) Interest income arising from loans and advances to customers included RMB29.88 million for the six months ended 30 June 2018 with respect to the accreted interest on credit-impaired loans. Interest income arising from loans and advances to customers included RMB16.87 million for the six months ended 30 June 2017 with respect to the accreted interest on impaired loans.

4 NET FEE AND COMMISSION INCOME

	Six months ended 30 June 2018	2017
Fee and commission income		
Wealth management service fees	**144,994**	285,869
Agency service fees	**128,835**	105,372
Settlement fees	**16,423**	50,009
Custody and bank card service fees	**17,402**	25,044
Others	**65,682**	70,964
Sub-total	**373,336**	537,258
Fee and commission expense	**(30,849)**	(19,064)
Net fee and commission income	**342,487**	518,194

5 NET TRADING GAINS/(LOSSES)

	Note	Six months ended 30 June 2018	2017
Change in fair value of derivative financial instruments		**336,070**	(47,944)
Net foreign exchange gains or losses	*(i)*	**(244,277)**	26,630
Net gains or losses from debt securities and others	*(ii)*	**2,847**	246
Total		**94,640**	(21,068)

Notes:

(i) Net foreign exchange gains or losses include exchange gains or losses from the purchase and sale of foreign currency spot, realized gains arising from currency derivative financial instruments and gains or losses arising from translation of foreign currency monetary assets and liabilities into RMB, etc.

(ii) Net gains or losses from debt securities mainly include gains or losses arising from the buying and selling of, and changes in the fair value of financial investments held for trading.

6 NET GAINS/(LOSSES) ARISING FROM INVESTMENTS

	Six months ended 30 June 2018	2017
Dividend income	**1,100**	700
Net gains on financial assets at fair value through profit or loss	**944,090**	–
Net gains on disposal of financial assets at fair value through other comprehensive income	**6,057**	–
Net losses on disposal of available-for-sale financial assets	**–**	(9,235)
Others	**–**	686
Total	**951,247**	(7,849)

7 OTHER OPERATING INCOME, NET

	Six months ended 30 June	
	2018	2017
Government grants	**3,868**	100
Rental income	**1,033**	1,033
Net gains on disposal of property, equipment and other assets	**40**	19
Others	**504**	198
Total	**5,445**	1,350

8 OPERATING EXPENSES

	Six months ended 30 June	
	2018	2017
Staff costs		
– Salaries, bonuses and allowances	**311,516**	239,863
– Social insurance and housing allowances	**40,956**	33,969
– Staff welfare expenses	**28,579**	31,136
– Staff education expenses	**7,923**	5,938
– Labor union expenses	**6,338**	4,780
– Post-employment benefits – defined contribution plans	**69,205**	66,452
– Supplementary retirement benefits	**9,380**	4,780
Sub-total	**473,897**	386,918
Property and equipment expenses		
– Depreciation and amortization	**196,286**	155,292
– Electronic equipment operating expenses	**39,309**	22,283
– Maintenance	**32,203**	23,187
Sub-total	**267,798**	200,762
Tax and surcharges	**35,454**	28,894
Other general and administrative expenses	**186,964**	176,252
Total	**964,113**	792,826

9 IMPAIRMENT LOSSES

	Six months ended 30 June 2018	2017
Loans and advances to customers	**526,238**	349,636
Deposits with banks and other financial institutions	**474**	–
Placements with banks and other financial institutions	**8,089**	–
Financial assets held under resale agreements	**(362)**	–
Financial investments measured at amortised cost	**(36,311)**	–
Financial investments at fair value through other comprehensive income	**7,438**	–
Receivables	**–**	20,000
Long-term receivables	**16,135**	27,226
Credit commitments	**(15,836)**	–
Others	**10,650**	3,188
Total	**516,515**	400,050

10 INCOME TAX EXPENSE

(1) Income tax for the reporting period:

	Note	Six months ended 30 June 2018	2017
Current tax		**331,162**	429,091
Deferred tax	*10(2)*	**(12,555)**	(65,533)
Total		**318,607**	363,558

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

	Six months ended 30 June 2018	2017
Profit before taxation	**1,649,483**	1,642,318
Statutory tax rate	**25%**	25%
Income tax calculated at statutory tax rate	**412,371**	410,580
Tax effect of non-deductible expenses for tax purpose		
– Entertainment expenses	**1,409**	1,303
– Annuity	**3,723**	5,644
– Others	**2,219**	2,090
	7,351	9,037
Tax effect of non-taxable income for tax purpose *(Note (i))*	**(101,115)**	(56,059)
Income tax	**318,607**	363,558

Note:

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

11 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share was computed by dividing the profit for the period attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares in issue. Diluted earnings per share was computed by dividing the adjusted profit attributable to the ordinary shareholders of the Bank based on assuming conversion of all dilutive potential shares for the period by the adjusted weighted average number of ordinary shares in issue. There is no difference between basic and diluted earnings per share as there were no potentially dilutive shares outstanding during the reporting period.

		Six months ended 30 June	
	Note	**2018**	2017
Weighted average number of ordinary shares (in thousands)	*11(1)*	**4,058,713**	4,058,713
Net profit attributable to equity shareholders of the Bank		**1,321,444**	1,275,799
Less：dividends on preference shares declared		**–**	–
Net profit attributable to ordinary shareholders of the Bank		**1,321,444**	1,275,799
Basic and diluted earnings per share (in RMB)		**0.33**	0.31

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

	Six months ended 30 June	
	2018	2017
Number of ordinary shares as at 1 January	**4,058,713**	4,058,713
Increase in weighted average number of ordinary shares in current period	**–**	–
Weighted average number of ordinary shares	**4,058,713**	4,058,713

12 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2018	31 December 2017
Debt securities held for trading purpose		
Issued by the following institutions in Mainland China		
– Banks and other financial institutions	**–**	138,232
– Corporate entities	**–**	40,846
Sub-total	**–**	179,078
Asset management plans	**9,960,726**	–
Wealth management products issued by financial institutions	**5,918,355**	–
Trust fund plans	**4,729,568**	–
Investment funds	**6,150,418**	–
Total	**26,759,067**	179,078
Unlisted	**26,759,067**	179,078

13 DERIVATIVE FINANCIAL INSTRUMENTS

	30 June 2018			31 December 2017		
	Nominal amount	**Fair value Assets**	**Liabilities**	Nominal amount	Fair value Assets	Liabilities
Foreign exchange rate derivatives:						
– Currency swap	**2,646,640**	**15,118**	**(32,268)**	8,233,092	–	(353,220)
Total	**2,646,640**	**15,118**	**(32,268)**	8,233,092	–	(353,220)

14 FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Note	**30 June 2018**
Debt securities issued by the following institutions in Mainland China		
– Government		**5,116,490**
– Policy banks		**11,212,278**
– Banks and other financial institutions		**11,543,870**
– Corporate entities		**12,591,804**
Sub-total		**40,464,442**
Asset management plans		**2,852,124**
Equity investments	*14(1)*	**23,250**
Total		**43,339,816**
Unlisted		**43,339,816**

(1) The Group holds a number of unlisted equity investments which are not held for trading as long-term investments. They are not to be sold in short-term and no pattern of short-term profit exists. The Group designates them as financial investments at fair value through other comprehensive income, and the details are as follows:

	Six months ended 30 June 2018					
Investees	**Balance at the beginning of the period**	**Increase during the period**	**Decrease during the period**	**Balance at the end of the period**	**Percentage of shareholding in investees (%)**	**Cash dividend for the period**
China UnionPay Co., Ltd.	**13,000**	**–**	**–**	**13,000**	**0.34**	**1,100**
Shandong City Commercial Bank Cooperation Alliance Co., Ltd.	**10,000**	**–**	**–**	**10,000**	**2.99**	**–**
Clearing Center for City Commercial Banks	**250**	**–**	**–**	**250**	**0.83**	**–**
Total	**23,250**	**–**	**–**	**23,250**		**1,100**

For the six months ended 30 June 2018, the Group did not dispose of any such equity investment, nor transfer any cumulative gain or loss from other comprehensive income to retained earning.

(2) For the six months ended 30 June 2018, movements of the provision for impairment losses on debt instruments of financial investments at fair value through other comprehensive income are as follows:

	Six months ended 30 June 2018			
	12-month ECL	Lifetime ECL-not credit-impaired	Lifetime ECL– credit-impaired	Total
As at 1 January 2018	**18,579**	**6,252**	**–**	**24,831**
Transfer from/(to)				
– 12-month ECL	**–**	**(11)**	**–**	**(11)**
– Lifetime ECL				
– not credit-impaired	**11**	**–**	**–**	**11**
Charge for the period	**2,477**	**4,961**	**–**	**7,438**
As at 30 June 2018	**21,067**	**11,202**	**–**	**32,269**

Provision for impairment losses on debt instruments of financial investments at fair value through other comprehensive income is recognised in other comprehensive income, and any impairment loss or gain is recognised in the profit or loss without decreasing the carrying amount of financial investments presented in the statement of financial position. As at 30 June 2018, the Group did not have financial investments at fair value through other comprehensive income that were credit-impaired.

15 FINANCIAL INVESTMENTS MEASURED AT AMORTISED COST

	Note	30 June 2018
Debt securities issued by the following institutions in Mainland China		
– Government		**9,808,739**
– Policy banks		**15,433,720**
– Banks and other financial institutions		**10,312,553**
– Corporate entities		**1,536,342**
Sub-total		**37,091,354**
Asset management plans		**25,834,699**
Trust fund plans		**8,879,296**
Beneficiary rights in margin financing		**570,000**
Beneficiary certificates		**3,012,876**
Gross amount		**75,388,225**
Less: Provision for impairment losses	*15(2)*	**(343,445)**
Total		**75,044,780**

(1) The debt securities measured at amortised cost, asset management plans, trust fund plans, beneficiary rights in margin financing and beneficiary certificates are unlisted investments.

(2) For the six months ended 30 June 2018, movements of the allowance for impairment losses on financial investments measured at amortised cost are as follows:

	Six months ended 30 June 2018			
	12-month ECL	**Lifetime ECL-not credit-impaired**	**Lifetime ECL-credit-impaired**	**Total**
As at 1 January 2018	**379,756**	**–**	**–**	**379,756**
Transfer from/(to)				
– 12-month ECL	**–**	**2,335**	**–**	**2,335**
– Lifetime ECL				
– not credit-impaired	**(2,335)**	**–**	**–**	**(2,335)**
(Release)/Charge for the period	**(45,285)**	**8,974**	**–**	**(36,311)**
As at 30 June 2018	**332,136**	**11,309**	**–**	**343,445**

16 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Note	**31 December 2017**
Debt securities	*16(1)*	30,332,516
Wealth management products issued by financial institutions	*16(2)*	20,997,129
Asset management plans	*16(2)*	13,912,231
Investment funds	*16(2)*	8,634,391
Trust fund plans	*16(2)*	5,187,039
Equity investment	*16(3)*	23,250
Total		79,086,556

(1) Debt securities issued by the following institutions:

	31 December 2017
In Mainland China	
– Government	2,708,237
– Policy banks	11,024,741
– Banks and other financial institutions	10,963,707
– Corporate entities	5,635,831
Total	30,332,516
Unlisted	30,332,516

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

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

17 HELD-TO-MATURITY INVESTMENTS

	31 December 2017
Debt securities issued by the following institutions in Mainland China	
– Government	11,244,166
– Policy banks	14,748,401
– Banks and other financial institutions	10,888,829
– Corporate entities	1,763,530
Carrying value	38,644,926
Unlisted	38,644,926

18 RECEIVABLES

	31 December 2017
Asset management plans	29,459,861
Trust fund plans	13,530,830
Beneficiary certificates	3,322,063
Beneficiary rights in margin financing	505,720
Others	76,395
Gross amount	46,894,869
Less: provision for impairment losses	(216,000)
Total	46,678,869

19 PROFIT APPROPRIATION

(1) At the Bank's board of directors meeting held on 24 August 2018, the directors approved the dividend distribution plan for overseas preference shares. Dividend for overseas preference shares to be distributed amounts to USD73.5167 million (including tax), calculated at the initial annual dividend rate of 5.50% (after tax) before the first reset date pursuant to the terms and conditions of overseas preference shares. The dividend payment date is 19 September 2018.

(2) At the 2017 annual general meeting held on 15 May 2018, the shareholders approved the following profit appropriation for the year ended 31 December 2017:

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

(3) At the 2016 annual general meeting held on 11 May 2017, the shareholders approved the following profit appropriation for the year ended 31 December 2016:

- Appropriated RMB209 million to surplus reserve;
- Appropriated RMB1,305 million to general reserve;
- Declared cash dividends to all shareholders of RMB812 million representing RMB0.20 per share (before tax).

20 SEGMENT REPORTING

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

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

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

Corporate banking

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

Retail banking

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

Financial market business

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

Un-allocated items and others

This segment contains related business of the subsidiary, head office assets, liabilities, income and expenses that are not directly attributable to a segment.

	Six months ended 30 June 2018				
	Corporate banking	Retail banking	Financial market business	Un-allocated items and others	Total
External net interest income	981,280	184,752	541,643	28,617	1,736,292
Internal net interest income/(expense)	565,316	343,801	(904,725)	(4,392)	–
Net interest income/(expense)	1,546,596	528,553	(363,082)	24,225	1,736,292
Net fee and commission income	33,786	129,077	137,343	42,281	342,487
Net trading gains	–	–	94,640	–	94,640
Net (losses)/gains arising from investments	(271)	–	951,518	–	951,247
Other operating income, net	731	982	61	3,671	5,445
Operating income	1,580,842	658,612	820,480	70,177	3,130,111
Operating expenses	(473,014)	(251,660)	(216,726)	(22,713)	(964,113)
Impairment losses	(364,508)	(156,544)	20,672	(16,135)	(516,515)
Profit before taxation	743,320	250,408	624,426	31,329	1,649,483
Other segment information					
– Depreciation and amortisation	(80,786)	(108,411)	(6,701)	(388)	(196,286)
– Capital expenditure	46,344	62,192	3,844	212	112,592

	30 June 2018				
	Corporate banking	Retail banking	Financial market business	Un-allocated items and others	Total
Segment assets	94,584,530	44,506,683	155,824,607	6,163,568	301,079,388
Deferred tax assets					1,079,808
Total assets					302,159,196
Segment liabilities/Total liabilities	115,630,563	57,574,090	97,135,752	5,125,354	275,465,759
Credit commitments	17,118,416	413,428	–	–	17,531,844

	Six months ended 30 June 2017				
	Corporate banking	Retail banking	Financial market business	Un-allocated items and others	Total
External net interest income	1,001,424	77,265	1,246,172	19,706	2,344,567
Internal net interest income/(expense)	303,059	300,367	(601,728)	(1,698)	–
Net interest income	1,304,483	377,632	644,444	18,008	2,344,567
Net fee and commission income	88,760	221,748	170,157	37,529	518,194
Net trading losses	–	–	(21,068)	–	(21,068)
Net losses arising from investments	–	–	(7,849)	–	(7,849)
Other operating income, net	642	794	52	(138)	1,350
Operating income	1,393,885	600,174	785,736	55,399	2,835,194
Operating expenses	(379,377)	(205,351)	(187,850)	(20,248)	(792,826)
Impairment losses	(282,810)	(70,014)	(20,000)	(27,226)	(400,050)
Profit before taxation	731,698	324,809	577,886	7,925	1,642,318
Other segment information					
– Depreciation and amortisation	(67,063)	(82,816)	(5,380)	(33)	(155,292)
– Capital expenditure	147,607	182,278	11,842	1,739	343,466

	30 June 2017				
	Corporate banking	Retail banking	Financial market business	Un-allocated items and others	Total
Segment assets	84,428,395	40,247,439	153,774,404	2,723,101	281,173,339
Deferred tax assets					802,892
Total assets					281,976,231
Segment liabilities/Total liabilities	105,661,631	55,790,613	100,617,078	1,718,437	263,787,759
Credit commitments	20,668,594	379,321	–	–	21,047,915

21 COMMITMENTS AND CONTINGENT LIABILITIES

(1) Credit commitments

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

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

	30 June 2018	31 December 2017
Bank acceptances	**12,427,034**	14,892,929
Letters of credit	**1,048,539**	1,887,946
Letters of guarantees	**3,564,043**	2,103,693
Unused credit card commitments	**413,428**	407,964
Loan commitments	**78,800**	128,800
Total	**17,531,844**	19,421,332

The Group may be exposed to credit risk in all the above credit businesses. As the facilities may expire without being drawn upon, the total of the contractual amounts shown above is not representative of expected future cash outflows.

(2) Credit risk-weighted amount

	30 June 2018	31 December 2017
Credit risk-weighted amount of contingent liabilities and commitments	**10,525,863**	9,734,322

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

(3) Operating lease commitments

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

	30 June 2018	31 December 2017
Within one year (inclusive)	**114,741**	110,311
After one year but within five years (inclusive)	**273,441**	277,915
After five years	**93,810**	84,216
Total	**481,992**	472,442

(4) Capital commitments

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

	30 June 2018	31 December 2017
Contracted but not paid for	**249,396**	295,637

(5) Outstanding litigations and disputes

As at 30 June 2018 and 31 December 2017, there were no significant legal proceedings outstanding against the Group. Management is in the opinion that it is not necessary to provide any contingent liabilities as at the reporting period.

(6) Bonds redemption obligations

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

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

	30 June 2018	31 December 2017
Bonds redemption obligations	**3,915,870**	3,834,175

(7) Pledged assets

	30 June 2018	31 December 2017
Investment securities	**35,907,918**	14,062,133
Total	**35,907,918**	14,062,133

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

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

The Group's pledged assets in relation to the purchase of bills under resale agreements can be sold or repledged. As at 30 June 2018 and 31 December 2017, the Group did not have discounted bills under resale agreements. As at 30 June 2018 and 31 December 2017, the Group did not sell or repledge any pledged assets which it has an obligation to repurchase when they are due.

6. RELEASE OF INTERIM RESULTS ANNOUNCEMENT AND 2018 INTERIM REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE BANK

This results announcement will be published on the website of the Hong Kong Stock Exchange (http://www.hkexnews.hk/) and the website of the Bank (http://www.qdccb.com/). The 2018 interim report containing all the information required by the Hong Kong Listing Rules will be dispatched to the shareholders of the Bank and published on the website of the Hong Kong Stock Exchange and the website of the Bank in due course.

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

By order of the Board
Bank of Qingdao Co., Ltd.*
GUO Shaoquan
Chairman

Hong Kong, 24 August 2018

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

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