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 2019

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 2019 (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 BASIC INFORMATION

1.1 Corporate Basic Information

Legal name in Chinese:	青島銀行股份有限公司 (Abbreviation: 青島銀行)
Legal name in English:	BANK OF QINGDAO CO., LTD. (Abbreviation: BANK OF QINGDAO)
Legal representative:	Guo Shaoquan
Authorised representatives:	Guo Shaoquan, Lu Lan

Class of Shares	**Stock Abbreviation**	**Stock code**	**Listing exchange**
A Shares	BQD	002948	Shenzhen Stock Exchange
H Shares	BQD	3866	The Stock Exchange of Hong Kong Limited
Offshore preference shares	BQD 17USDPREF	4611	The Stock Exchange of Hong Kong Limited

1.2 Contact Persons and Contact Details

Secretary to the Board:	Lu Lan
Joint company secretaries:	Lu Lan, Yu Wing Sze
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2. FINANCIAL HIGHLIGHTS

Item	January to June 2019	January to June 2018	Year-on -year change
Business performance (RMB'000)			**Change (%)**
Net interest income	**3,144,543**	1,736,292	81.11
Net non-interest income	**1,390,025**	1,393,819	(0.27)
Operating income	**4,534,568**	3,130,111	44.87
Operating expenses	**(1,266,489)**	(964,113)	31.36
Impairment losses	**(1,428,195)**	(516,515)	176.51
Profit before taxation	**1,839,884**	1,649,483	11.54
Net profit	**1,466,129**	1,330,876	10.16
Net profit attributable to shareholders of the Bank	**1,438,462**	1,321,444	8.86
Per share (RMB)			**Change (%)**
Basic earnings per share [1]	**0.32**	0.33	(3.03)
Diluted earnings per share [1]	**0.32**	0.33	(3.03)

Item	30 June 2019	31 December 2018	Change from the end of last year
Scale indicators (RMB'000)			**Change (%)**
Total assets [2]	**345,230,946**	317,658,502	8.68
Loans and advances to customers [2]	**143,343,578**	123,366,891	16.19
Provision for loan impairment [3]	**(3,699,154)**	(3,557,806)	3.97
Total liabilities [2]	**315,232,865**	290,161,778	8.64
Deposits from customers [2]	**188,360,223**	177,911,247	5.87
Share capital	**4,509,690**	4,058,713	11.11
Equity attributable to the shareholders of the Bank	**29,458,663**	26,984,973	9.17
Equity attributable to shareholders	**29,998,081**	27,496,724	9.10
Net assets per share attributable to ordinary shareholders of the Bank [4] (RMB per share)	**4.79**	4.71	1.70
Net capital base	**38,300,520**	36,021,656	6.33
Among which: Net core tier-one capital	**21,789,938**	19,268,600	13.09
Other tier-one capital	**7,899,710**	7,894,330	0.07
Tier-two capital	**8,610,872**	8,858,726	(2.80)
Total risk-weighted assets	**236,429,937**	229,776,495	2.90

Item	January to June 2019	January to June 2018	Year-on-year change
Profitability indicators (%)			**Change**
Return on average total assets [5] (annualized)	**0.88**	0.88	–
Weighted average return on net assets [1] (annualized)	**13.49**	14.62	(1.13)
Net interest spread [6] (annualized)	**2.03**	1.47	0.56
Net interest margin [7] (annualized)	**2.06**	1.35	0.71
Net fee and commission income to operating income	**12.81**	10.94	1.87
Cost-to-income ratio [8]	**26.84**	29.67	(2.83)

Item	30 June 2019	31 December 2018	Change from the end of last year
Asset quality indicators (%)			**Change**
Non-performing loan ratio	**1.68**	1.68	–
Provision coverage ratio	**150.42**	168.04	(17.62)
Loan provision ratio	**2.53**	2.82	(0.29)
Indicators of capital adequacy ratio (%)			**Change**
Core tier-one capital adequacy ratio [9]	**9.22**	8.39	0.83
Tier-one capital adequacy ratio [9]	**12.56**	11.82	0.74
Capital adequacy ratio [9]	**16.20**	15.68	0.52
Total equity to total assets	**8.69**	8.66	0.03
Other indicators (%)			**Change**
Liquidity coverage ratio	**180.02**	125.95	54.07
Liquidity ratio	**67.73**	60.55	7.18
Net stable fund ratio	**102.03**	102.80	(0.77)

Notes:

(1) Earnings per share and weighted average return on net assets were calculated in accordance with the Compilation Rules for Information Disclosure by Companies Offering Securities to the Public No. 9 – Computation and Disclosure of Return on Net Assets and Earnings per Share (2010 Revision). Weighted average return on net assets (annualized) decreased by 1.13 percentage points as compared to that of previous year. Basic earnings per share decreased by RMB0.01 as compared to that of previous year, primarily due to the Bank completed the initial public offering of 451,000,000 A shares in the first half of the year, and raised a net proceeds of RMB1.963 billion and the weighted average net assets and share capital for the current period increased significantly.

(2) For details of the structure of total assets, total liabilities, loans and advances to customers and deposits from customers, please refer to "4. Analysis of Major Items of the Statement of Financial Position" of Section 3. Management Discussion and Analysis of this results announcement.

(3) Provision for loan impairment includes impairment provision for loans and advances to customers measured at amortized cost of RMB3.679 billion and impairment provision for loans and advances to customers at fair value through other comprehensive income of RMB20 million.

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

(5) Return on average total assets = net profit/average balance of total assets at the beginning and the end of the period, of which total assets at the beginning of 2018 is the balance after the adoption of International Financial Reporting Standard 9 Financial instruments ("**IFRS 9**"), and total assets at the beginning of 2019 is the balance after the adoption of International Financial Reporting Standard 16 Lease ("**IFRS 16**").

(6) Net interest spread = average yield of interest-earning assets – average cost rate of interest-bearing liabilities.

(7) Net interest margin = net interest income/average interest-earning assets.

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

(9) The relevant indicators of capital adequacy ratios in the above table 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) For details of the changes in accounting policies and impacts, please refer to the announcement on the changes in accounting policies dated 23 August 2019 published by the Bank and "Notes to the Unaudited Interim Financial Report – 2(3) Changes in Accounting Policies" of this results announcement.

Customer loan ratio (%)	**Regulatory standard**	**30 June 2019**	31 December 2018	31 December 2017
Single largest customer loan ratio	≤10	**4.70**	4.16	4.32
Ten largest customers loan ratio	≤50	**30.38**	29.06	29.21

Migration rate (%)	**30 June 2019**	31 December 2018	31 December 2017
Normal loan migration rate	**1.74**	3.06	2.51
Special mention loan migration rate	**49.87**	44.53	53.57
Substandard loan migration rate	**61.53**	36.28	67.75
Doubtful loan migration rate	**39.25**	21.41	10.31

Liquidity coverage ratio item (RMB' 000)	**30 June 2019**	31 December 2018
Qualified and high-quality current assets	**65,054,000**	52,974,850
Net cash outflows in next 30 days	**36,137,989**	42,058,582
Liquidity coverage ratio (RMB and foreign currency)	**180.02%**	125.95%

Net stable fund ratio item (RMB' 000)	**30 June 2019**		31 March 2019		31 December 2018	
	The Company	**The Bank**	The Company	The Bank	The Company	The Bank
Stable funds available	**188,183,992**	**186,315,742**	183,312,473	181,737,448	178,819,503	177,025,810
Stable funds required	**184,434,976**	**178,763,840**	183,106,383	177,578,756	173,945,290	168,986,433
Net stable fund ratio	**102.03%**	**104.22%**	100.11%	102.34%	102.80%	104.76%

Note: Pursuant to the Administrative Measures for Liquidity Risk Management of Commercial Banks, net stable fund ratio of commercial banks shall not be less than 100%.

3. MANAGEMENT DISCUSSION AND ANALYSIS

1. Overview

In the first half of 2019, global economic growth remained anemic. Against the backdrop of external instability and increasing uncertainties, China's domestic economy maintained an overall stable development trend. The overall tone of China's prudent monetary policy remained unchanged, the size of social financing and loan scale continued to increase, and the support for the economy from finance was continuously enhancing. With the implementation of positive fiscal policy, the effect of tax reduction continued to increase in the first half of the year, while the issuance of local government bonds increased significantly, which stabilized the social investment. In the first half of 2019, although the economic growth of Shandong Province and Qingdao slowed down, the economic structure adjustment has started, the growth rate of consumption as well as import and export accelerated as compared to that of last year, and new economic growth points are forming.

2. Summary of the Overall Operation

2.1 Status of Key Operational Indicators Achievements

(1) Total assets amounted to RMB345.231 billion, representing an increase of RMB27.572 billion or 8.68% as compared with that at the end of the previous year;

(2) Loans and advances to customers amounted to RMB143.344 billion, representing an increase of RMB19.977 billion or 16.19% as compared with that at the end of the previous year;

(3) Deposits from customers amounted to RMB188.360 billion, representing an increase of RMB10.449 billion or 5.87% as compared with that at the end of the previous year;

(4) Net profit amounted to RMB1.466 billion, representing a year-on-year increase of RMB135 million or 10.16%;

(5) Non-performing loan ratio was 1.68%, remaining flat as compared with that at the end of previous year; provision coverage ratio was 150.42%; capital adequacy ratio was 16.20%, representing an increase of 0.52 percentage point as compared with that at the end of the previous year. All indicators above meet the regulatory requirements;

(6) Return on average total assets (annualized) was 0.88%, remaining flat as compared with that of the same period of previous year;

(7) Weighted average return on net assets (annualized) was 13.49%, representing a year-on-year decrease of 1.13 percentage points; basic earnings per share was RMB0.32, representing a year-on-year decrease of RMB0.01, mainly due to the fact that the Bank completed the initial public offering of 451,000,000 A shares in the first half of the year, and raised the net proceeds of RMB1.963 billion and the weighted average net assets and share capital for the current period increased significantly.

2.2 Major Tasks of Operation and Management

(1) Enhance customer experience and build a diversified service system for retail banking customers. During the Reporting Period, the retail banking customer base and their assets retained in the Bank continued to grow steadily. Credit card issuance speed continued to rise rapidly, wealth management business achieved rapid growth, personal loan business achieved both volume and price increases, and mid-to-high-end retail banking products continued to enrich. Mobile banking 4.0 was launched successfully and completed the reconstruction work on the cloud platform, which continuously optimized the customer experience of all channels.

(2) Focus on target customer groups and strengthen the comprehensive operation capability of corporate banking business. During the Reporting Period, the corporate banking business focused on the strategy of expanding customer base. Through product innovation and system optimization, the Bank implemented a number of major projects in respect of strategic customers, bank and government cooperation, which effectively boosted the growth of credit and deposit scale and consolidated the development basis of the Bank.

(3) Enhance investment quality and efficiency in financial market business, and expand diversified financing channels. During the Reporting Period, on the basis of maintaining the traditional advantages of capital trading business, the scale of bond underwriting increased steadily. The Bank vigorously developed direct financing business by relying on three major product lines, namely debt financing instruments, wealth management direct financing instruments and debt financing plans. Under unfavorable market environment, the Bank successfully issued two tranches of financial bonds with total amount of RMB8.000 billion. The Bank promoted the transformation and upgrading of net-worth products in accordance with the new requirements of asset management, and achieved the compliance growth of management scale and high-quality improvement of profit contribution.

(4) Deepen management transformation and promote the "enhancement plan" to go further and become more precise. During the Reporting Period, the Bank continued to promote the construction of bank for centralized operation process, and 90% of the counter business achieved centralized authorization. A new round of counter marketing and exploration activities were carried out to explore potential customers and achieve deposit enhancement. The Bank explored innovation of centralized credit approval system to improve the quality and efficiency of credit approval.

3. Analysis of Major Items of the Statement of Profit or Loss

3.1 Financial Performance Summary

During the Reporting Period, the Company's profit before tax amounted to RMB1.840 billion, representing a year-on-year increase of RMB190 million or 11.54%; net profit amounted to RMB1.466 billion, representing a year-on-year increase of RMB135 million or 10.16%; and effective income tax rate was 20.31%, representing a year-on-year increase of 0.99 percentage point, mainly due to the increase in proportion of the taxable interest income on loans in the Company's operating income. The following table sets forth the changes in the Company's major profit items for the periods indicated.

Unit: RMB'000

Item	**January to June 2019**	January to June 2018	**Change in amount**	**Change (%)**
Net interest income	**3,144,543**	1,736,292	1,408,251	81.11
Net fee and commission income	**580,810**	342,487	238,323	69.59
Net trading gains, net gains arising from investments and other operating income, net	**809,215**	1,051,332	(242,117)	(23.03)
Operating expenses	**(1,266,489)**	(964,113)	(302,376)	31.36
Impairment losses	**(1,428,195)**	(516,515)	(911,680)	176.51
Profit before taxation	**1,839,884**	1,649,483	190,401	11.54
Income tax expense	**(373,755)**	(318,607)	(55,148)	17.31
Net profit	**1,466,129**	1,330,876	135,253	10.16
Of which: Net profit attributable to shareholders of the Bank	**1,438,462**	1,321,444	117,018	8.86
Net profit attributable to non-controlling interests	**27,667**	9,432	18,235	193.33

3.2 Operating Income

During the Reporting Period, the Company's operating income amounted to RMB4.535 billion, representing a year-on-year increase of RMB1.404 billion or 44.87%, mainly due to the Company's optimization of asset and liability structure, resulting in a faster growth in net interest income. The Company improved the level of intermediary business, and the net fee and commission income increased fast. Among the operating income, net interest income accounted for 69.35%, representing a year-on-year increase of 13.88 percentage points, and net fee and commission income accounted for 12.81%, representing a year-on-year increase of 1.87 percentage points. The following table sets forth the principal composition of the Company's operating income and the changes during the periods indicated.

Unit: RMB'000

Item	**January to June 2019** Amount	**January to June 2019** Percentage (%)	January to June 2018 Amount	January to June 2018 Percentage (%)	**Percentage changes (percentage point)**
Net interest income	**3,144,543**	**69.35**	1,736,292	55.47	13.88
Interest income	**6,825,818**	**150.53**	5,453,245	174.22	(23.69)
Among which: Loans and advances to customers	**3,441,917**	**75.90**	2,412,614	77.08	(1.18)
Financial investments	**2,685,687**	**59.23**	2,534,605	80.97	(21.74)
Deposits with banks and other financial institutions	**8,670**	**0.19**	9,671	0.31	(0.12)
Placements with banks and other financial institutions	**142,484**	**3.14**	52,706	1.68	1.46
Deposits with central bank	**168,832**	**3.72**	188,787	6.03	(2.31)
Financial assets held under resale agreements	**133,225**	**2.94**	123,596	3.95	(1.01)
Long-term receivables	**245,003**	**5.40**	131,266	4.19	1.21
Interest expense	**(3,681,275)**	**(81.18)**	(3,716,953)	(118.75)	37.57
Net non-interest income	**1,390,025**	**30.65**	1,393,819	44.53	(13.88)
Among which: Net fee and commission income	**580,810**	**12.81**	342,487	10.94	1.87
Net trading gains, net gains arising from investments and other operating income, net	**809,215**	**17.85**	1,051,332	33.59	(15.74)
Operating income	**4,534,568**	**100.00**	3,130,111	100.00	–

3.3 *Net Interest Income*

During the Reporting Period, the Company's net interest income was RMB3.145 billion, representing a year-on-year increase of RMB1.408 billion or 81.11%, mainly due to the Company's net interest margin improved significantly while the scale of the Company's interest-earning assets expanded. The following table sets forth the average balance of interest-earning assets and interest-bearing liabilities items, interest income/expense and average yield/cost rate of the Company for the periods indicated. The average balances of interest-earning assets and interest-bearing liabilities represent the daily average balances.

Unit: RMB' 000

	January to June 2019			January to June 2018		
Item	**Average balance**	**Interest income/ expense**	**Average yield/cost rate (%)**	Average balance	Interest income/ expense	Average yield/cost rate (%)
Interest-earning assets						
Loans and advances to customers	**137,694,343**	**3,441,917**	**5.04**	101,107,742	2,412,614	4.81
Financial investments	**117,755,709**	**2,685,687**	**4.60**	113,377,563	2,534,605	4.51
Deposits and placements with banks and other financial institutions (1)	**21,055,983**	**284,379**	**2.72**	14,618,405	185,973	2.57
Deposits with central bank	**22,209,675**	**168,832**	**1.53**	24,971,505	188,787	1.52
Long-term receivables	**8,590,242**	**245,003**	**5.75**	5,064,684	131,266	5.23
Total	**307,305,952**	**6,825,818**	**4.48**	259,139,899	5,453,245	4.24
Interest-bearing liabilities						
Deposits from customers	**176,323,940**	**1,591,835**	**1.82**	160,024,453	1,432,119	1.80
Deposits and placements from banks and other financial institutions (2)	**46,107,855**	**659,773**	**2.89**	49,744,286	869,619	3.53
Debt securities issued	**69,715,302**	**1,257,153**	**3.64**	56,866,676	1,328,313	4.71
Others	**11,081,843**	**172,514**	**3.14**	3,971,042	86,902	4.41
Total	**303,228,940**	**3,681,275**	**2.45**	270,606,457	3,716,953	2.77
Net interest income	**/**	**3,144,543**	**/**	/	1,736,292	/
Net interest spread	**/**	**/**	**2.03**	/	/	1.47
Net interest margin	**/**	**/**	**2.06**	/	/	1.35

Notes: (1) Deposits and placements with banks and other financial institutions include financial assets held under resale agreements.

(2) Deposits and placements from banks and other financial institutions include financial assets sold under repurchase agreements.

During the Reporting Period, the average balance of interest-earning assets was RMB307.306 billion, representing a year-on-year increase of RMB48.166 billion or 18.59%, which was mainly attributable to the business development and the growth of loan scale. Net interest margin was 2.06%, representing a year-on-year increase of 0.71 percentage point, and net interest spread was 2.03%, representing a year-on-year increase of 0.56 percentage point, which was mainly due to the Company's optimization of asset and liability structure, the increase in both the scale and the yield of interest-earning assets, and while the scale of liabilities increased, the cost rate of the interbank bonds and debt securities issued decreased.

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

Unit: RMB'000

	January to June 2019 vs. January to June 2018		
Item	**Due to volume**	**Due to rate**	**Net increase (decrease)**
Assets			
Loans and advances to customers	913,985	115,318	1,029,303
Financial investments	100,481	50,601	151,082
Deposits and placements with banks and other financial institutions	87,532	10,874	98,406
Deposits with central bank	(21,193)	1,238	(19,955)
Long-term receivables	100,677	13,060	113,737
Interest income changes	**1,181,482**	**191,091**	**1,372,573**
Liabilities			
Deposits from customers	143,845	15,871	159,716
Deposits and placements from banks and other financial institutions	(51,973)	(157,873)	(209,846)
Debt securities issued	230,576	(301,736)	(71,160)
Others	110,621	(25,009)	85,612
Interest expense changes	**433,069**	**(468,747)**	**(35,678)**
Net interest income changes	**748,413**	**659,838**	**1,408,251**

3.4 *Interest Income*

During the Reporting Period, the Company's interest income was RMB6.826 billion, representing a year-on-year increase of RMB1.373 billion or 25.17%. It was mainly due to the increase in loan scale and increase in yield on interest-earning assets. The interest income from loans and advances to customers and financial 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 from loans and advances to customers amounted to RMB3.442 billion, representing a year-on-year increase of RMB1.029 billion or 42.66%. It was mainly due to the Company's optimization and adjustment of asset structure, resulting in a rapid growth of loan volume and increase in overall loan return. The following table sets forth the average balance, interest income and average yield of each component of the Company's loans and advances to customers for the periods indicated.

Unit: RMB' 000

	January to June 2019			January to June 2018		
Item	**Average balance**	**Interest income**	**Average yield (%)**	Average balance	Interest income	Average yield (%)
Corporate loans	**83,599,410**	**2,127,391**	**5.13**	66,156,112	1,596,552	4.87
Discounted bills	**10,789,367**	**212,008**	**3.96**	4,276,161	104,800	4.94
Personal loans	**43,305,566**	**1,102,518**	**5.13**	30,675,469	711,262	4.68
Total loans	**137,694,343**	**3,441,917**	**5.04**	101,107,742	2,412,614	4.81

Interest income from financial investments

During the Reporting Period, the Company's interest income from financial investments was RMB2.686 billion, representing a year-on-year increase of RMB151 million or 5.96%, which was mainly attributable to the Company's optimization of investment structure, moderate increase of investment in credit bonds under pre-conditions of compliance and prudence and increase in the yield of newly added investment assets.

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 RMB284 million, representing a year-on-year increase of RMB98 million or 52.91%, which was mainly attributable to the Company's adjustment of capital allocation and the increase in the scale of placements with banks and other financial institutions as compared to the corresponding period of previous year.

3.5 *Interest Expense*

During the Reporting Period, the Company's interest expenses amounted to RMB3.681 billion, representing a year-on-year decrease of RMB36 million or 0.96%, which was mainly due to the fact that the Company optimized its debt structure and lowered the cost rate of interbank liabilities and debt securities issued while expanding its debt scale. Interest expenses on deposits from customers and debt securities issued were major parts 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 was RMB1.592 billion, representing a year-on-year increase of RMB160 million or 11.15%. The following table sets forth the average balance, interest expense and average cost rate of each component of the Company's deposits from customers for the periods indicated.

Unit: RMB' 000

	January to June 2019			January to June 2018		
Item	**Average balance**	**Interest expense**	**Average cost rate (%)**	Average balance	Interest expense	Average cost rate (%)
Corporate deposits						
Demand	**68,776,120**	**257,471**	**0.75**	59,739,406	210,696	0.71
Time	**48,880,541**	**643,916**	**2.66**	46,608,814	637,029	2.76
Sub-total	**117,656,661**	**901,387**	**1.54**	106,348,220	847,725	1.61
Personal deposits						
Demand	**18,282,267**	**27,430**	**0.30**	17,913,853	28,606	0.32
Time	**40,385,012**	**663,018**	**3.31**	35,762,380	555,788	3.13
Sub-total	**58,667,279**	**690,448**	**2.37**	53,676,233	584,394	2.20
Total deposits from customers	**176,323,940**	**1,591,835**	**1.82**	160,024,453	1,432,119	1.80

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 RMB660 million, representing a year-on-year decrease of RMB210 million or 24.13%, which was mainly due to the decrease in the cost rate and scale 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 RMB1.257 billion, representing a year-on-year decrease of RMB71 million or 5.36%, which was mainly due to the fact that the Company optimized the structure of active liabilities and increased the low-cost certificates of interbank deposit issued based on the loose liquidity in the financial market.

3.6 Net Non-interest Income

During the Reporting Period, the Company's net non-interest income was RMB1.390 billion, representing a year-on-year decrease of RMB4 million or 0.27%. 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 2019**	January to June 2018
Fee and commission income	**614,082**	373,336
Less: fee and commission expense	**(33,272)**	(30,849)
Net fee and commission income	**580,810**	342,487
Net trading gains, net gains arising from investments and other operating income, net	**809,215**	1,051,332
Net non-interest income	**1,390,025**	1,393,819

3.7 Net Fee and Commission Income

During the Reporting Period, the Company's net fee and commission income amounted to RMB581 million, representing a year-on-year increase of RMB238 million or 69.59%, mainly due to an increase in income of service fees as a result of the rapid development of wealth management, agency service and other businesses.

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 2019**	January to June 2018
Fee and commission income		
Wealth management service fees	**318,278**	144,994
Agency service fees	**155,930**	128,835
Custody and bank card service fees	**37,535**	17,402
Settlement fees	**17,798**	16,423
Others	**84,541**	65,682
Total	**614,082**	373,336
Fee and commission expense	**(33,272)**	(30,849)
Net fee and commission income	**580,810**	342,487

During the Reporting Period, the Company's wealth management service fees amounted to RMB318 million, representing a year-on-year increase of RMB173 million or 119.51%, mainly due to the improvement of the Company's wealth management products operating capacity; agency service fees amounted to RMB156 million, representing a year-on-year increase of RMB27 million or 21.03%, mainly due to an increase in commission income from the sales agency business for trust products and underwriting fees for bond financing instruments; custody and bank card service fees amounted to RMB38 million, representing a year-on-year increase of RMB20 million or 115.69%, mainly due to an increase in credit card service fees; settlement fees amounted to RMB18 million, representing a year-on-year increase of RMB1 million or 8.37%.

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

During the Reporting Period, the Company's net trading gains, net gains arising from investments and other operating income, net amounted to RMB809 million, representing a year-on-year decrease of RMB242 million. In particular, net trading gains amounted to RMB15 million, representing a year-on-year decrease of RMB79 million, mainly due to the fluctuation of market exchange rates; net gains arising from investments amounted to RMB786 million, representing a year-on-year decrease of RMB166 million, mainly due to a decline in corresponding investment income as a result of the decrease in both yield and scale of the financial investments measured at fair value through profit or loss resulting from the Company's implementation of macro-policy guidance to compress non-standard assets. The following table sets forth the major components of the Company's net trading gains, net gains arising from investments and other operating income, net for the periods indicated.

Unit: RMB'000

Item	January to June 2019	January to June 2018
Net trading gains	**15,362**	94,640
Net gains arising from investments	**785,541**	951,247
Other operating income, net	**8,312**	5,445
Total	**809,215**	1,051,332

3.9 Operating Expenses

During the Reporting Period, the Company's operating expenses amounted to RMB1.266 billion, representing a year-on-year increase of RMB302 million or 31.36%. In particular, staff costs increased by RMB223 million or 47.04% on a year-on-year basis, mainly due to the business development and staff increase. 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 2019	January to June 2018
Staff costs	**696,838**	473,897
Property and equipment expenses	**283,311**	267,798
Tax and surcharges	**49,349**	35,454
Other general and administrative expenses	**236,991**	186,964
Total operating expenses	**1,266,489**	964,113

3.10 Impairment Losses

During the Reporting Period, the Company's impairment losses amounted to RMB1.428 billion. Impairment losses from loans and advances to customers constituted the largest component of impairment losses. 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 2019	January to June 2018
Deposits with banks and other financial institutions	**51**	474
Placements with banks and other financial institutions	**(4,029)**	8,089
Financial assets held under resale agreements	**(122)**	(362)
Loans and advances to customers	**1,382,222**	526,238
Financial investments measured at amortized cost	**(75,701)**	(36,311)
Financial investments at fair value through other comprehensive income	**63,809**	7,438
Long-term receivables	**58,718**	16,135
Credit commitments	**(3,905)**	(15,836)
Others	**7,152**	10,650
Total impairment losses	**1,428,195**	516,515

During the Reporting Period, impairment losses from loans and advances to customers amounted to RMB1.382 billion, representing an increase of RMB856 million or 162.66% over the same period of last year, mainly due to an increase in provision for impairment to adapt to the loan risk conditions, as the regional economy was faced with pressure of replacing old drivers with new ones and the operational risk of borrowers increased.

4. Analysis of Major Items of the Statement of Financial Position

4.1 Assets

As at the end of the Reporting Period, the Company's total assets amounted to RMB345.231 billion, representing an increase of RMB27.572 billion or 8.68% as compared with that at the end of last year. The following table sets forth the components of the Company's total assets as at the dates indicated.

Unit: RMB'000

Item	**30 June 2019**		31 December 2018		**Change from the end of last year**		31 December 2017	
	Amount	**% of total**	Amount	% of total	**Amount change (%)**	**Ratio change (%)**	Amount	% of total
Loans and advances to customers	**143,343,578**	**41.52**	123,366,891	38.84	16.19	2.68	95,514,680	31.19
Financial investments measured at amortized cost	**66,573,268**	**19.28**	70,032,056	22.05	(4.94)	(2.77)	N/A	N/A
Financial investments measured at fair value through other comprehensive income	**52,507,189**	**15.21**	53,002,751	16.69	(0.93)	(1.48)	N/A	N/A
Financial investments measured at fair value through profit or loss	**27,333,616**	**7.92**	22,361,816	7.04	22.23	0.88	179,078	0.06
Cash and deposits with central bank	**34,600,099**	**10.02**	29,554,430	9.30	17.07	0.72	27,097,814	8.85
Deposits with banks and other financial institutions	**1,321,082**	**0.38**	1,542,437	0.49	(14.35)	(0.11)	1,107,946	0.36
Placements with banks and other financial institutions	**4,588,207**	**1.33**	4,110,464	1.29	11.62	0.04	2,882,727	0.94
Derivative financial assets	**323**	**0.00**	–	–	–	–	–	–
Financial assets held under resale agreements	**–**	**–**	300,262	0.09	(100.00)	(0.09)	3,584,200	1.17
Available-for-sale financial assets	**N/A**	**N/A**	N/A	N/A	N/A	N/A	79,086,556	25.82
Held-to-maturity investments	**N/A**	**N/A**	N/A	N/A	N/A	N/A	38,644,926	12.62
Receivables	**N/A**	**N/A**	N/A	N/A	N/A	N/A	46,678,869	15.24
Long-term receivables	**8,800,422**	**2.55**	7,766,698	2.44	13.31	0.11	4,076,396	1.33
Property and equipment	**3,089,560**	**0.90**	3,124,355	0.98	(1.11)	(0.08)	3,089,017	1.01
Deferred tax assets	**1,331,453**	**0.39**	1,152,778	0.36	15.50	0.03	1,084,286	0.35
Other assets	**1,742,149**	**0.50**	1,343,564	0.43	29.67	0.07	3,249,597	1.06
Total assets	**345,230,946**	**100.00**	317,658,502	100.00	8.68	–	306,276,092	100.00

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 RMB143.344 billion, representing an increase of RMB19.977 billion or 16.19% as compared with that at the end of the previous year, and accounted for 41.52% of the Company's total assets, representing an increase of 2.68 percentage points as compared with that at the end of the previous year. Growth rate of loans was relatively fast, which accounted for a higher increased percentage in the total assets and further enhanced asset structure. The following table sets forth the components of the loans and advances to customers of the Company by product type as at the dates indicated.

Unit: RMB'000

	30 June 2019		31 December 2018		**Change from the end of last year**		31 December 2017	
Item	**Amount**	**% of total**	Amount	% of total	**Amount change (%)**	**Ratio change (%)**	Amount	% of total
Corporate loans	**89,494,765**	**61.13**	78,264,271	61.92	14.35	(0.79)	64,363,848	65.64
Discounted bills	**12,116,688**	**8.28**	6,772,625	5.36	78.91	2.92	2,951,203	3.01
Personal loans	**44,780,905**	**30.59**	41,349,974	32.72	8.30	(2.13)	30,746,328	31.35
Sub-total	**146,392,358**	**100.00**	126,386,870	100.00	15.83	–	98,061,379	100.00
Accrued interest	**630,061**	/	521,250	/	20.88	/	N/A	N/A
Less: Provision for impairment on loans and advances to customers measured at amortized cost	**(3,678,841)**	/	(3,541,229)	/	3.89	/	(2,546,699)	/
Loans and advances to customers	**143,343,578**	/	123,366,891	/	16.19	/	95,514,680	/

Corporate loans

As at the end of the Reporting Period, the Company's corporate loans amounted to RMB89.495 billion, representing an increase of RMB11.230 billion or 14.35% as compared with that at the end of last year, and accounted for 61.13% of the total loans and advances to customers (excluding accrued interest, same hereinafter). During the Reporting Period, the Company continued to support the development of the real economy, constantly optimized the portfolio allocation of risk assets, increased credit support to small and micro enterprises, the real economy, the replacement of old growth drivers with new ones and strategic emerging areas.

Discounted bills

As at the end of the Reporting Period, the Company's discounted bills amounted to RMB12.117 billion, representing an increase of RMB5.344 billion or 78.91% as compared with that at the end of last year, and accounted for 8.28% of the total loans and advances to customers. During the Reporting Period, the Company improved the resource allocation of bill business, responded to the regulatory authorities' requirements of serving the real economy, grasped market opportunities, effectively improved the bill business income and integrated its linkage with marketing efficiency, flexibly allocated bill resources, and moderately increased the issuance of discounted bills.

Personal loans

As at the end of the Reporting Period, the Company's personal loans amounted to RMB44.781 billion, representing an increase of RMB3.431 billion or 8.30% as compared with that at the end of last year, and accounted for 30.59% of total loans and advances to customers. During the Reporting Period, the Company grasped the market opportunities and realized a balanced business development in personal housing loans, personal business loans and personal consumption loans under the objective condition of severe market competition; besides, revenue improvement, business development and structure optimization were carried out simultaneously.

4.1.2 Financial investments

As at the end of the Reporting Period, the Company's carrying value of financial investments amounted to RMB146.414 billion, representing an increase of RMB1.017 billion or 0.70% as compared with that at the end of last year. The following table sets forth the components of the Company's investment portfolio as at the dates indicated.

Unit: RMB'000

	30 June 2019		31 December 2018	
Item	**Amount**	**% of total**	Amount	% of total
Financial investments measured at fair value through profit or loss	**27,333,616**	**18.67**	22,361,816	15.38
Financial investments measured at fair value through other comprehensive income	**52,507,189**	**35.86**	53,002,751	36.45
Financial investments measured at amortized cost	**66,573,268**	**45.47**	70,032,056	48.17
Total	**146,414,073**	**100.00**	145,396,623	100.00

Financial investments measured at fair value through profit or loss

As at the end of the Reporting Period, the Company's carrying value of financial investments measured at fair value through profit or loss amounted to RMB27.334 billion, representing an increase of RMB4.972 billion or 22.23% as compared with that at the end of last year. The increase was mainly due to the increased investment in public bond funds with tax-exempt advantages and higher returns. The following table sets forth, as at the dates indicated, the components of the Company's financial investments measured at fair value through profit or loss.

Unit: RMB'000

Item	**30 June 2019**	31 December 2018
Other debt securities investments at fair value through profit or loss	**549,746**	237,280
Including: Debt securities issued by banks and other financial institutions	**518,043**	206,985
Debt securities issued by corporate entities	**31,703**	30,295
Investment funds	**12,829,787**	7,467,620
Asset management plans	**8,775,971**	9,354,611
Trust fund plans	**3,143,259**	3,221,359
Wealth management products issued by financial institutions	**2,034,853**	2,080,946
Financial investments measured at fair value through profit or loss	**27,333,616**	22,361,816

Financial investments measured at fair value through other comprehensive income

As at the end of the Reporting Period, the Company's carrying value of financial investments measured at fair value through other comprehensive income amounted to RMB52.507 billion, representing a decrease of RMB496 million or 0.93% as compared with that at the end of last year. The decrease was mainly due to the appropriate reduction of the volume of policy financial bonds according to the overall market condition and taking into account the returns. The following table sets forth, as at the dates indicated, the components of the Company's financial investments measured at fair value through other comprehensive income.

Unit: RMB'000

Item	30 June 2019	31 December 2018
Government bonds	**8,198,717**	7,116,493
Debt securities issued by policy banks	**8,077,726**	11,799,812
Debt securities issued by banks and other financial institutions	**10,935,325**	10,117,686
Debt securities issued by corporate entities	**17,496,041**	17,828,393
Asset management plans	**6,172,084**	5,062,908
Other investments	**703,305**	–
Equity investments	**23,250**	23,250
Accrued interest	**900,741**	1,054,209
Financial investments measured at fair value through other comprehensive income	**52,507,189**	53,002,751

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 RMB66.573 billion, representing a decrease of RMB3.459 billion or 4.94% as compared with that at the end of last year. The reason was that the Company reduced investment in asset management plans and trust asset management plans of some brokers upon the expiration of such assets as a result of our implementation of the macro-policy guidance and strengthening market research and judgment. The following table sets forth, as at the dates indicated, the components of the Company's financial investments measured at amortized cost.

Unit: RMB'000

Item	30 June 2019	31 December 2018
Government bonds	**11,475,992**	9,431,022
Debt securities issued by policy banks	**13,889,189**	13,887,327
Debt securities issued by banks and other financial institutions	**11,096,198**	11,296,117
Debt securities issued by corporate entities	**2,179,687**	1,229,620
Asset management plans	**18,940,246**	23,529,175
Trust fund plans	**3,643,550**	4,850,229
Other investments	**4,750,000**	5,170,000
Total financial investments measured at amortized cost	**65,974,862**	69,393,490
Accrued interest	**990,207**	1,106,068
Less: provision for impairment losses	**(391,801)**	(467,502)
Carrying value of financial investments measured at amortized cost	**66,573,268**	70,032,056

Investment in securities

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

Unit: RMB'000

Name of bond	Maturity date	Interest rates (%)	Nominal value	Impairment data
16 Guo Kai 05	2036-01-25	3.80	4,270,000	422
16 Jin Chu 10	2026-09-05	3.18	2,780,000	273
18 Guo Kai 11	2023-08-14	3.76	1,940,000	196
18 Nong Fa 06	2028-05-11	4.65	1,920,000	197
17 Guo Kai 10	2027-04-10	4.04	1,742,000	174
15 Jin Chu 19	2036-01-12	3.88	1,500,000	157
17 Nong Fa 05	2027-01-06	3.85	1,440,000	139
17 Nong Fa 15	2027-09-08	4.39	1,330,000	132
16 Nong Fa 10	2036-02-26	3.95	1,200,000	120
17 Jin Chu 03	2027-03-20	4.11	1,170,000	115

4.1.3 Derivative financial instruments

Unit: RMB'000

	30 June 2019		
Item	**Nominal amount**	**Fair value of assets**	**Fair value of liabilities**
Interest rate swaps and others	**19,309,283**	**323**	**(273)**

4.2 Liabilities

As at the end of the Reporting Period, the Company's total liabilities amounted to RMB315.233 billion, representing an increase of RMB25.071 billion or 8.64% 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

Item	30 June 2019		31 December 2018		Change from the end of last year		31 December 2017	
	Amount	**% of total**	Amount	% of total	**Amount change (%)**	**Ratio change (%)**	Amount	% of total
Deposits from customers	**188,360,223**	**59.75**	177,911,247	61.31	5.87	(1.56)	160,083,783	57.14
Deposits from banks and other financial institutions	**14,900,225**	**4.73**	11,632,982	4.01	28.09	0.72	24,901,934	8.89
Borrowings from central bank	**10,186,784**	**3.23**	10,878,835	3.75	(6.36)	(0.52)	584,215	0.21
Placements from banks and other financial institutions	**8,718,411**	**2.77**	7,207,066	2.48	20.97	0.29	5,774,299	2.06
Derivative financial liabilities	**273**	**0.00**	–	–	N/A	–	353,220	0.13
Financial assets sold under repurchase agreements	**13,654,122**	**4.33**	14,850,333	5.12	(8.06)	(0.79)	11,899,583	4.25
Income tax payable	**18,021**	**0.01**	13,174	0.01	36.79	–	57,167	0.02
Debt securities issued	**75,161,060**	**23.84**	65,240,507	22.48	15.21	1.36	68,632,691	24.50
Other liabilities	**4,233,746**	**1.34**	2,427,634	0.84	74.40	0.50	7,865,991	2.80
Total liabilities	**315,232,865**	**100.00**	290,161,778	100.00	8.64	–	280,152,883	100.00

4.2.1 Deposits from customers

As at the end of the Reporting Period, deposits from customers of the Company amounted to RMB188.360 billion, representing an increase of RMB10.449 billion or 5.87% as compared to the that at the end of previous year, accounting for 59.75% of the total liabilities of the Company, representing a decrease of 1.56 percentage points as compared with the end of last year, and was the Company's primary source of funding. The following table sets forth the composition of the Company's deposits from customers by product type and customer type as at the dates indicated.

Unit: RMB' 000

Item	30 June 2019 Amount	30 June 2019 % of total	31 December 2018 Amount	31 December 2018 % of total	Change from the end of last year Amount Change (%)	Change from the end of last year Ratio Change (%)	31 December 2017 Amount	31 December 2017 % of total
Corporate deposits	**126,830,494**	**68.24**	118,644,749	67.54	6.90	0.70	107,274,155	67.01
Demand deposits	**73,178,464**	**39.37**	72,852,694	41.47	0.45	(2.10)	65,421,504	40.87
Time deposits	**53,652,030**	**28.87**	45,792,055	26.07	17.16	2.80	41,852,651	26.14
Personal deposits	**58,836,530**	**31.66**	56,898,658	32.39	3.41	(0.73)	52,225,500	32.62
Demand deposits	**18,603,287**	**10.01**	18,313,340	10.43	1.58	(0.42)	17,935,483	11.20
Time deposits	**40,233,243**	**21.65**	38,585,318	21.96	4.27	(0.31)	34,290,017	21.42
Outward remittance and remittance payables	**194,129**	**0.10**	131,519	0.07	47.61	0.03	566,193	0.36
Fiscal deposits to be transferred	**8,824**	**0.00**	923	0.00	856.01	0.00	17,935	0.01
Sub-total	**185,869,977**	**100.00**	175,675,849	100.00	5.80	0.00	160,083,783	100.00
Accrued interests	**2,490,246**	**/**	2,235,398	/	11.40	/	N/A	N/A
Deposits from customers	**188,360,223**	**/**	177,911,247	/	5.87	/	160,083,783	/

As at the end of the Reporting Period, the Company's demand deposits accounted for 49.38% of the total deposits from customers (excluding accrued interest), representing a decrease of 2.52 percentage points as compared with that at the end of last year. Among those deposits, corporate demand deposits accounted for 57.70% of corporate deposits, representing a decrease of 3.71 percentage points as compared with that at the end of last year; and personal demand deposits accounted for 31.62% of personal deposits, representing a decrease of 0.57 percentage point as compared with that at the end of last year.

4.2.2 Deposits from banks and other financial institutions

As at the end of the Reporting Period, the Company's deposits from banks and other financial institutions amounted to RMB14.900 billion, representing an increase of RMB3.267 billion or 28.09% as compared with that at the end of last year, which was mainly due to the fact that the Company controlled the total amount of interbank liabilities and adjusted the structure, so as to enhance the stability of the debt structure, and appropriately increased deposits from banks and reduced financial assets sold under repurchase agreements.

4.2.3 Borrowings from central bank

As at the end of the Reporting Period, the Company's borrowings from the central bank amounted to RMB10.187 billion, representing a decrease of RMB692 million or 6.36% as compared with that at the end of previous year, mainly due to a decrease in the relending volume of the Company.

4.2.4 Financial assets sold under repurchase agreements

As at the end of the Reporting Period, the Company's financial assets sold under repurchase agreements amounted to RMB13.654 billion, representing a decrease of RMB1.196 billion or 8.06% as compared with that at the end of last year, which was mainly due to the fact that the Company controlled the total amount of interbank liabilities and adjusted the structure, so as to enhance the stability of the debt structure, and appropriately increased deposits from banks and reduced financial assets sold under repurchase agreements.

4.2.5 Debt securities issued

As at the end of the Reporting Period, the Company's debt securities issued amounted to RMB75.161 billion, representing an increase of RMB9.921 billion or 15.21% as compared with that at the end of last year, which was mainly due to the issuance of two tranches of financial bonds with fixed interest rate totaling RMB8.000 billion by the Company in May 2019. For details of the bonds, please refer to "Notes to the Unaudited Interim Financial Report – 31 Debt Securities Issued" of this results announcement.

4.3 Equity Attributable to Shareholders

As at the end of the Reporting Period, the shareholders' equity of the Company was RMB29.998 billion, representing an increase of RMB2.501 billion or 9.10% as compared with that at the end of the previous year. Equity attributable to the shareholders of the Bank was RMB29.459 billion, representing an increase of RMB2.474 billion or 9.17% as compared with that at the end of the previous year. On 16 January 2019, the Bank completed the initial public offering and listing of A shares on the Shenzhen Stock Exchange at the issue price of RMB4.52 per share. The number of shares issued was 450,977,251 and capital reserve increased by RMB1.512 billion.

Unit: RMB' 000

Item	30 June 2019	31 December 2018
Share capital	**4,509,690**	4,058,713
Other equity instruments		
Including: Preference shares	**7,853,964**	7,853,964
Capital reserve	**8,337,869**	6,826,276
Other comprehensive income	**527,789**	553,193
Surplus reserve	**1,403,575**	1,403,575
General reserve	**3,969,452**	3,969,452
Retained earnings	**2,856,324**	2,319,800
Total equity attributable to equity shareholders of the Bank	**29,458,663**	26,984,973
Non-controlling interests	**539,418**	511,751
Total equity	**29,998,081**	27,496,724

4.4 Assets and Liabilities Measured at Fair Value

Unit: RMB' 000

Main item	31 December 2018	Changes in fair value included in profit or loss for the current period	Cumulative changes in fair value recognized in equity	Impairment provided during the current period	30 June 2019
Financial investments measured at fair value through profit or loss	22,361,816	31,250	N/A	N/A	**27,333,616**
Loans and advances to customers at fair value through other comprehensive income	6,772,625	–	6,911	(3,736)	**12,116,688**
Financial investments measured at fair value through other comprehensive income	53,002,751	–	568,813	(63,809)	**52,507,189**
Derivative financial assets	–	323	N/A	N/A	**323**
Derivative financial liabilities	–	(273)	N/A	N/A	**(273)**

Note: Measurement attributes of major assets of the Company did not have material change during the Reporting Period.

5. Analysis of Quality of Loans

During the Reporting Period, the Company strengthened the quality control of credit assets. While the credit assets grew steadily, the quality of credit assets remained stable and the non-performing loan ratio remained flat as compared with that at the beginning of the year. As at the end of the Reporting Period, the total amount of loans of the Company (excluding accrued interest) was RMB146.392 billion, representing an increase of 15.83% as compared with that at the end of last year; total non-performing loans amounted to RMB2.459 billion, representing an increase of RMB342 million as compared with that at the end of last year; non-performing loan ratio was 1.68%, remaining flat as compared with that at the end of last year. For the purpose of discussion and analysis, unless otherwise specified, the amount of loans presented in the analysis below excludes accrued interest.

5.1 Distribution of Loans by Five Categories

Unit: RMB'000

	30 June 2019		31 December 2018	
Item	**Amount**	**% of total**	Amount	% of total
Normal loan	**137,288,966**	**93.78**	117,153,054	92.69
Special mention loan	**6,644,194**	**4.54**	7,116,638	5.63
Substandard loan	**1,151,310**	**0.79**	1,158,565	0.92
Doubtful loan	**1,167,164**	**0.80**	806,110	0.64
Loss loan	**140,724**	**0.09**	152,503	0.12
Total loans to customers	**146,392,358**	**100.00**	126,386,870	100.00
Total non-performing loans	**2,459,198**	**1.68**	2,117,178	1.68

Under the five-category classification system for loan supervision, the non-performing loans of the Company included the substandard, doubtful and loss loans. As at the end of the Reporting Period, the proportion of substandard loans decreased by 0.13 percentage point as compared with that at the end of last year to 0.79%, and the proportion of doubtful loans increased by 0.16 percentage point as compared with that at the end of last year to 0.80%.

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

Unit: RMB'000

Item	30 June 2019				31 December 2018			
	Amount of loans	**% of total**	**Amount of non-performing loans**	**Non-performing loan ratio %**	Amount of loans	% of total	Amount of non-performing loans	Non-performing loan ratio %
Corporate loans	**101,611,453**	**69.41**	**2,105,461**	**2.07**	85,036,896	67.28	1,804,412	2.12
Working capital loans	**55,363,764**	**37.82**	**1,890,290**	**3.41**	51,737,819	40.94	1,582,176	3.06
Fixed asset loans	**33,404,044**	**22.82**	**111,881**	**0.33**	25,903,427	20.50	139,275	0.54
Import and export bills transactions	**623,667**	**0.43**	**–**	**–**	517,563	0.41	–	–
Discounted bills	**12,116,688**	**8.28**	**–**	**–**	6,772,625	5.36	–	–
Others	**103,290**	**0.06**	**103,290**	**100.00**	105,462	0.08	82,961	78.66
Retail loans	**44,780,905**	**30.59**	**353,737**	**0.79**	41,349,974	32.72	312,766	0.76
Personal housing loans	**32,440,634**	**22.16**	**35,750**	**0.11**	30,229,094	23.92	22,906	0.08
Personal business loans	**5,258,703**	**3.59**	**298,103**	**5.67**	5,836,058	4.62	265,325	4.55
Personal consumption loans	**5,715,103**	**3.90**	**13,776**	**0.24**	3,827,588	3.03	12,503	0.33
Others	**1,366,465**	**0.94**	**6,108**	**0.45**	1,457,234	1.15	12,032	0.83
Total loans to customers	**146,392,358**	**100.00**	**2,459,198**	**1.68**	126,386,870	100.00	2,117,178	1.68

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 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 2.13 percentage points to 69.41% and its non-performing loan ratio decreased by 0.05 percentage point to 2.07%. Meanwhile, the Company kept optimizing its personal credit asset structure, made the personal housing loans maintain steady growth, while steadily developed online consumer loans.

5.3 *Distribution of Loans and Non-performing Loans by Industry*

Unit: RMB'000

Item	30 June 2019 Amount of loans	% of total	Amount of non-performing loans	Non-performing loan ratio %	31 December 2018 Amount of loans	% of total	Amount of non-performing loans	Non-performing loan ratio %
Corporate loans	**101,611,453**	**69.41**	**2,105,461**	**2.07**	85,036,896	67.28	1,804,412	2.12
Manufacturing	**19,556,702**	**13.36**	**1,487,347**	**7.61**	18,805,454	14.88	1,243,740	6.61
Construction	**14,817,399**	**10.12**	**72,290**	**0.49**	10,788,346	8.54	93,000	0.86
Wholesale and retail trade	**11,940,692**	**8.16**	**314,646**	**2.64**	9,654,849	7.64	198,476	2.06
Real estate	**11,423,823**	**7.80**	**106,911**	**0.94**	8,849,735	7.00	102,600	1.16
Renting and business services	**11,200,358**	**7.65**	**7,119**	**0.06**	8,169,559	6.46	33,309	0.41
Water conservancy, environment and public facility management	**10,624,867**	**7.26**	**–**	**–**	10,802,398	8.55	–	–
Financial services	**7,744,938**	**5.29**	**–**	**–**	5,456,155	4.32	–	–
Others	**6,806,196**	**4.65**	**112,148**	**1.65**	4,887,249	3.86	100,287	2.05
Production and supply of electric and heating power, gas and water	**5,010,241**	**3.42**	**5,000**	**0.10**	4,711,898	3.73	5,000	0.11
Transportation, storage and postal services	**2,486,237**	**1.70**	**–**	**–**	2,911,253	2.30	28,000	0.96
Retail loans	**44,780,905**	**30.59**	**353,737**	**0.79**	41,349,974	32.72	312,766	0.76
Total loans to customers	**146,392,358**	**100.00**	**2,459,198**	**1.68**	126,386,870	100.00	2,117,178	1.68

5.4 *Distribution of Loans and Non-performing Loans by Region*

Unit: RMB'000

Region	30 June 2019 Amount of loans	% of total	Amount of non-performing loans	Non-performing loan ratio %	31 December 2018 Amount of loans	% of total	Amount of non-performing loans	Non-performing loan ratio %
Shandong Province	**146,392,358**	**100.00**	**2,459,198**	**1.68**	126,386,870	100.00	2,117,178	1.68
Of which: Qingdao City	**83,146,818**	**56.81**	**729,944**	**0.88**	72,941,750	57.72	624,440	0.86

5.5 Distribution of Loans and Non-performing Loans by Type of Collateral

Unit: RMB'000

Item	30 June 2019				31 December 2018			
	Amount of loans	% of total	Amount of non-performing loans	Non-performing loan ratio %	Amount of loans	% of total	Amount of non-performing loans	Non-performing loan ratio %
Unsecured loans	**19,570,327**	**13.37**	**142,174**	**0.73**	15,753,945	12.46	140,184	0.89
Guaranteed loans	**36,610,210**	**25.01**	**1,930,400**	**5.27**	36,502,920	28.88	1,596,311	4.37
Mortgage loans	**63,132,054**	**43.12**	**386,624**	**0.61**	54,738,421	43.32	375,969	0.69
Pledged loans	**27,079,767**	**18.50**	**–**	**–**	19,391,584	15.34	4,714	0.02
Total loans to customers	**146,392,358**	**100.00**	**2,459,198**	**1.68**	126,386,870	100.00	2,117,178	1.68

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 3.16 percentage points to 18.50%; and the proportion of mortgage loans was 43.12%, the highest among all types of secured loans. The non-performing loan ratio of unsecured loans decreased by 0.16 percentage point to 0.73%.

5.6 Loans to the Top Ten Single Borrowers

Unit: RMB'000

Top ten borrowers	Industry	Amount of loans as at the end of the Reporting Period	Percentage in net capital %	Percentage in total loans %
A	Renting and business services	1,800,000	4.70	1.25
B	Financial services	1,500,000	3.92	1.02
C	Water conservancy, environment and public utility management	1,430,000	3.73	0.98
D	Water conservancy, environment and public utility management	1,332,500	3.48	0.91
E	Financial services	1,128,908	2.95	0.77
F	Renting and business services	969,140	2.53	0.66
G	Construction	909,900	2.38	0.62
H	Financial services	900,000	2.35	0.61
I	Renting and business services	840,588	2.19	0.57
J	Construction	825,000	2.15	0.56
Total		11,636,036	30.38	7.95

5.7 Distribution of Loans by Overdue Period

Unit: RMB'000

	30 June 2019		31 December 2018	
Overdue period	**Amount of loans**	**% of total**	Amount of loans	% of total
Overdue for 3 months (inclusive) or less	**1,537,682**	**1.05**	2,271,784	1.80
Overdue for over 3 months to 1 year (inclusive)	**1,133,489**	**0.77**	1,229,240	0.97
Overdue for over 1 year to 3 years (inclusive)	**610,932**	**0.42**	638,094	0.50
Overdue for over 3 years	**188,213**	**0.13**	214,698	0.17
Total overdue loans	**3,470,316**	**2.37**	4,353,816	3.44
Total loans to customers	**146,392,358**	**100.00**	126,386,870	100.00

As at the end of the Reporting Period, the overdue loans of the Company amounted to RMB3.470 billion, representing a decrease of RMB884 million as compared with that at the end of last year; the overdue loans accounted for 2.37% of the total loans of the Company, representing a decrease of 1.07 percentage points as compared with that at the beginning of the year. Particularly, the loans overdue for 90 days or less reached RMB1.538 billion, accounting for 44.31% of the overdue loans, representing a decrease of 7.87 percentage points as compared with that at the beginning of the year. The Company had also 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 0.79, representing a decrease of 0.19 as compared with that at the end of last year.

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 RMB14.2789 million with no provision for impairment, and the net amount of repossessed assets was RMB14.2789 million.

5.9 Changes in Provision for Impairment of Loans

From 1 January 2018, the Company has performed impairment accounting and confirmed loss provision based on expected credit losses. If the credit risk of a financial instrument is low on the balance sheet date or has not increased significantly since initial recognition, the Company measures its loss 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. The changes in the Company's provision for impairment of loans are detailed in the following table.

Unit: RMB'000

Item	**January to June 2019**	2018
Balance at the beginning of the period/year	**3,557,806**	3,127,265
Charge for the period/year	**1,382,222**	2,213,707
Write-offs for the period/year	**(1,250,824)**	(1,764,332)
Recovery of write-offs for the period/year	**37,651**	36,725
Other changes	**(27,701)**	(55,559)
Balance at the end of the period/year	**3,699,154**	3,557,806

As at the end of the Reporting Period, the Company's provision for impairment of loans (including discounted bills) amounted to RMB3.699 billion, representing an increase of RMB141 million or 3.97% as compared with that at the end of last year. The provision coverage ratio reached 150.42%; the provision rate of loans stood at 2.53%, both provision indicators satisfying regulatory requirements.

5.10 Countermeasures Taken against Non-performing Assets

During the Reporting Period, the Company accelerated the disposal of non-performing loans and continued to optimize its asset quality. Firstly, the Bank strengthened the communications and cooperation with industry association and interbank and actively took part in the joint reduction and treatment of non-performing assets and risks. The purpose sought was to fully protect and safeguard its own legitimate rights and interests, to maximize the benefits of collection and to strengthen the collection by law and promote effective collection. Secondly, the Bank continued to intensify efforts to proactively and promptly cancel the loans verified as non-performing and heighten the subsequent clearing and receiving of the cancelled assets. Thirdly, the Bank further sped up the construction of specialized collection team, optimized department functions, improved the evaluation mechanism, strengthened policy studies and dedicated studies, thus to propel the disposal of non-performing assets and the effective implementation of legal rights protection through judicial ways.

5.11 *Credit Extension to Group Customers and Risk Management*

The Company adhered to the principles of "implementing unified credit extension, providing an appropriate amount, employing classified management, conducting real-time monitoring and adopting a leading bank system" in extending credit to group customers. With continuous improvement on the management of corporate family trees of group customers, the solvency, business characteristics, financing habits, capital usage and actual demand of each member were reviewed, taking into account also, amongst others, the credit standing, credit extension risk, credit demand, and debts of group customers. In the principle of priority to leading industries, advantageous industries and quality enterprises, the overall credit limit of group customers was verified with the core enterprises that are engaged in the principal businesses of their group considered as the financing entities, and a unified credit extension proposal for group customers was formulated and executed. To enhance centralized management of group customers for preventing the risk of large-sum credit extension, the Bank established the Large-sum Credit Extension Review Committee composed of senior management at the headquarter level, which was in charge of reviewing and approving the business that meets the standards of large-sum credit extension bankwide. Meantime, the pre-warning mechanism of group customer risk was improved to continuously and effectively monitor, prevent and defuse risks, so that the control of overall credit extension risk of group customers was ensured.

5.12 *Soft Loans 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.

5.13 *Rescheduled Loans*

Unit: RMB'000

Item	**30 June 2019** Amount of loans	**30 June 2019** % of total	31 December 2018 Amount of loans	31 December 2018 % of total
Rescheduled loans	**366,664**	**0.25**	317,536	0.25
Total loans and advances to customers	**146,392,358**	**100.00**	126,386,870	100.00

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 capital risk and boost return on capital, and on this basis, it reasonably identified the Company's capital adequacy ratio target and guided business development by means of performance appraisal and capital allocation in a bid to achieve the coordinated development of its overall strategy, business development and capital management strategy.

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

6.1 Capital Adequacy Ratio

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

As at the end of the Reporting Period, the Company's capital adequacy ratio was 16.20%, representing an increase of 0.52 percentage point as compared with that at the end of last year; the core tier-one capital adequacy ratio stood at 9.22%, representing an increase of 0.83 percentage point as compared with that at the end of last year. Changes in capital adequacy ratio of the Company during the Reporting Period were mainly attributable to the Company's initial public offering of 451 million A shares completed in the first half of the year, the net proceeds from which was RMB1.963 billion, resulting in an increase of the core tier-one capital.

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

Unit: RMB'000

The Company	**30 June 2019**	31 December 2018
Total core tier-one capital		
Share capital	**4,509,690**	4,058,713
Qualifying portion of capital reserve	**8,337,869**	6,826,276
Other comprehensive income	**527,789**	553,193
Surplus reserve	**1,403,575**	1,403,575
General reserve	**3,969,452**	3,969,452
Retained earnings	**2,856,324**	2,319,800
Qualifying portion of non-controlling interests	**343,094**	302,744
Core tier-one capital adjustments	**(157,855)**	(165,153)
Net core tier-one capital	**21,789,938**	19,268,600
Other tier-one capital	**7,899,710**	7,894,330
Net tier-one capital	**29,689,648**	27,162,930
Tier-two capital	**8,610,872**	8,858,726
Net capital base	**38,300,520**	36,021,656
Total credit risk-weighted assets	**195,437,929**	187,513,305
Total market risk-weighted assets	**29,139,625**	30,410,807
Total operational risk-weighted assets	**11,852,383**	11,852,383
Total risk-weighted assets	**236,429,937**	229,776,495
Core tier-one capital adequacy ratio	**9.22%**	8.39%
Tier-one capital adequacy ratio	**12.56%**	11.82%
Capital adequacy ratio	**16.20%**	15.68%

As at the end of the Reporting Period, at the level of the Bank, the capital adequacy ratio was 16.36%, representing an increase of 0.60 percentage point as compared with that at the end of last year; the core tier-one capital adequacy ratio stood at 9.19%, representing an increase of 0.87 percentage point as compared with that at the end of last year.

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

Unit: RMB'000

The Bank	**30 June 2019**	31 December 2018
Total core tier-one capital		
Share capital	**4,509,690**	4,058,713
Qualifying portion of capital reserve	**8,337,869**	6,826,276
Other comprehensive income	**527,789**	553,193
Surplus reserve	**1,403,575**	1,403,575
General reserve	**3,969,452**	3,969,452
Retained earnings	**2,804,892**	2,297,164
Core tier-one capital adjustments	**(665,451)**	(672,533)
Net core tier-one capital	**20,887,816**	18,435,840
Other tier-one capital	**7,853,964**	7,853,964
Net tier-one capital	**28,741,780**	26,289,804
Tier-two capital	**8,425,983**	8,640,628
Net capital base	**37,167,764**	34,930,432
Total credit risk-weighted assets	**186,403,673**	179,519,234
Total market risk-weighted assets	**29,139,625**	30,410,807
Total operational risk-weighted assets	**11,651,288**	11,651,288
Total risk-weighted assets	**227,194,586**	221,581,329
Core tier-one capital adequacy ratio	**9.19%**	8.32%
Tier-one capital adequacy ratio	**12.65%**	11.86%
Capital adequacy ratio	**16.36%**	15.76%

6.2 Leverage Ratio

The leverage ratio of commercial banks shall not be less than 4% in accordance with the "Measures for the Administration of the Leverage Ratio of Commercial Banks (Revision)" (《商業銀行槓桿率管理辦法（修訂）》) of the CBIRC. As at the end of the Reporting Period, the Company's leverage ratio was 7.98% as calculated according to the "Measures for the Administration of the Leverage Ratio of Commercial Banks (Revision)", which satisfied the regulatory requirements.

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 2019**	Balance as at 31 December 2018
1	Total consolidated assets	**345,230,946**	317,658,502
2	Consolidated adjustments	**–**	–
3	Customer assets adjustments	**–**	–
4	Derivative adjustments	**18,278**	–
5	Securities financing transactions adjustments	**–**	–
6	Off-balance sheet items adjustments	**27,107,137**	25,314,087
7	Other adjustments	**(157,855)**	(165,153)
8	Balance of assets on and off balance sheet after adjustments	**372,198,506**	342,807,436

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

Unit: RMB'000

No.	Item	**Balance as at 30 June 2019**	Balance as at 31 December 2018
1	Assets on the balance sheet (excluding derivatives and securities financing transactions)	**345,230,623**	317,358,240
2	Less: tier-one capital deductions	**(157,855)**	(165,153)
3	The balance of assets on the balance sheet after adjustments (excluding derivatives and securities financing transactions)	**345,072,768**	317,193,087
4	Replacement cost of various types of derivatives (net of qualified margins)	**323**	–
5	Potential risk exposure in various types of derivatives	**–**	–

No.	Item	**Balance as at 30 June 2019**	Balance as at 31 December 2018
6	The sum of collaterals deducted from the balance sheet	**–**	–
7	Less: assets receivables formed due to qualified margins provided	**–**	–
8	Less: the balance of derivative assets formed due to transactions with central counterparties for providing clearing service for the customers	**–**	–
9	Notional principal for sold credit derivatives	**18,278**	–
10	Less: the balance of sold credit derivatives assets which can be deducted	**–**	–
11	The balance of derivatives assets	**18,601**	–
12	The balance of accounting assets for securities financing transactions	**–**	300,262
13	Less: the balance of securities financing transactions assets which can be deducted	**–**	–
14	Counterparty credit risk exposure to securities financing transactions	**–**	–
15	The balance of securities financing transactions assets formed due to securities financing transactions by proxy	**–**	–
16	The balance of securities financing transactions assets	**–**	300,262
17	The balance of items off balance sheet	**27,107,137**	25,314,087
18	Less: the balance of items off balance sheet reduced due to credit conversion	**–**	–
19	The balance of items off balance sheet after adjustments	**27,107,137**	25,314,087
20	Net tier-one capital	**29,689,648**	27,162,930
21	The balance of assets on and off balance sheet after adjustments	**372,198,506**	342,807,436
22	Leverage ratio	**7.98%**	7.92%

The following table sets out, as at the dates indicated, the relevant information of the Company's leverage ratio:

Unit: RMB'000

Item	**30 June 2019**	31 March 2019	31 December 2018	30 September 2018
Leverage ratio(%)	**7.98**	8.45	7.92	7.93
Net tier-one capital	**29,689,648**	29,819,904	27,162,930	26,404,872
The balance of assets on and off balance sheet after adjustments	**372,198,506**	352,899,833	342,807,436	332,929,600

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

7. Investment Analysis

7.1 Overview

Unit: RMB'000

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

As at the end of the Reporting Period, for details of other information concerning the Bank's investments, please refer to "4. Analysis of Major Items of the Statement of Financial Position – 4.1.2 Financial Investments" and "11. Analysis of Main Shares Holding Companies and Joint Stock Companies" in Section 3. Management Discussion and Analysis of this results announcement.

7.2 Significant Equity Investments Made during the Reporting Period

During the Reporting Period, the Company did not make any significant equity investment.

7.3 Significant Non-equity Investments in Progress during the Reporting Period

During the Reporting Period, the Company did not have any significant non-equity investments in progress.

7.4 Financial Assets Measured at Fair Value

At the end of the Reporting Period, for details of the financial assets measured at fair value of the Company, please refer to "4. Analysis of Major Items of the Statement of Financial Position – 4.4 Assets and Liabilities Measured at Fair Value" in Section 3. Management Discussion and Analysis of this results announcement.

7.5 Securities Investments

At the end of the Reporting Period, for details of the securities investments of the Company, please refer to "4. Analysis of Major Items of the Statement of Financial Position – 4.1.2 Financial Investments" in Section 3. Management Discussion and Analysis of this results announcement.

7.6 Derivative Investments

At the end of the Reporting Period, for details of the derivative investments of the Company, please refer to "4. Analysis of Major Items of the Statement of Financial Position – 4.1.3 Derivative Financial Instruments" in Section 3. Management Discussion and Analysis of this results announcement.

8. 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, etc. 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 2019** Segment operating income	**January to June 2019** Ratio (%)	January to June 2018 Segment operating income	January to June 2018 Ratio (%)
Corporate banking	**2,336,421**	**51.52**	1,580,842	50.50
Retail banking	**950,593**	**20.96**	658,612	21.04
Financial market business	**1,079,937**	**23.82**	820,480	26.21
Un-allocated items and others	**167,617**	**3.70**	70,177	2.25
Total	**4,534,568**	**100.00**	3,130,111	100.00

Unit: RMB'000

Item	**January to June 2019** Segment profit before tax	**January to June 2019** Ratio (%)	January to June 2018 Segment profit before tax	January to June 2018 Ratio (%)
Corporate banking	**391,993**	**21.31**	743,320	45.06
Retail banking	**526,391**	**28.61**	250,408	15.18
Financial market business	**839,695**	**45.64**	624,426	37.86
Un-allocated items and others	**81,805**	**4.44**	31,329	1.90
Total	**1,839,884**	**100.00**	1,649,483	100.00

9. Other Financial Information

9.1 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. As at the end of the Reporting Period, the balance of credit commitments reached RMB23.764 billion. For details, please refer to "Notes to the Unaudited Interim Financial Report – 42 Commitments and Contingent Liabilities" of this results announcement.

9.2 Overdue and Outstanding Debts

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

9.3 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 "Notes to the Unaudited Interim Financial Report – 42(7) Pledged Assets" of this results announcement.

9.4 Analysis of Cash Flows Statement

As at the end of the Reporting Period, net cash flows generated from operating activities of the Company was RMB-6.644 billion, representing a decrease of RMB8.589 billion as compared with the same period of the previous year, which was mainly due to an increase in net increase in loans and advances to customers of RMB11.395 billion. Among which, cash outflows generated from operating assets increased by RMB7.568 billion and cash inflows generated from operating liabilities decreased by RMB2.466 billion.

Net cash flows generated from investing activities was RMB3.317 billion, representing a decrease of RMB20.722 billion as compared with the same period of the previous year, which was mainly due to a decrease in proceeds from disposal and redemption of investments of RMB17.599 billion.

Net cash flows generated from financing activities was RMB10.626 billion, representing an increase of RMB33.447 billion as compared with the same period of the previous year, which was mainly due to a decrease in cash paid by the Company for repayment of debt securities issued of RMB26.480 billion.

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

Unit: RMB'000

Item	January to June 2019	January to June 2018	Changes (%)	Main reasons
Net interest income	**3,144,543**	1,736,292	81.11	Net interest yield improved significantly while the Company expanded the scale of its interest-bearing assets
Fee and commission income	**614,082**	373,336	64.49	The businesses such as wealth management and agency service developed rapidly
Net fee and commission income	**580,810**	342,487	69.59	Increase in fee and commission income
Net trading gains	**15,362**	94,640	(83.77)	The impact of exchange rate fluctuations
Other operating income, net	**8,312**	5,445	52.65	Income fluctuations caused by the Company's normal operating, and the absolute amount was small
Total operating income	**4,534,568**	3,130,111	44.87	Net interest income increased rapidly through optimizing the structure of assets and liabilities by the Company; fee and commission income increased rapidly through improving intermediate business level
Operating expenses	**(1,266,489)**	(964,113)	31.36	Employee compensation increased caused by business development and staff growth
Impairment losses	**(1,428,195)**	(516,515)	176.51	Increase in loan impairment loss
Non-controlling gain and loss	**27,667**	9,432	193.33	Increase in profit of subsidiaries
Other comprehensive income, net of taxation	**(25,404)**	421,494	(106.03)	Decrease in changes in fair value of debt investments measured at fair value through other comprehensive income
Net interest spread	**2.03**	1.47	38.10	The scale of interest-bearing assets and its yield improved together through optimizing the structure of assets and liabilities by the Company, the cost rate of interbank liabilities and debt securities issued decreased with the expansion of scale of liabilities
Net interest margin	**2.06**	1.35	52.59	The scale of interest-bearing assets and its yield improved together through optimizing the structure of assets and liabilities by the Company, the cost rate of interbank liabilities and debt securities issued decreased with the expansion of scale of liabilities

Unit: RMB'000

Item	30 June 2019	31 December 2018	Changes (%)	Main reasons
Derivative financial assets	**323**	–	N/A	Changes in fair value of interest rate swaps and other derivative financial instruments
Financial assets held under resale agreements	**–**	300,262	(100.00)	During the Reporting Period, the Company adjusted the structure of assets and liabilities, reduced the business scale of financial assets held under resale agreements
Derivative financial liabilities	**273**	–	N/A	Changes in fair value of interest rate swaps and other derivative financial instruments
Income tax payable	**18,021**	13,174	36.79	Increase in provision of income tax of subsidiaries
Other liabilities	**4,233,746**	2,427,634	74.40	The cash dividends of RMB902 million that have not been paid at the end of the Reporting Period and the lease liability items under IFRS 16 are listed here

9.6 *Provision for Bad Debts*

Unit: RMB'000

Item	30 June 2019	31 December 2018	Changes
Other receivables	**251,528**	333,728	(82,200)
Less: Bad debt provision	**(1,003)**	(792)	(211)

10. Material Disposal of Assets and Equity Interest

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

11. Analysis of Main Shares Holding Companies and Joint Stock Companies

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

Unit: RMB in 100 million

Name of company	Type of company	Main business	Registered capital	Total assets	Net assets	Operating income	Operating profit	Net profit
BQD Financial Leasing Company Limited	Subsidiary	Finance leasing business; transferring in and out assets under a finance lease; fixed income securities investment business; accepting guaranteed deposit of the lessee; absorbing fixed deposits over 3 months (inclusive) from non-bank shareholders; interbank lending and borrowing; obtaining loans from financial institutions; lending loans to offshore borrowers; disposal of and dealing with leased articles; economic consulting; other businesses approved by the banking regulatory authorities.	10	90.06	11.01	1.63	0.74	0.56

11.2 Acquisition and Disposal of Subsidiaries during the Reporting Period

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

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

BQD Financial Leasing Company Limited ("**BQD Financial Leasing**") was established on 15 February 2017, which was the first financial leasing company in Qingdao, with a registered capital of RMB1.00 billion, and was initiated and established by the Bank. The Bank holds 51% of the share capital of BQD Financial Leasing. BQD Financial Leasing adheres to the business philosophy of "specialization, differentiation and marketization", focuses on providing the financing leasing service of large and medium-sized equipment in medical and health care, cultural tourism, public utilities industries, and gives full play to its leasing function that has the characteristics of integrating "financing of capital and chattels", helps enterprises make good use of their existing assets and facilitate supply-side structural reform. BQD Financial Leasing always adheres to the goal of serving the real economy, focuses on key industries and supports quality industries to achieve the replacement of old drivers with new ones by way of financial leasing while keeping a foothold of Shandong peninsula blue economic zone market and combining with Qingdao characteristic and its economic development circumstance.

12. Overview of Business Development

12.1 Business Development Strategy

During the Reporting Period, the Bank took "building on customers and employees, taking on social responsibilities and shareholders' return, pursuing better lives with happiness" as its core values, and achieved sound and effective development for the three major business segments, including retail banking, corporate banking and financial market through customer base expansion, financial technology empowerment, featured advantages cultivation and management mechanism transformation.

In respect of retail banking business, the Bank continued to implement the strategy of interface banking, expanded the retail customer base, deepened customer value, strengthened the asset business and implemented channel integration by making full use of financial technology innovation and creating core products, so as to gradually achieve new retail transformation under introduction of advanced technology. In respect of corporate banking business, the Bank continued to expand its corporate customer base and build the featured product service system, professional financial technology support system and sound risk management system by focusing on developing "transaction banking + investment banking" and building on the featured finance, listed enterprises finance and public finance so as to promote the featured transformation of corporate banking business. In respect of financial market business, the Bank continued to improve business structure, implemented refined management, continually enhanced its capabilities of collaborative research and development, client marketing and investment research, promoted steady and compliance development of asset management plans and enhanced the level of investment banking business so as to drive the high-quality development of financial market business.

12.2 Overview of Business Development

12.2.1 Retail banking

During the Reporting Period, the Bank continued to strengthen the product system, risk control management and service capabilities of retail banking, stepped up the application of financial technology and expanded on-line and offline channels to meet the needs of customers in respect of payment and settlement, personal loans, credit card consumption, wealth management and other aspects, which would offer retail customers with convenient services and smooth experiences. By doing so, the Bank would improve the financial assets of its retail customers while solidifying its retail customer base so as to increase the comprehensive contribution of its retail banking. During the Reporting Period, the Company recorded the operating income of RMB951 million in respect of retail banking, representing a year-on-year increase of 44.33%, and accounting for 20.96% of the Company's operating income.

1. Retail customers and customer asset management

   As at the end of the Reporting Period, the number of retail customers of the Bank reached 4,321.3 thousand, representing an increase of 243 thousand or 5.96% as compared with that at the end of the previous year. The assets retained by retail customers in the Bank reached a total of RMB143.916 billion, representing an increase of 9.62% as compared with that at the end of the previous year. The number of customers with financial assets of over RMB200,000 amounted to 180.8 thousand, representing an increase of 20.1 thousand as compared with that at the end of the previous year, with a total assets scale of RMB119.586 billion retained in the Bank. They accounted for 83.09% in its total retail banking customers, representing an increase of 2.14 percentage points as compared with that at the end of the previous year.

   As at the end of the Reporting Period, the Bank's balance of retail deposits reached RMB58.837 billion, representing an increase of RMB1.938 billion or 3.41% as compared with that at the end of the previous year and accounting for 31.65% of the balance of various deposits (excluding accrued interest). In particular, demand deposits reached RMB18.603 billion, representing an increase of RMB290 million or 1.58% as compared with that at the end of the previous year.

   The Bank focused on exploring payroll agency business. By leveraging the customer resources of payroll companies, the Company realized the linkage between public and private businesses, handled mobile banking, fast payment and other businesses for corporate employees, and increased customer loyalty. The Bank launched 25 tranches of exclusive wealth management products for employees of enterprises which enjoyed our payroll agency service and raised RMB3.010 billion of wealth management funds. As at the end of the Reporting Period, the payroll agency business led to an increase of 119.3 thousand retail customers and the retail deposits related to the payroll agency business reached RMB11.795 billion, representing an increase of RMB1.464 billion or 14.17% as compared with that at the end of last year.

The Bank continued to expand the "cloud-based payment" (雲繳費) business. Through the "cloud-based payment" platform, the Bank transferred the offline payment scenarios of the payment collection units to the Bank's online banking and mobile banking, and provided electronic payment platforms for the payment individuals with various fees such as tuition fees, property management fees and party membership dues. During the Reporting Period, the Bank opened 54 new contracted units for "cloud-based payment", which led to an increase of 11.6 thousand retail customers and a total of 399 thousand payments for the first half of this year, representing a year-on-year increase of 273%, with a total payment amount of RMB217 million for the first half of this year, representing a year-on-year increase of 143%.

Smart outlets were successfully piloted. During the Reporting Period, the average replacement rate of the Bank's smart outlets reached 80%, and the service quality and efficiency and product sales success rate at the bank halls improved significantly, laying the foundation for the next large-scale promotion.

2. Retail loans

As at the end of the Reporting Period, the balance of retail loans of the Bank amounted to RMB44.781 billion, representing an increase of RMB3.431 billion or 8.30% as compared to the end of last year, accounting for 30.59% of the total balance of loans (excluding accrued interest). The number of retail loan customers was 652.1 thousand, representing an increase of 131.8 thousand as compared to the end of last year. During the Reporting Period, the Bank seized market opportunities and achieved business volume growth, revenue growth and asset quality improvement under the market condition of severe competition.

Various loan products developed in a coordinative manner. Firstly, the Bank steadily developed housing loans. During the Reporting Period, the Bank reasonably arranged the allocation of individual housing loans based on the principle of supporting residents' reasonable demand for purchasing house for own use. As at the end of the Reporting Period, the balance of personal housing loans amounted to RMB32.441 billion, representing an increase of RMB2.212 billion or 7.32% as compared to the end of last year. Secondly, the Bank vigorously developed personal business loans. During the Reporting Period, the Bank implemented the national policies and regulatory requirements, actively carried out personal business loan business and supported the financing needs of individual business owners and owners of small and micro enterprises. As at the end of the Reporting Period, the balance of personal business loans was RMB5.259 billion, and the number of personal business loans customers reached 8,671. Thirdly, the Bank actively developed consumption loans. During the Reporting Period, the Bank continued to promote the development of micro-consumption loan business, and applied Internet technology to provide customers with fast, convenient and high-quality products and services under the general trend of consumption upgrade. As at the end of the Reporting Period, the balance of personal consumption loans amounted to RMB5.715 billion, representing an increase of RMB1.888 billion or 49.31% as compared with the end of last year.

The proportion of interest income continued to increase. During the Reporting Period, interest income from retail loan business amounted to RMB1.103 billion, representing an increase of RMB391 million or 55.01% as compared to the corresponding period of last year, accounting for 32.03% of the interest income from loans of the Bank, representing an increase of 2.55 percentage points as compared to the corresponding period of last year. The average interest rate of retail loans was 5.13%, representing an increase of 0.45 percentage point as compared to the same period of last year, which was 0.09 percentage point higher than the average level of the bank-wide loan interest rate.

The quality of assets was stable and improved. The Bank achieved remarkable results in non-performing loan control. As at the end of the Reporting Period, retail loans have applied the standard of "being overdue for over 60 days shall be classified into non-performing category" and the balance of non-performing loans to retail customers amounted to RMB354 million according to this standard and the non-performing loan ratio to retail customers was 0.79%. The recovery and settlement of non-performing loans of retail customers achieved results with the completion of cash collection of RMB31.1890 million.

The Bank continued to develop our micro loan financial featured business. In respect of supply chain finance, the Bank cooperated with 14 domestic leading fast-moving consumer goods enterprises, and granted credit of RMB1.040 billion to a total of 1,564 distributors during the Reporting Period, with a loan balance of RMB353 million as at the end of the Reporting Period. In respect of internet online personal loans, the Bank cooperated with well-known domestic internet companies to develop business of internet-based small-amount consumption loans, operation loan business of small and micro enterprises and individual business owners. During the Reporting Period, the Bank granted a total of 760.1 thousand loans with an amount of RMB6.533 billion. As at the end of the Reporting Period, the balance of loans was RMB6.911 billion, representing an increase of 11.36% as compared with that at the end of the previous year.

3. Wealth management and private banking business

The wealth management and private banking business of the Bank adhered to the operation and service philosophy of "customer-centered and market-oriented", constantly enriched investment instruments, provided customers with comprehensive wealth management planning and asset allocation services, and satisfied customers' increasingly diversified wealth management needs. Currently, the Bank has established a multi-level product system covering cash, fixed income and equity, and continued to optimize the product supply strategy. While enriching the product shelf, the Bank also provided high-quality and marketable products to promote the steady increase in the number of customers, asset scale and business income. As at the end of the Reporting Period, retail customers with assets under management of over RMB2.00 million reached 7,896, representing an increase of 834 or 11.81% as compared to the end of last year, and the assets retained in the Bank amounted to RMB33.202 billion, representing an increase of RMB1.944 billion or 6.22% as compared to the end of last year.

During the Reporting Period, the Bank newly commenced sales agency business for trust products, and sales agency volume of trust products reached 10 in aggregate with a sales agency amount of RMB2.698 billion. Insurance premiums from agency sales amounted to RMB285 million, and agency sales of open-ended funds amounted to RMB1.779 billion. During the Reporting Period, the Bank realized wealth management fee and commission income of RMB42 million, representing a year-on-year increase of 126.14%, of which fee and commission income from agency sales of trust products amounted to RMB21 million.

4. Customer service management

During the Reporting Period, the Bank managed customer groups based on improving customer experience, and firmly grasped the "customer-centered" strategy to promote the Bank's service brand, service reputation and service capabilities to a new level. Firstly, under the guidance of service culture, we created a service "DNA" with the Bank's characteristics, promoted the transformation of the service brand essence of "Qingxin Service, Care for You" into service actions for each customer, and created more touching services and satisfactory services in interaction with customers. Secondly, we transformed our services into customer-acquisition capability and developed new service capabilities from the perspective of customer acquisition awareness and customer acquisition skills of our employees, so as to transform service experience into new advantages of retail operations in attracting customers and expanding our customers.

12.2.2 Corporate banking

During the Reporting Period, the corporate banking business of the Bank was supported by financial technology, product portfolio across all business lines and professional solutions. On the basis of maintaining the advantages of public finance, the Bank explored core customer groups, expanded strategic customer groups, and promoted the new development of corporate banking business. During the Reporting Period, the Company's corporate banking business recorded operating income of RMB2.336 billion, representing a year-on-year increase of 47.80%, accounting for 51.52% of the Company's operating income.

1. Corporate deposits

The Bank explored core customers, and achieved continuous growth in corporate deposits through product innovation, business process optimization and large-scale marketing activities. As at the end of the Reporting Period, the balance of corporate deposits reached RMB126.830 billion, accounting for 68.24% of the balance of various deposits (excluding accrued interest) and representing an increase of RMB8.185 billion or 6.90% as compared with that at the end of the previous year. In particular, demand deposit amounted to RMB73.178 billion, accounting for 57.70% of corporate deposits.

2. Corporate loans

As at the end of the Reporting Period, the balance of corporate loans of the Bank (including discounted bills) reached RMB101.611 billion, accounting for 69.41% of the balance of various loans (excluding accrued interest) and representing an increase of RMB16.575 billion or 19.49% as compared with that at the end of the previous year.

The Bank supported the supply-side reform, adapted to the new requirements of the continued transition from old to new growth drivers, carried out differentiated credit policies, strengthened the support for real economy in aspects such as supporting private economy and small and micro enterprises and giving priority to the financing of projects in the areas of inclusive finance, green finance and technology finance. Also, the Bank continued to support the key engineering and construction projects and to meet the loan needs of traditional enterprises in respect of industrial upgrading, technological transformation and energy conservation and environmental protection projects.

As at the end of the Reporting Period, the balance of small and micro enterprise loans under inclusive finance with a single-person credit of less than RMB10 million of the Bank was RMB9.755 billion, representing an increase of 46.52% as compared with that at previous year, the growth rate is higher than 36.58% of other loans of the Bank. Small and micro enterprise loans volume amounted to 9,522, representing an increase of 4,297 as compared with that at previous year, satisfying "two increases" requirement of regulatory authorities. The balance of private enterprise loans was RMB44.457 billion, representing an increase of RMB2.836 billion as compared with that at the beginning of previous year, and the growth rate was 6.81%. The balance of green credit was RMB10.640 billion, representing an increase of RMB1.155 billion or 12.18% as compared with the beginning of the year and accounting for 10.47% of the Bank's total corporate loans. The balance of technology credit was RMB5.684 billion, representing an increase of RMB336 million or 6.28% as compared with the beginning of the year and accounting for 5.59% of the Bank's total corporate loans.

3. Corporate customers

As at the end of the Reporting Period, the Bank had 159.1 thousand corporate customers, representing an increase of 10.5 thousand or 7.07% as compared with that at the end of the previous year, continuously reinforcing the customer base. During the Reporting Period, the Bank focused on six core customer bases, including public finance, listed/to-be-listed enterprises and state-owned entities enterprises, etc. During the Reporting Period, the Bank entered into strategic cooperation agreements with six large group customers in the fields of education, publishing and environmental protection, which further expanded the strategic customer base. Entering into strategic cooperation agreements with group customers deepened business relations with large group customers, and exerted effort of the whole bank to provide comprehensive financial services of cash management, capital settlement, debt securities issuance and credit financing, consolidating all-around business interaction with large group customers.

4. Corporate products

The Bank carried out product research and development in response to customer pain points and difficulties in demand, continuously enriched and improved its corporate banking product system and provided systematic solutions to customers in respect of comprehensive financial needs such as financing and settlement.

In response to the needs of large corporate customers, the Bank continued to innovate on cash management products and launched "account keeping" (記賬通), "cash collection" (資金歸集), "bidding" (招標通) and "corporate account overdraft" (法人賬戶透支). Cash management products played a positive role in attracting quality core enterprises, exploring customer demands and driving the growth of liabilities. As at the end of the Reporting Period, the Bank had 146 contracted customers for cash management business, representing an increase of 34 as compared with that at the end of the previous year, and the balance of deposits for contracted customers amounted to RMB4.943 billion, representing an increase of 34% as compared with that at the end of the previous year.

In response to the needs of customers in the capital market, the Bank vigorously promoted investment banking products. As at the end of the Reporting Period, the Bank's total loans for mergers and acquisitions amounted to RMB1.869 billion, representing an increase of RMB1.797 billion as compared with the beginning of the year. Private fund custody business increased by RMB2.541 billion.

In response to the needs of foreign trade enterprises, the Bank strengthened its cooperation with Qingdao customs office to help import and export enterprises fully enjoy the benefits of customs reform. The Bank successively and independently developed and launched innovative products and services such as the "Yin Mao Tong"(銀貿通), "Guan Bao Tong"(關保通),"Yin Guan Bao"(銀關保) and the new generation of electronic payment system for customs duties, which created the "first order in China" for a number of bank-related cooperation products, improved the efficiency of customs clearance and lowered the corporate finance costs, and was widely well-received by the import and export enterprises. The "Yin Mao Tong"(銀貿通) product was awarded with the "Top Ten Financial Service Innovation Award for Private Enterprises" in the 2019 China Financial Innovation Award.

12.2.3 Financial market business

During the Reporting Period, in face of the complicated and ever-changing domestic and overseas macroeconomic environment, the Bank, with internal control management and system construction as guarantee, steadily promoted the business development and product innovation in the financial market, continued to optimize the structure of financial investment, and continued to improve the quality and efficiency of investment. During the Reporting Period, the Bank comprehensively utilized various financial market tools to provide services to the real economy through investment and financing business linkage. During the Reporting Period, the Company recorded the operating income of RMB1.080 billion in respect of financial market business, representing a year-on-year increase of 31.62%, and accounting for 23.82% of the Company's operating income.

1. Proprietary investment

   During the Reporting Period, the financial market was generally abundant of liquidity, and the interest rate on bonds fluctuated moderately. In such situation, the Bank continued to improve the investment portfolio and, while controlling the scale of investment, to increase the overall income on financial investment. As at the end of the Reporting Period, the Bank's proprietary investment (excluding accrued interests) reached RMB144.915 billion, representing an increase of RMB1.211 billion or 0.84% as compared with that at the end of the previous year. In particular, the bond investment (excluding accrued interests) reached RMB83.899 billion, representing an increase of RMB6.343 billion or 8.18% as compared to that of at the end of previous year, which was mainly attributable to the increase in investment in central government bonds as well as local government bonds and credit bonds. The non-standard debt investment (excluding accrued interests) reached RMB60.993 billion, representing a decrease of RMB6.915 billion or 10.18% on a year-on-year basis, which was mainly attributable to the reduction of investment in special purpose vehicles, asset management plans and trust plans.

2. Interbank business

   During the Reporting Period, the Bank extended the duration of interbank liabilities to improve liquidity management while reducing the cost of interbank liabilities. As at the end of the Reporting Period, the balance of interbank deposits was RMB15.032 billion, representing an increase of 28.78% as compared with that at the end of the previous year and accounting for 4.89% of the total liabilities. In particular, the interbank demand deposit accounted for 21.31%, up by 5.40 percentage points as compared with that at the end of the previous year. The balance of interbank deposit certificates issued amounted to RMB55.225 billion, representing an increase of 11.10% as compared with that at the end of the previous year and accounting for 17.96% of the total liabilities.

During the Reporting Period, the delivery amount of bonds of the Bank in the interbank market nationwide was RMB4,994.952 billion. In the ranking of delivery amount of bonds set by China Central Depository & Clearing Co., Ltd. in the first half of 2019, the Bank ranked No. 32 among national financial institutions and No. 11 among city commercial banks. The Bank also actively participated in innovative deals in the currency market. In the X-REPO deal, a flagship trading method in the currency market, the Bank performed well and became the first institution being awarded "the Best City Commercial Bank". In addition, the Bank was on the X-REPO active trader list for successive six months, and ranked among the top three in the market.

3. Asset management

The Bank's asset management business, in the principle of "compliant management and robust transformation", continued to increase wealth management scale and improve profitability. During the Reporting Period, the Bank's service fee revenue from wealth management products was RMB318 million, representing a year-on-year increase of 119.51%. As at the end of the Reporting Period, wealth management products of the Bank reached 846, and the balance amounted to RMB83.313 billion in aggregate, representing an increase of RMB21.508 billion or 34.80% on a year-on-year basis. In particular, non-principal-guaranteed wealth management products reached 811, and the balance was RMB82.161 billion, representing an increase of RMB27.370 billion or 49.95% on a year-on-year basis. Principal-guaranteed wealth management products reached 35, and the balance was RMB1.152 billion, representing a decrease of RMB5.863 billion or 83.58% on a year-on-year basis. During the Reporting Period, all wealth management products issued by the Bank have produced expected earnings or satisfied the performance benchmark.

During the Reporting Period, wealth management products issued by the Bank reached 1,013, raising a total amount of RMB190.045 billion. In particular, non-principal-guaranteed wealth management products issued was 937, with an amount of RMB187.393 billion raised, representing an increase of 6.46% on a year-on-year basis and accounting for 98.60% of the total amount raised by the wealth management products. Principal-guaranteed wealth management products issued was 76, with an amount of RMB2.652 billion raised, representing a decrease of 84.20% on a year-on-year basis and accounting for 1.40% of the total amount raised by the wealth management products.

At the end of the Reporting Period, the balance of the Bank's wealth management products amounted to RMB99.086 billion, and asset types directly and indirectly invested mainly include fixed return type, nonstandard debt assets type and capital market assets type, etc. Among which, fixed return assets amounted to RMB82.389 billion, accounting for 83.15%, non-standard debt assets amounted to RMB9.955 billion, accounting for 10.05%, capital market assets amounted to RMB3.153 billion, accounting for 3.18%, and public funds amounted to RMB3.589 billion, accounting for 3.62%.

The Bank intensified efforts for the net-worth transformation of products. During the Reporting Period, the Bank reduced the issuance of principal-guaranteed wealth management products, downscaled the products with expected income, and accomplished the goal of net-worth transformation of products in stages, during the transition period for implementation of the new regulation on asset management. As at the end of the Reporting Period, the balance of net-worth wealth management products was RMB46.856 billion, accounting for 56.24% of the total scale of wealth management products and up by 48.94 percentage points as compared with that at the corresponding period of the previous year.

The Bank expanded, in an energetic way, the channels for commission sale of wealth management products. During the Reporting Period, the Bank's wealth management products realized commission sale business on the national deposits financial institutions, which enabled the Bank's wealth management products to explore national presence, and enhanced the popularity of the Bank's wealth management products. During the Reporting Period, the Bank has sold 54 wealth management products through the agency, with a scale of RMB3.762 billion. As at the end of the Reporting Period, the balance of wealth management products sold through agents was RMB2.502 billion.

The Bank continued to improve the portfolio of customer base. The wealth management business of the Bank maintained a customer portfolio dominated by retail customers and supplemented by corporate customers, retail wealth management products accounting for over 95% of the total for a long time. The personal retail customer structure ensured the stability of the source of liabilities, enjoying a larger advantage in the local market.

During the Reporting Period, the Bank was honored as 2018 Outstanding City Commercial Bank of National Banking Financial Information Registration and was granted Outstanding Organization Award for National Banking Financial Investor Registration and Direct Contact Work (全國銀行業理財投資者登記暨直聯工作優秀組織獎). On the Evaluation on Net Worth Wealth Management Capability of Banks list issued by China Securities Journal · Golden Bull Wealth Management for the first time, the Bank ranked No. 6 among the national city commercial banks in terms of the net-worth products management capability by virtue of its excelling performance in net-worth wealth management products.

4. Investment banking

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

During the Reporting Period, under the macro environment of loose currency and tight credit, credit spread in the bond market continued to expand. The Bank, being flexible in using debt financing instruments, wealth management direct financing instruments, debt financing plans and other products, continued to create credit risk mitigation warrants for financing the bond issuance by enterprises through multiple channels. During the Reporting Period, the Bank underwrote to issue 15 bonds of various types, with RMB6.030 billion raised in total, representing an increase of 41.22% as compared with that in the same period of the previous year.

12.2.4 Distribution channels

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 138 business outlets in 14 cities, namely Qingdao, Jinan, Dongying, Weihai, Zibo, Dezhou, Zaozhuang, Yantai, Binzhou, Weifang, Laiwu, Linyi, Jining and Tai'an in Shandong Province, including 14 branches. The Bank set up one headquarter business department, one branch, and 78 sub-branches in Qingdao. The Bank's holding subsidiary BQD Financial Leasing is headquartered in Qingdao and has an office in Shanghai.

2. Self-service banking channels

As at the end of the Reporting Period, the Bank had 104 self-service banks with 301 self-service devices, including 57 self-service ATMs, 166 self-service Cash Deposit and Teller machines (CTM) and 78 self-service terminals. These units provide services such as withdrawal, deposit, transfer, account enquiry and payment. During the Reporting Period, the Bank had recorded 2.7085 million transactions through self-service bank with a total transaction amount of RMB7.727 billion.

3. Electronic banking channels

The Bank regards electronic banking as a significant breakthrough in innovation and development, and continuously optimizes online service channels such as mobile banking and online banking so as to "enhance customers' experience". The Bank also enhanced its comprehensive channel service capabilities through more utilization of financial technology. The Bank also sought to open its doors to further cooperation, and promoted rapid update of products and services.

(1) Internet 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 106.7 thousand corporate customers of online banking, representing an increase of 20.02% as compared with that at the end of the previous year. During the Reporting Period, the Bank recorded 6.5369 million transactions, representing an increase of 90.15% as compared with that in the same period of the previous year; a transaction amount of RMB583.103 billion, representing a decrease of 22.82% as compared with that in the same period of the previous year. The Bank recorded 0.7283 million individual customers of online banking, representing an increase of 0.66% as compared with that at the end of the previous year. During the Reporting Period, the Bank recorded 52.0383 million transactions, representing a decrease of 10.65% as compared with that in the same period of the previous year; a transaction amount of RMB190.359 billion, representing a decrease of 40.67% as compared with that in the same period of the previous year.

(2) Mobile finance

The Bank continued to accelerate the intelligent and personalized construction of mobile banking. During the Reporting Period, the Bank successfully released the version 4.0 of mobile banking based on the cloud platform, and made revolutionary upgrade and replacement of the mobile banking infrastructure, which improved the efficiency of the mobile banking version updates, function development, fault repairing and other works, laying a solid foundation for the online digital operation based on big data analysis in the future. The intuitive changes brought to customers were the significant increase in the operation speed of mobile banking, the further optimization of common transaction processes such as transfer and inquiry, and the more smooth customer experience. During the Reporting Period, the Bank further enriched the functions of mobile banking by making use of mobile banking for fingerprint login, mobile phone number transfer, cross-bank payment and structured deposits, which effectively enhanced the user experience.

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 1.9156 million mobile banking users, representing an increase of 22.47% as compared with that at the end of the previous year; 31.2235 million transactions, representing an increase of 5.39% as compared with that in the same period of the previous year; the transaction amount of RMB186.514 billion, representing an increase of 11.15% 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. During the Reporting Period, the sales amount of wealth management products of the Bank sold via mobile banking totaled RMB41.526 billion. Transaction volume of wealth management products sold via mobile banking accounted for 64.96% of that via various channels, representing an increase of 11.64 percentage points as compared with that at the end of the previous year.

12.2.5 Information technology

During the Reporting Period, the Bank comprehensively implemented the strategy of scientific and technological innovations, combined with the new financial concept of "financial + technology + scenarios", accelerated the application and innovation of digital technology, focused on strengthening the construction of key projects in areas such as mobile internet, big data and cloud computing, continued to enhance the overall ability of prevention and control of information technology risks, effectively supporting the achievement of business strategic objectives during the Reporting Period.

1. Promoted the construction of key projects and strived to achieve key breakthroughs in data application and other aspects

   During the Reporting Period, the Bank stepped up its efforts in the construction of technology projects, launched 9 new IT projects, and successfully completed the launch of 14 major projects, including the second phase of smart outlets, internet financing platforms, operation decision analysis platforms and asset management agency sales, and fully promoted the construction of 33 projects under construction.

   During the Reporting Period, the first and second phase of smart outlet projects were launched. The project integrates marketing services into "close" business services to customers, deeply explores and enhances the value of customer services from our counters, and comprehensively performs various functions such as business guidance, operation and product marketing in outlet services to achieve one-stop financial services for customers. The smart outlet project utilized a large amount of key technologies such as face recognition and big data analysis to complete the customer 360 view, which not only enhanced the security level, but also effectively improved the user experience.

The mobile terminal of the operation decision analysis platforms based on big data completed the gated launch, further expanded the channels for business inquiry and data analysis, and enhanced the independent business data analysis capability. Based on the big data technology, the corporate knowledge platform has newly added the real-time monitoring and early warning of seven types of abnormal transactions in second and third-class accounts, so as to enhance the security of accounts.

2. Strengthened information technology risk management and fully safeguarded the security of information system

The Bank attached great importance to information security management, and kept on improving its ability to prevent and control IT risks, enhanced IT governance system and internal control construction and Internet security protection, and effectively prevent external threats.

During the Reporting Period, the Bank carried out local and city-wide high-availability switching drills for disaster recovery in the core business system, continuously improved the high availability of internet channel system, and continuously enhanced the operation and maintenance management capability and level. The Bank has passed recertification audit for information security management system (ISO27001) to ensure the reliable, stable, continuous and efficient operation of information system.

3. Carried out in-depth research on the application of cutting-edge technologies and continued to integrate business technology resources

With cutting-edge technology research as the guidance, the Bank continued to conduct research on the application of cloud computing, big data, artificial intelligence and 5G technologies in the financial sector, and continued to enhance its independent control and independent innovation capabilities. During the Reporting Period, the elastic load balancing method in the cloud environment independently developed by the Bank was awarded the invention patent by the State Patent Office, which realized the flexible expansion of application system resources and effectively addressed the scenario of sudden business peak.

The Bank continued to optimize its internal organizational structure, continued to absorb outstanding scientific and technological talents, focused on improving the overall quality of employees and the independent research and development capability of the team, strengthened the in-depth integration of technology business, and effectively responded to the new requirements of market competition and business development under the internet trend.

13. Structured Entities Controlled by the Company

Structured entities controlled by the Company are mainly principal-guaranteed wealth management products issued by the Company. Please refer to "3. Management Discussion and Analysis – 12. Overview of Business Development – 12.2.3 Financial Market Business – 3. Assets Management" of this results announcement.

14. Risk Management

14.1 Credit Risk Management

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

The Company is committed to continuously improving its credit risk management system and establishing a management and control process and mechanism covering risk identification, assessment, measurement, monitoring, control, mitigation and reporting. The Company is committed to taking various measures to improve its overall management ability of credit risk, including timely adjustment of credit policies, improvement of centralized credit approval mechanism, strengthening overdue management, innovation of post-loan management methods, acceleration of disposal of non-performing loans and optimization of credit risk management system. During the Reporting Period, the Bank adopted the following measures to strengthen its credit risk management:

1. Implementing centralized approval of corporate credit business. During the Reporting Period, the Bank continuously improved the centralized approval mechanism and continuously optimized the relevant management procedures.

2. Further clarifying the duties and responsibilities of the asset preservation department. In accordance with the principle of "market-oriented", the Bank formulated assessment plans to improve the quality and efficiency of asset preservation and collection of non-performing loans, so as to benefit from the quality of assets and free up more credit facilities to support private and small and micro enterprises.

3. Continuously optimizing the management and control mechanism of overdue loans. The Bank promoted the management of overdue loans, strengthened the early monitoring and early warning disposal of overdue loans, implemented progress dynamic management in stages, timely monitored overdue loans, accelerated information transmission and improved decision-making efficiency.

4. Exploring innovative post-loan inspection model. In combination with management practices, the Bank formulated the post-loan supervision measures for corporate business, and conducted special inspections on key institutions, key links, key customers and key industries with post-loan inspection as the starting point, which covered the whole process of "before-loan investigation, loan-granting review and after-loan inspection", standardized the post-loan management and promoted the sustainable and steady development of the credit business.

5. Adhering to the development direction of green finance. The Bank implemented list control over the obsolete enterprises with backward production capacity in "high pollution, high energy-consumption, over-capacity" industries, strictly controlled new project loans, and supported the credit demand for industrial upgrading and technological transformation of enterprises.

6. Continuously improving the functions of the credit risk management system. During the Reporting Period, the Bank further regulated the business operation procedures, prevented the operational risk of the credit risk management system, and satisfied the needs of business development and risk management.

14.2 Liquidity Risk Management

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

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

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

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

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

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

The Company closely monitors changes in liquidity patterns and market expectations, and deploys in advance and dynamically adjusts its liquidity management strategy based on changes in its asset and liability business and the liquidity gap to ensure that its liquidity risk is within a reasonable and controllable range. During the Reporting Period, the Company focused on strengthening its liquidity risk management in the following areas:

1. Optimizing its asset and liability allocation structure. As for assets, the Company continuously increased the allocation proportion of loans. As for liabilities, while making considerable efforts to drive the growth of its deposit, the Company increased its long-term assets allocation through issuance of bonds and the stability of its liabilities further enhanced.

2. Strengthening management of positions on a daily basis, and promptly monitoring the inflow and outflow of funds and the gap changes, and paying full attention to the impact of market funds and changes in the Company's business on the position at the end of the month, quarter and other key time points. The Bank reasonably arranged the level of position and reserve funds, and improved the utilization efficiency of funds under the premise of ensuring liquidity needs.

3. The Bank strengthened active liability management, coordinated the active liability instruments such as central bank financing instruments and issuance of interbank certificates of deposit, and flexibly arranged active liability strategies according to its own liquidity needs and market conditions.

4. The Bank carried out dynamic monitoring on various liquidity risk limit indicators in strict compliance with relevant regulatory requirements. Based on its business scale, nature, complexity and risk profile, the Bank conducts stress tests on liquidity risk in multiple stress scenarios, including individual bank, market and mixed level.

For details of the liquidity risk management of the Company, please refer to "Notes to the Unaudited Interim Financial Report – 40(3) Liquidity Risk" of this results announcement.

14.3 Market Risk Management

Market risk is the potential risk of causing losses to the future revenue or future cash flows due to a change in the value of financial instruments as a result of any change in market rates including interest rates, exchange rates, commodity prices and stock prices. The market risks faced by the Company mainly include interest rate risk and exchange rate risk.

In accordance with the relevant requirements of the regulatory authorities on market risk management with reference to the relevant provisions of the New Basel Capital Accord, the Company continued to improve its market risk management system during the Reporting Period, optimize its market risk management policy system, and deepen the construction of the market risk management information system. It continued to manage its interest rate risk and exchange rate risk and has established a market risk management system through measures such as the stipulation, monitoring and reporting of authorization, credit and risk limits, aiming to constantly improve the efficiency of its risk management.

The Company's internal control system for market risk management is sound and compliant, with clear responsibilities defined for the Board, senior management and various departments; meanwhile, the Company regularly inspected the policies and systems in relation to market risk management, so as to regulate the identification, monitoring and control of market risks. The Company carries out special internal audits on market risks annually and regularly reports the status of market risk management to the senior management and the Board and generates an independent report. The Company comprehensively uses information systems including the 1104 system and China Bond Integrated Operation Platform to monitor the appropriation of market risk capital in strict accordance with the requirements of the New Basel Capital Accord.

During the Reporting Period, the Company conducted in-depth research and continuously tracked the changes in macro-economy and monetary policy, regularly monitored the risk limit indicators, and all market risk indicators were stable without any over-limit circumstance.

14.3.1 Analysis of interest rate risk

The Company distinguishes its banking book and trading book according to the regulations of the regulatory authorities and the banking management traditions, and adopts the corresponding approaches for the identification, measurement, monitoring and control of market risks according to the different natures and characteristics of its banking book and trading book. The trading book records the freely traded financial instruments and commodity positions held by the Bank for trading purposes or for hedging the risks of other items in the trading book. Positions recorded in the trading book must not be subject to any terms on the transaction, or can be fully hedged to avert risks, accurately valued, and actively managed. Corresponding to the trading book, the Bank's other businesses are included in the banking book.

For the interest rate risk exposure in its banking book, the Bank adopts measurement approaches suitable for the scale and structure of its assets and liabilities in accordance with the regulatory requirements, which employs various techniques such as repricing gap analysis, duration analysis, and net interest income simulation analysis to quantify the impact of interest rate changes on the Bank's net interest income and economic value according to various risk sources, and puts forward management recommendations and business adjustment strategies based on report arrived from the analysis results. For the interest rate risk exposure in its trading book, the Bank mainly adopts techniques such as sensitivity analysis and scenario simulation to measure and monitor it. Risk exposure limits, such as interest rate sensitivity, risk exposure and stop-loss are set, and the implementation of these limits is also effectively monitored, managed and reported on a regular basis with market risk stress tests carried out.

14.3.2 Analysis of interest rate sensitivity

The Company uses sensitivity analysis to measure the potential impact of changes in interest rates on the Company's net interest income. The following table sets forth the results of the interest rate sensitivity analysis based on the current assets and liabilities on 30 June 2019 and 31 December 2018.

Unit: RMB'000

Item	**30 June 2019 (Decrease)/ Increase**	31 December 2018 (Decrease)/ Increase
Change in annualized net interest income		
Interest rate increase by 100 bps	**(508,669)**	(635,421)
Interest rate decrease by 100 bps	**508,669**	635,421

This sensitivity analysis is based on a static interest rate risk profile of the Company's assets and liabilities. The analysis measures only changes in the interest rates within one year, showing how annualized interest income would have been affected by the repricing of the Company's assets and liabilities within the one-year period. The analysis is based on the following assumptions:

1. All assets and liabilities that are repriced or mature within three months and after three months but within one year are repriced or mature at the beginning of the respective periods (i.e. all the assets and liabilities that are repriced or mature within three months are repriced or mature immediately, and all the assets and liabilities that are repriced or mature after three months but within one year are repriced or mature immediately after three months);

2. There is a parallel shift in the yield curve and in interest rates;

3. There are no other changes to assets and liabilities portfolio and all positions will be retained and rolled over upon maturity.

The analysis does not take into account the effect of risk management measures taken by management. Due to the assumptions adopted, actual changes in the Company's net interest income resulting from increases or decreases in interest rates may differ from the results of the sensitivity analysis.

14.3.3 Analysis of exchange rate risk

The Company's currency risk mainly arises from the currency mismatches of the non-RMB assets and liabilities held in the banking book of the Company. The Company controlled the exchange rate risk of banking book at a reasonable level through strictly controlling risk exposure. Methods such as foreign exchange exposure analysis, scenario simulation analysis and stress test are mainly adopted for the measurement and analysis of the Company's exchange rate risks in its banking book.

14.3.4 Analysis of exchange rate sensitivity

The following table sets forth the results of the analysis of exchange rate sensitivity based on the current assets and liabilities on 30 June 2019 and 31 December 2018.

Unit: RMB'000

Item	**30 June 2019 Increase/ (Decrease)**	31 December 2018 Increase/ (Decrease)
Change in annualised net profit		
Foreign exchange rate increase by 100 bps	**9,631**	9,358
Foreign exchange rate decrease by 100 bps	**(9,631)**	(9,358)

This sensitivity analysis is based on a static foreign exchange exposure profile of assets and liabilities and certain simplified assumptions. The analysis is based on the following assumptions:

1. The foreign exchange sensitivity is the gain or loss recognized as a result of 100 basis points fluctuation in the foreign currency exchange rates against the average of the central parity rates of RMB on the reporting date;

2. The exchange rates against RMB for all foreign currencies change in the same direction simultaneously;

3. The foreign exchange exposures calculated include both spot foreign exchange exposures, forward foreign exchange exposures and options, and all positions will be retained and rolled over upon maturity.

The analysis does not take into account the effect of risk management measures taken by management. Due to the assumptions adopted, actual changes in the Company's net foreign exchange gain or loss resulting from change in foreign exchange rates may differ from the results of the sensitivity analysis.

14.4 Operational Risk Management

Operational risk refers to the risk of loss arising from inadequate or problematic internal procedures, employees and information technology systems, and external events. Our operational risk mainly arises from personnel risk, process risk, information system risk and external event risk.

The Bank focuses on preventing systematic operational risks and heavy losses from operational risks. The Board explicitly sets an acceptable operational risk level and supervises the senior management's monitoring of and evaluation on the adequacy and effectiveness of the internal control system; the senior management works out systematic systems, processes and methods and adopts corresponding risk control measures according to the acceptable risk level determined by the Board, so as to prevent and control operational risks in a comprehensive manner. During the Reporting Period, the Bank actively improved operational risk management system, deeply explored potential risk, effectively identified, evaluated, monitored, controlled and minimized operational risk, vigorously promoted the enhancement of operational risk management, and enhanced its operational risk management ability. During the Reporting Period, the Bank focused on enhancing its operational risk management in the following areas:

1. Strengthening the application of operational risk management tools. The Bank comprehensively monitored operational risks through various means such as system monitoring, risk screening, internal check, and business line supervision, etc., and properly collected and analyzed key indicators of operational risk and lost data and issued early warning, improved the construction of internal procedures, and prevented operational risks in an all-round manner.

2. Focusing on key businesses and key areas of the Bank, combined with regulatory inspections and risk screening in certain key areas, the Bank rectified problems through self-knowledge and self-autonomy process, addressed operation and management loopholes, eliminated risks in the early stage and strictly controlled the spread of operational risks.

3. The Bank strengthened the security protection of information technology system and outsourcing risk management, analyzed the operation of important systems, the launch of IT projects and the external IT risk events, strengthened information security management and control, conducted risk assessment on the contents of outsourcing services, and strengthened the control and inspection of the risks during the process of implementation of outsourcing projects.

4. The Bank continued to promote business continuity management, improved the system construction of emergency plans, organized business continuity drills, and enhanced the relevant personnel's ability to respond to emergencies and their ability to work together.

15. Development Plan in the Second Half of 2019 of the Company

15.1 Operating Situation Analysis for the Second Half of the Year

In the second half of 2019, the global economy is still in a downward cycle. Under the influence of the Sino-US trade friction, China's economy will still face greater uncertainty, but will generally maintain stable operation with steady progress. The general tone of prudent monetary policy will remain unchanged, but the possibility of targeted adjustment and control will increase, and active fiscal policy will continue to be implemented.

15.2 Development Guiding Ideology for the Second Half of the Year

In the second half of 2019, the Bank will continue to follow the overall strategic planning requirements, and steadily promote the four development themes of "customer base expansion, financial technology empowerment, featured advantages cultivation and management mechanism transformation" under the guidance of the strategic goal of creating "a technology-driven bank that offers new quality financial products with lean management and outstanding features". The Company will continue to follow the basic operation guiding ideology of "strategic guidance, characteristic growth driver, compliance with rules and regulations, and continuous improvement", adheres to serving the real economy, steadily promotes structural adjustment, and ensures the completion of all annual work plans on the basis of steady development and quality control.

15.3 Major Work Measures in the Second Half of the Year

(1) Enrich the product system, improve the service level, expand the retail customer base and promote the increase of deposit;

(2) Optimize product mix, develop key business, exert great efforts in customer base construction and enhance deposit contribution;

(3) Expand investment banking business, develop financial management in the manner of compliance, optimize asset allocation and improve profitability;

(4) Optimize activation, improve comprehensive income, improve efficiency to acquire customer, and achieve a breakthrough in card issuance;

(5) Adhere to centralized examination and approval, strictly control new risks, and improve the system to ensure stable asset quality;

(6) Focus on key projects, improve delivery efficiency, optimize mechanism and strengthen scientific and technological support capacity.

4. OTHER EVENTS

4.1 Earnings and Dividends

The profit of the Company for the six months ended 30 June 2019 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 2018 annual general meeting of the Bank on 17 May 2019, the Bank had distributed 2018 cash dividends on 16 July 2019 to shareholders of A shares and H shares whose names appeared on the share register of the Bank at the close of business on the respective record dates, 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 2019 during the interim period.

4.1.2 Dividends on offshore preference shares

For relevant matters in respect of distribution of dividends on offshore preference shares of the Bank for the second dividend accruing year, please refer to the announcement on distribution of dividends on offshore preference shares dated 23 August 2019 published by the Bank.

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 H share 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.

The proceeds from issuance of A shares of the Bank had been used in accordance with the intended usage as disclosed in the A share prospectus of the Bank. All of the proceeds raised from the A share issuance of the Bank (after deduction of the issuance expenses) had been used to replenish the capital of the Bank to support the continuous and healthy growth of its business.

4.3 Changes in Directors, Supervisors and Senior Management

On March 2019, Mr. Wang Jianhua, the former external supervisor of the Bank, resigned from the position of the external supervisor and a member of the nomination and evaluation committee under the board of supervisors due to requirement from the company he worked for.

On May 2019, Mr. Zhang Lanchang, the former shareholder supervisor of the Bank, resigned from the position of the shareholder supervisor and a member of the supervision committee under the board of supervisors due to work reasons.

Apart from the above, during the Reporting Period, there were no other changes in the directors, supervisors and 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 to 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 2019.

5. REVIEW REPORT

To the board of directors of Bank of Qingdao Co., Ltd.
*(A joint stock company incorporated in the People's Republic of China ("**PRC**") with limited liability)*

INTRODUCTION

We have reviewed the interim financial report set out on pages 72 to 148 which comprises the consolidated statement of financial position of Bank of Qingdao Co., Ltd. (the "**Bank**") and its subsidiary (collectively the "**Group**") as of 30 June 2019 and the related consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the six months then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, *Interim Financial Reporting*, issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, issued by the International Auditing and Assurance Standards Board. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2019 is not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim Financial Reporting*.

KPMG

Certified Public Accountants

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

23 August 2019

6. UNAUDITED INTERIM FINANCIAL REPORT

UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	**Six months ended 30 June 2019 (unaudited)**	Six months ended 30 June 2018 (unaudited)
Interest income		**6,825,818**	5,453,245
Interest expense		**(3,681,275)**	(3,716,953)
Net interest income	*3*	**3,144,543**	1,736,292
Fee and commission income		**614,082**	373,336
Fee and commission expense		**(33,272)**	(30,849)
Net fee and commission income	*4*	**580,810**	342,487
Net trading gains	*5*	**15,362**	94,640
Net gains arising from investments	*6*	**785,541**	951,247
Other operating income, net	*7*	**8,312**	5,445
Operating income		**4,534,568**	3,130,111
Operating expenses	*8*	**(1,266,489)**	(964,113)
Impairment losses	*9*	**(1,428,195)**	(516,515)
Profit before taxation		**1,839,884**	1,649,483
Income tax expense	*10*	**(373,755)**	(318,607)
Net profit for the period		**1,466,129**	1,330,876
Profit attributable to:			
Equity shareholders of the Bank		**1,438,462**	1,321,444
Non-controlling interests		**27,667**	9,432
Basic and diluted earnings per share (in RMB)	*11*	**0.32**	0.33

The notes on pages 81 to 148 form part of this interim financial report.

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	**Six months ended 30 June 2019 (unaudited)**	Six months ended 30 June 2018 (unaudited)
Net profit for the period		**1,466,129**	1,330,876
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
– Remeasurement of defined benefit liability		**–**	(1,005)
Items that may be reclassified subsequently to profit or loss			
– Changes in fair value of debt investments measured at fair value through other comprehensive income	*35(4)*	**(76,063)**	409,729
– Credit losses of debt investments measured at fair value through other comprehensive income	*35(4)*	**50,659**	12,770
Other comprehensive income, net of tax		**(25,404)**	421,494
Total comprehensive income		**1,440,725**	1,752,370
Total comprehensive income attributable to:			
Equity shareholders of the Bank		**1,413,058**	1,742,938
Non-controlling interests		**27,667**	9,432

The notes on pages 81 to 148 form part of this interim financial report.

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	**30 June 2019 (unaudited)**	31 December 2018 (audited)
Assets			
Cash and deposits with central bank	*12*	**34,600,099**	29,554,430
Deposits with banks and other financial institutions	*13*	**1,321,082**	1,542,437
Placements with banks and other financial institutions	*14*	**4,588,207**	4,110,464
Derivative financial assets	*15*	**323**	–
Financial assets held under resale agreements	*16*	**–**	300,262
Loans and advances to customers	*17*	**143,343,578**	123,366,891
Financial investments:			
– Financial investments measured at fair value through profit or loss	*18*	**27,333,616**	22,361,816
– Financial investments measured at fair value through other comprehensive income	*19*	**52,507,189**	53,002,751
– Financial investments measured at amortised cost	*20*	**66,573,268**	70,032,056
Long-term receivables	*22*	**8,800,422**	7,766,698
Property and equipment	*23*	**3,089,560**	3,124,355
Deferred tax assets	*24*	**1,331,453**	1,152,778
Other assets	*25*	**1,742,149**	1,343,564
Total assets		**345,230,946**	317,658,502
Liabilities			
Borrowings from central bank	*26*	**10,186,784**	10,878,835
Deposits from banks and other financial institutions	*27*	**14,900,225**	11,632,982
Placements from banks and other financial institutions	*28*	**8,718,411**	7,207,066
Derivative financial liabilities	*15*	**273**	–
Financial assets sold under repurchase agreements	*29*	**13,654,122**	14,850,333
Deposits from customers	*30*	**188,360,223**	177,911,247
Income tax payable		**18,021**	13,174
Debt securities issued	*31*	**75,161,060**	65,240,507
Other liabilities	*32*	**4,233,746**	2,427,634
Total liabilities		**315,232,865**	290,161,778

The notes on pages 81 to 148 form part of this interim financial report.

	Note	30 June 2019 (unaudited)	31 December 2018 (audited)
Equity			
Share capital	*33*	**4,509,690**	4,058,713
Other equity instrument			
Including: preference shares	*34*	**7,853,964**	7,853,964
Capital reserve	*35(1)*	**8,337,869**	6,826,276
Surplus reserve	*35(2)*	**1,403,575**	1,403,575
General reserve	*35(3)*	**3,969,452**	3,969,452
Other comprehensive income	*35(4)*	**527,789**	553,193
Retained earnings	*36*	**2,856,324**	2,319,800
Total equity attributable to equity shareholders of the Bank		**29,458,663**	26,984,973
Non-controlling interests		**539,418**	511,751
Total equity		**29,998,081**	27,496,724
Total liabilities and equity		**345,230,946**	317,658,502

Approved and authorised for issue by the board of directors on 23 August 2019.

Guo Shaoquan
Legal Representative (Chairman)

Wang Lin
President

Yang Fengjiang
Vice President in charge of finance function

Meng Dageng
Head of the Planning & Finance Department

(Company Stamp)

The notes on pages 81 to 148 form part of this interim financial report.

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

		Attributable to equity shareholders of the Bank									
	Note	**Share capital**	**Other equity instrument**	**Capital reserve** *Note 35(1)*	**Surplus reserve** *Note 35(2)*	**General reserve** *Note 35(3)*	**Other comprehensive income** *Note 35(4)*	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
Balance at 1 January 2019		**4,058,713**	**7,853,964**	**6,826,276**	**1,403,575**	**3,969,452**	**553,193**	**2,319,800**	**26,984,973**	**511,751**	**27,496,724**
Profit for the period		**–**	**–**	**–**	**–**	**–**	**–**	**1,438,462**	**1,438,462**	**27,667**	**1,466,129**
Other comprehensive income		**–**	**–**	**–**	**–**	**–**	**(25,404)**	**–**	**(25,404)**	**–**	**(25,404)**
Total comprehensive income		**–**	**–**	**–**	**–**	**–**	**(25,404)**	**1,438,462**	**1,413,058**	**27,667**	**1,440,725**
Issue of ordinary shares		**450,977**	**–**	**1,511,593**	**–**	**–**	**–**	**–**	**1,962,570**	**–**	**1,962,570**
Appropriation of profit:											
– Cash dividends	*36*	**–**	**–**	**–**	**–**	**–**	**–**	**(901,938)**	**(901,938)**	**–**	**(901,938)**
Balance at 30 June 2019 (unaudited)		**4,509,690**	**7,853,964**	**8,337,869**	**1,403,575**	**3,969,452**	**527,789**	**2,856,324**	**29,458,663**	**539,418**	**29,998,081**

		Attributable to equity shareholders of the Bank									
	Note	Share capital	Other equity instrument	Capital reserve *Note 35(1)*	Surplus reserve *Note 35(2)*	General reserve *Note 35(3)*	Other comprehensive income *Note 35(4)*	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	*36*	–	–	–	–	–	–	(811,748)	(811,748)	–	(811,748)
Balance at 30 June 2018 (unaudited)		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

	Note	Attributable to equity shareholders of the Bank								Non-controlling interests	Total equity
		Share capital	Other equity instrument	Capital reserve *Note 35(1)*	Surplus reserve *Note 35(2)*	General reserve *Note 35(3)*	Other comprehensive income *Note 35(4)*	Retained earnings	Total		
Balance at 31 December 2017		4,058,713	7,853,964	6,826,276	1,203,325	3,969,452	(885,449)	2,603,573	25,629,854	493,355	26,123,209
Changes in accounting policies		–	–	–	–	–	422,278	(791,031)	(368,753)	(1,641)	(370,394)
Balance at 1 January 2018		4,058,713	7,853,964	6,826,276	1,203,325	3,969,452	(463,171)	1,812,542	25,261,101	491,714	25,752,815
Profit for the year		–	–	–	–	–	–	2,023,352	2,023,352	20,037	2,043,389
Other comprehensive income		–	–	–	–	–	1,016,364	–	1,016,364	–	1,016,364
Total comprehensive income		–	–	–	–	–	1,016,364	2,023,352	3,039,716	20,037	3,059,753
Appropriation of profit:											
– Appropriation to surplus reserve	*36*	–	–	–	200,250	–	–	(200,250)	–	–	–
– Cash dividends	*36*	–	–	–	–	–	–	(1,315,844)	(1,315,844)	–	(1,315,844)
Balance at 31 December 2018 (audited)		4,058,713	7,853,964	6,826,276	1,403,575	3,969,452	553,193	2,319,800	26,984,973	511,751	27,496,724

The notes on pages 81 to 148 form part of this interim financial report.

UNAUDITED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

	Six months ended 30 June	
	2019	2018
	(unaudited)	(unaudited)
Cash flows from operating activities		
Profit before taxation	**1,839,884**	1,649,483
Adjustments for:		
Impairment losses	**1,428,195**	516,515
Depreciation and amortisation	**212,737**	196,286
Unrealised foreign exchange gains	**(14,385)**	(395,158)
Net losses/(gains) on disposal of long-term assets	**582**	(40)
(Gains)/losses from changes in fair value	**(31,300)**	362,083
Dividend income	**–**	(1,100)
Net gains arising from investment	**(754,291)**	(1,312,230)
Interest expense on debt securities issued	**1,257,153**	1,328,313
Interest income generated from non-operating activities	**(2,685,687)**	(2,533,920)
Others	**(27,701)**	(29,876)
	1,225,187	(219,644)
Changes in operating assets		
Net decrease/(increase) in deposits with central bank	**795,841**	(1,001,385)
Net decrease/(increase) in deposits with banks and other financial institutions	**200,000**	(200,000)
Net decrease/(increase) in placements with banks and other financial institutions	**7,542**	(1,065,070)
Net increase in loans and advances to customers	**(21,291,600)**	(9,896,545)
Net decrease in financial assets held under resale agreements	**300,000**	859,200
Net increase in long-term receivables	**(1,074,973)**	(2,003,067)
Net increase in other operating assets	**(102,093)**	(290,288)
	(21,165,283)	(13,597,155)

The notes on pages 81 to 148 form part of this interim financial report.

	Six months ended 30 June	
	2019	2018
	(unaudited)	(unaudited)
Changes in operating liabilities		
Net (decrease)/increase in borrowings from central bank	**(749,709)**	2,522,919
Net increase/(decrease) in deposits from banks and other financial institutions	**3,270,197**	(1,910,575)
Net increase in placements from banks and other financial institutions	**1,533,428**	1,557,166
Net (decrease)/increase in financial assets sold under repurchase agreements	**(1,194,617)**	7,000,483
Net increase in deposits from customers	**10,194,128**	6,115,828
Income tax paid	**(463,843)**	(148,084)
Net increase in other operating liabilities	**706,149**	623,576
	13,295,733	15,761,313
Net cash flows (used in)/generated from operating activities	**(6,644,363)**	1,944,514
Cash flows from investing activities		
Proceeds from disposal and redemption of investments	**35,112,823**	52,712,059
Net cash received from investment gains and interest	**3,645,625**	3,748,339
Proceeds from disposal of property and equipment, intangible assets and other assets	**301**	1,907
Payments on acquisition of investments	**(35,282,062)**	(32,310,321)
Payments on acquisition of property and equipment, intangible assets and other assets	**(159,286)**	(112,592)
Net cash flows generated from investing activities	**3,317,401**	24,039,392
Cash flows from financing activities		
Proceeds from issuance of ordinary shares	**1,962,570**	–
Net proceeds from debt securities issued	**44,598,684**	40,540,627
Repayment of debt securities issued	**(35,530,000)**	(62,010,000)
Interest paid on debt securities issued	**(405,284)**	(542,930)
Dividends paid	**(62)**	(808,788)
Net cash flows generated from/(used in) financing activities	**10,625,908**	(22,821,091)

The notes on pages 81 to 148 form part of this interim financial report.

	Notes	Six months ended 30 June **2019** **(unaudited)**	 2018 (unaudited)
Effect of foreign exchange rate changes on cash and cash equivalents		7,115	131,232
Net increase in cash and cash equivalents		7,306,061	3,294,047
Cash and cash equivalents as at 1 January		10,212,182	9,678,330
Cash and cash equivalents as at 30 June	*37*	17,518,243	12,972,377
Net cash flows generated from operating activities include:			
Interest received		4,305,389	2,973,099
Interest paid		(2,138,247)	(2,208,163)

The notes on pages 81 to 148 form part of this interim financial report.

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 former 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"). In December 2015, the Bank's H shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (Stock code: 3866). In January 2019, the Bank's A-shares were listed on the SME Board of Shenzhen Stock Exchange (Stock code: 002948). The share capital of the Bank is RMB 4.51 billion as at 30 June 2019.

The Bank has 14 branches in Jinan, Dongying, Weihai, Zibo, Dezhou, Zaozhuang, Yantai, Binzhou, Weifang, Qingdao Westcoast, Laiwu, Linyi, Jining and Taian as at 30 June 2019. The principal activities of the Bank and its subsidiary (collectively the "Group") are the provision of corporate and personal deposits, loans and advances, settlement, financial market business, financial leasing and other services as approved by the regulatory authority. The background information of subsidiary refers to Note 21. 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 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"). It was authorised for issue by the Bank's Board of Directors on 23 August 2019.

The interim financial reports 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"), and should be read in conjunction with the Group's last annual financial report for the year ended 31 December 2018.

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with International Standard on Review Engagements 2410, Review of interim financial information performed by the independent auditor of the entity, issued by the International Auditing and Assurance Standards Board ("IAASB").

(2) Accounting judgements and estimates

The preparation of an interim financial report in conformity with IAS 34, Interim Financial Reporting, 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.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied in the preparation of the consolidated financial statements for the year ended 31 December 2018.

(3) Changes in accounting policies

Except as described below, the accounting policies applied in these interim financial report are the same as those applied in the preparation of the consolidated financial statements for the year ended 31 December 2018. The changes in accounting policies are also expected to be reflected in the Group's consolidated financial statements as at and for the year ended 31 December 2019.

The Group has initially adopted IFRS 16 Lease ("IFRS 16") from 1 January 2019. A number of other new standards are effective from 1 January 2019 but they do not have a material effect on the Group's financial statements.

IFRS 16 refines the lease definition, and the Group assesses whether the contract is, or contains, a lease in accordance with the lease definition under IFRS 16. For contracts that have been existed before the date of initial application, the Group chose not to reassess whether they are, or contain leases on the date of initial application.

(a) The Group as the lessee

Under International Accounting Standards No.17 – Lease ("IAS 17"), the Group classifies a lease as either a finance lease or an operating lease based on whether the lease substantially transfers all the risks and rewards incidental to ownership of a leased asset to the Group.

The Group no longer classifies a lease as either a finance lease or an operating lease under IFRS 16. The Group recognizes a right-of-use (ROU) asset and lease liability for all leases (other than short-term leases and leases of low-value assets with simplified accounting treatments).

When separating lease components and non-lease components, the Group allocates the consideration of the contract based on the relative proportion between the stand-alone price of each lease component and the aggregate stand-alone price of the non-lease components.

The Group chooses to adjust the opening balance of retained earnings (if any) and the amount of relevant items in the financial statements at the beginning of the year that initially applying IFRS 16 in accordance with the cumulative effect of initial application of IFRS 16, while the information during the comparative period is not adjusted.

For operating leases prior to the initial application of IFRS 16, the Group measures the lease liability in the present value of remaining lease payments discounted based on the incremental borrowing rate at the date of initial application on the initial application date, and measures the right-of-use assets according to the following methods:

– Amounts equal to the lease liability and necessary adjustments based on the prepaid rent. The Group adopts this method for all leases.

For operating leases prior to the date of initial application, the Group adopts the following simplified accounting treatments when applying the above method:

- Account for leases for which the lease term ends within 12 months of the date of initial application as short-term leases;
- Apply a single discount rate to leases with similar characteristics when measuring the lease liability;
- Exclude initial direct costs from the measurement of the right-of-use asset;
- If there are options to extend or terminate, determine the lease term based on the actual execution of the options and other latest circumstances before the date of initial application;
- As an alternative to performing an impairment review on the right-of-use assets, adjust the right-of-use assets in accordance with the loss allowances for onerous contracts included in the balance sheet before the date of initial application;
- The Group does not adopt the retrospective approach on lease changes prior to the beginning of the year that initially applying IFRS 16, and performs accounting treatments under IFRS 16 based on the final arrangement of the lease changes.

(b) The Group as the lessor

The Group does not need to adjust the opening balance of retained earnings and the amount of other items in the financial statements at the beginning of the year that initially applying IFRS 16 for leases that the Group is the lessor. The Group performs accounting treatments under IFRS 16 for the date of initial application.

Under IFRS 16, the Group allocates the consideration in the contract between each lease component and non-lease component according to the transaction price allocation requirements in the new revenue standards.

(c) Effects on the financial statements arising from the adoption of IFRS 16 as at 1 January 2019

The Group recognized the lease liability of RMB 459 million and the right-of-use asset of RMB 897 million. Based on the cumulative effect on the date of initial application, the Group adjusted the opening retained earnings on the date of initial application while the information during the comparative period is not adjusted. The Group chose to measure the right-of-use assets in the balance of the lease liability, and made adjustments based on prepaid lease payment or provisions for lease payment related to the lease and included in the statement of financial position on the date of initial application. Changes in the standards have no effect on the opening retained earnings.

In measuring the lease liability, the Group discounted the lease payment with the incremental borrowing rate at 1 January 2019. The weighted average interest rate used by the Group was 3.91%.

	The Group
Outstanding minimum lease payments of significant operating leases disclosed in the consolidated financial statements as at 31 December 2018	519,427
Present value discounted with the Group's incremental borrowing rate on 1 January 2019	444,751
Lease liabilities on 1 January 2019 under IFRS 16	458,964
Difference between the above discounted present value and the lease liabilities	(14,213)

3 NET INTEREST INCOME

	Six months ended 30 June	
	2019	2018
Interest income arising from		
Deposits with central bank	**168,832**	188,787
Deposits with banks and other financial institutions	**8,670**	9,671
Placements with banks and other financial institutions	**142,484**	52,706
Loans and advances to customers		
– Corporate loans and advances	**2,127,391**	1,596,552
– Personal loans and advances	**1,102,518**	711,262
– Discounted bills	**212,008**	104,800
Financial assets held under resale agreements	**133,225**	123,596
Financial investments	**2,685,687**	2,534,605
Long-term receivables	**245,003**	131,266
Sub-total	**6,825,818**	5,453,245
Interest expense arising from		
Deposits from banks and other financial institutions	**(190,952)**	(422,665)
Placements from banks and other financial institutions	**(207,222)**	(150,016)
Deposits from customers	**(1,591,835)**	(1,432,119)
Financial assets sold under repurchase agreements	**(261,599)**	(296,938)
Debt securities issued	**(1,257,153)**	(1,328,313)
Others	**(172,514)**	(86,902)
Sub-total	**(3,681,275)**	(3,716,953)
Net interest income	**3,144,543**	1,736,292

4 NET FEE AND COMMISSION INCOME

	Six months ended 30 June	
	2019	2018
Fee and commission income		
Wealth management service fees	**318,278**	144,994
Agency service fees	**155,930**	128,835
Custody and bank card service fees	**37,535**	17,402
Settlement fees	**17,798**	16,423
Others	**84,541**	65,682
Sub-total	**614,082**	373,336
Fee and commission expense	**(33,272)**	(30,849)
Net fee and commission income	**580,810**	342,487

5 NET TRADING GAINS

	Note	Six months ended 30 June 2019	2018
Net gains of foreign exchange rate derivative financial instruments and foreign exchange	*(i)*	**16,918**	91,793
Net (losses)/gains from debt securities and others	*(ii)*	**(1,606)**	2,847
Change in fair value of non-exchange derivative financial instruments		**50**	–
Total		**15,362**	94,640

Notes:

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

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

6 NET GAINS ARISING FROM INVESTMENTS

	Six months ended 30 June 2019	2018
Net gains on financial investments measured at fair value through profit or loss	**512,826**	944,090
Net gains on disposal of financial assets measured at fair value through other comprehensive income	**272,715**	6,057
Dividend income	**–**	1,100
Total	**785,541**	951,247

7 OTHER OPERATING INCOME, NET

	Six months ended 30 June 2019	2018
Government grants	**4,173**	3,868
Rental income	**1,033**	1,033
Net (losses)/gains on disposal of property and equipment and other assets	**(582)**	40
Others	**3,688**	504
Total	**8,312**	5,445

8 OPERATING EXPENSES

	Six months ended 30 June	
	2019	2018
Staff costs		
– Salaries, bonuses and allowances	**492,444**	311,516
– Social insurance and housing allowances	**50,382**	40,956
– Staff welfare expenses	**34,804**	28,579
– Staff education expenses	**12,420**	7,923
– Labor union expenses	**15,136**	6,338
– Post-employment benefits – defined contribution plans	**87,932**	69,205
– Supplementary retirement benefits	**3,720**	9,380
Sub-total	**696,838**	473,897
Property and equipment expenses		
– Depreciation and amortisation	**212,737**	196,286
– Electronic equipment operating expenses	**35,349**	39,309
– Maintenance	**35,225**	32,203
Sub-total	**283,311**	267,798
Tax and surcharges	**49,349**	35,454
Other general and administrative expenses	**236,991**	186,964
Total	**1,266,489**	964,113

9 IMPAIRMENT LOSSES

	Six months ended 30 June	
	2019	2018
Loans and advances to customers	**1,382,222**	526,238
Deposits with banks and other financial institutions	**51**	474
Placements with banks and other financial institutions	**(4,029)**	8,089
Financial assets held under resale agreements	**(122)**	(362)
Financial investments measured at amortised cost	**(75,701)**	(36,311)
Financial investments measured at FVOCI	**63,809**	7,438
Long-term receivables	**58,718**	16,135
Credit commitments	**(3,905)**	(15,836)
Others	**7,152**	10,650
Total	**1,428,195**	516,515

10 INCOME TAX EXPENSE

(1) Income tax for the reporting period:

	Note	Six months ended 30 June **2019**	 2018
Current tax		**543,962**	331,162
Deferred tax	*24(2)*	**(170,207)**	(12,555)
Total		**373,755**	318,607

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

	Six months ended 30 June **2019**	 2018
Profit before taxation	**1,839,884**	1,649,483
Statutory tax rate	**25%**	25%
Income tax calculated at statutory tax rate	**459,971**	412,371
Tax effect of non-deductible expenses for tax purpose		
– Annuity	**2,136**	3,723
– Entertainment expenses	**1,296**	1,409
– Others	**1,072**	2,219
Subtotal	**4,504**	7,351
Tax effect of non-taxable income for tax purpose *(Note (i))*	**(90,720)**	(101,115)
Income tax	**373,755**	318,607

Note:

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

11 BASIC AND DILUTED EARNINGS PER SHARE

There is no difference between basic and diluted earnings per share as there were no potentially dilutive shares outstanding during the reporting period.

	Note	Six months ended 30 June **2019**	2018
Weighted average number of ordinary shares (in thousands)	*11(1)*	**4,434,527**	4,058,713
Net profit attributable to equity shareholders of the Bank		**1,438,462**	1,321,444
Less: dividends on preference shares declared		**–**	–
Net profit attributable to ordinary shareholders of the Bank		**1,438,462**	1,321,444
Basic and diluted earnings per share (in RMB)		**0.32**	0.33

Note:

As stated in Note 34, the Bank issued 60,150,000 shares in respect of the USD overseas preference share on 19 September 2017. On 30 June 2019, the carrying amount of the overseas preference share equals to RMB 7,854 million.

The above overseas preference share adopts the non-cumulative dividend payment method, that is, the dividend on preference shares which does not cumulate upon omission of payment so as to require payment of a passed or omitted dividend of one year out of earnings of a following year. After receiving dividend at agreed dividend rate, preference shareholders of the Bank will not participate the distribution of residual profits with ordinary shareholders. In the case of meeting relevant distribution conditions, dividends of the preference share will be paid on 19 September of each year after the declaration of the Board of Directors of the Bank, the Bank post-pays the dividends each year.

Therefore, in calculating the earnings per share for six months ended 30 June 2019, the Bank did not consider the effects of dividends that may be distributed to shareholders of the overseas preference share in September 2019 on the net profit attributable to shareholders of the ordinary shares of the Bank (Dividends distributed to shareholders of the overseas preference share by the Bank in September 2018 were RMB 504 million).

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

	Six months ended 30 June **2019**	2018
Number of ordinary shares as at 1 January	**4,058,713**	4,058,713
Increase in weighted average number of ordinary shares	**375,814**	–
Weighted average number of ordinary shares	**4,434,527**	4,058,713

12 CASH AND DEPOSITS WITH CENTRAL BANK

	Note	**30 June 2019**	31 December 2018
Cash on hand		**504,261**	451,273
Deposits with central bank			
– Statutory deposit reserves	*12(1)*	**19,942,664**	20,808,743
– Surplus deposit reserves	*12(2)*	**14,045,254**	8,256,128
– Fiscal deposits		**97,230**	26,992
Sub-total		**34,085,148**	29,091,863
Accrued interest		**10,690**	11,294
Total		**34,600,099**	29,554,430

(1) The Bank places statutory deposit reserves with the PBOC in accordance with relevant regulations. As at the end of the reporting period, the statutory deposit reserve ratios applicable to the Bank were as follows:

	30 June 2019	31 December 2018
Reserve ratio for RMB deposits	**11.0%**	12.0%
Reserve ratio for foreign currency deposits	**5.0%**	5.0%

The statutory deposit reserves are not available for the Group's daily business.

(2) The surplus deposit reserves are maintained with the PBOC mainly for the purpose of clearing.

13 DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 June 2019	31 December 2018
In Mainland China		
– Banks	**1,006,585**	1,239,298
– Other financial institutions	**4,146**	7,962
Outside Mainland China		
– Banks	**309,181**	285,941
Accrued interest	**1,894**	9,909
Sub-total	**1,321,806**	1,543,110
Less: Provision for impairment losses	**(724)**	(673)
Total	**1,321,082**	1,542,437

14 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 June 2019	31 December 2018
In Mainland China		
– Banks	**–**	233,486
– Other financial institutions	**4,508,825**	3,801,365
Accrued interest	**86,976**	87,236
Sub-total	**4,595,801**	4,122,087
Less: Provision for impairment losses	**(7,594)**	(11,623)
Total	**4,588,207**	4,110,464

15 DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments held by the Group mainly include interest rate swaps, credit risk mitigation warrant, currency swaps and foreign exchange swaps, etc.

16 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

(1) Analysed by type and location of counterparty

	30 June 2019	31 December 2018
In Mainland China		
– Other financial institutions	**–**	300,000
Accrued interest	**–**	384
Sub-total	**–**	300,384
Less: Provision for impairment losses	**–**	(122)
Total	**–**	300,262

(2) Analysed by type of security held

	30 June 2019	31 December 2018
Debt securities	**–**	300,000
Accrued interest	**–**	384
Sub-total	**–**	300,384
Less: Provision for impairment losses	**–**	(122)
Total	**–**	300,262

17 LOANS AND ADVANCES TO CUSTOMERS

(1) Analysed by nature

	30 June 2019	31 December 2018
Measured at amortised cost:		
Corporate loans and advances		
– Corporate loans	**89,494,765**	78,264,271
Sub-total	**89,494,765**	78,264,271
Personal loans and advances		
– Residential mortgage	**32,440,634**	30,229,094
– Personal business loans	**5,258,703**	5,836,058
– Personal consumption loans	**5,715,103**	3,827,588
– Others	**1,366,465**	1,457,234
Sub-total	**44,780,905**	41,349,974
Accrued interest	**630,061**	521,250
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost		
– 12-month expected credit loss (“ECL”)	**(1,299,395)**	(1,276,373)
– lifetime ECL		
– not credit-impaired loans	**(1,201,830)**	(1,277,670)
– credit-impaired loans	**(1,177,616)**	(987,186)
Total provision for impairment losses	**(3,678,841)**	(3,541,229)
Measured at FVOCI:		
Corporate loans and advances		
– Discounted bills	**12,116,688**	6,772,625
Net loans and advances to customers	**143,343,578**	123,366,891

(2) Analysed by industry (excluding accrued interest)

	30 June 2019		
	Amount	**Percentage**	**Loans and advances secured by collaterals**
Manufacturing	**19,556,702**	**13.36%**	**6,264,869**
Construction	**14,817,399**	**10.12%**	**5,480,561**
Wholesale and retail trade	**11,940,692**	**8.16%**	**9,302,232**
Real estate	**11,423,823**	**7.80%**	**10,333,631**
Renting and business activities	**11,200,358**	**7.65%**	**5,548,480**
Water, environment and public utility management	**10,624,867**	**7.26%**	**5,987,711**
Financial services	**7,744,938**	**5.29%**	**3,457,389**
Production and supply of electric and heating power, gas and water	**5,010,241**	**3.42%**	**985,362**
Transportation, storage and postal services	**2,486,237**	**1.70%**	**699,237**
Others	**6,806,196**	**4.65%**	**3,957,640**
Sub-total of corporate loans and advances	**101,611,453**	**69.41%**	**52,017,112**
Personal loans and advances	**44,780,905**	**30.59%**	**38,194,710**
Gross loans and advances to customers	**146,392,358**	**100.00%**	**90,211,822**

	31 December 2018		
	Amount	Percentage	Loans and advances secured by collaterals
Manufacturing	18,805,454	14.88%	4,287,884
Water, environment and public utility management	10,802,398	8.55%	5,894,822
Construction	10,788,346	8.54%	3,833,353
Wholesale and retail trade	9,654,850	7.64%	6,700,785
Real estate	8,849,735	7.00%	7,525,135
Renting and business activities	8,169,559	6.46%	4,571,741
Financial services	5,456,155	4.32%	1,206,182
Production and supply of electric and heating power, gas and water	4,711,898	3.73%	919,631
Transportation, storage and postal services	2,911,253	2.30%	1,023,463
Others	4,887,248	3.86%	1,803,082
Sub-total of corporate loans and advances	85,036,896	67.28%	37,766,078
Personal loans and advances	41,349,974	32.72%	36,363,927
Gross loans and advances to customers	126,386,870	100.00%	74,130,005

(3) Analysed by type of collateral (excluding accrued interest)

	30 June 2019	31 December 2018
Unsecured loans	**19,570,326**	15,753,945
Guaranteed loans	**36,610,210**	36,502,920
Loans secured by mortgages	**63,132,054**	54,738,421
Pledged loans	**27,079,768**	19,391,584
Gross loans and advances to customers	**146,392,358**	126,386,870

(4) Overdue loans analysed by overdue period (excluding accrued interest)

	30 June 2019				
	Overdue within three months (inclusive)	**Overdue more than three months to one year (inclusive)**	**Overdue more than one year to three years (inclusive)**	**Overdue more than three years**	**Total**
Unsecured loans	**44,993**	**16,695**	**104,001**	**17,246**	**182,935**
Guaranteed loans	**1,220,179**	**1,014,295**	**414,982**	**23,966**	**2,673,422**
Loans secured by mortgages	**272,510**	**102,498**	**91,949**	**147,001**	**613,958**
Total	**1,537,682**	**1,133,488**	**610,932**	**188,213**	**3,470,315**
As a percentage of gross loans and advances to customers	**1.05%**	**0.77%**	**0.42%**	**0.13%**	**2.37%**

	31 December 2018				
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	15,582	119,133	3,775	17,129	155,619
Guaranteed loans	2,055,750	1,057,182	467,798	36,332	3,617,062
Loans secured by mortgages	197,952	48,211	166,521	161,237	573,921
Pledged loans	2,500	4,714	–	–	7,214
Total	2,271,784	1,229,240	638,094	214,698	4,353,816
As a percentage of gross loans and advances to customers	1.80%	0.97%	0.50%	0.17%	3.44%

Overdue loans represent loans of which the whole or part of the principal or interest has been overdue for one day (inclusive) or more.

(5) Loans and advances and provision for impairment losses analysis

As at 30 June 2019 and 31 December 2018, the provision for impairment losses of loans and advances to customers are as follows:

(i) Provision for impairment losses of loans and advances to customers measured at amortised cost:

	30 June 2019			
	12-month ECL	**Lifetime ECL- not credit-impaired**	**Lifetime ECL- credit-impaired**	**Total**
Gross loans and advances to customers measured at amortised cost (including accrued interest)	**125,622,743**	**6,809,817**	**2,473,171**	**134,905,731**
Less: Provision for impairment losses	**(1,299,395)**	**(1,201,830)**	**(1,177,616)**	**(3,678,841)**
Net loans and advances to customers measured at amortised cost	**124,323,348**	**5,607,987**	**1,295,555**	**131,226,890**

	31 December 2018			
	12-month ECL	Lifetime ECL- not credit-impaired	Lifetime ECL- credit-impaired	Total
Gross loans and advances to customers measured at amortised cost (including accrued interest)	110,813,316	7,205,001	2,117,178	120,135,495
Less: Provision for impairment losses	(1,276,373)	(1,277,670)	(987,186)	(3,541,229)
Net loans and advances to customers measured at amortised cost	109,536,943	5,927,331	1,129,992	116,594,266

(ii) Provision for impairment losses on loans and advances to customers measured at FVOCI:

	30 June 2019			
	12-month ECL	**Lifetime ECL-not credit-impaired**	**Lifetime ECL-credit-impaired**	**Total**
Gross/net loans and advances to customers measured at FVOCI (including accrued interest)	**12,116,688**	**–**	**–**	**12,116,688**
Provision for impairment losses through other comprehensive income	**(20,313)**	**–**	**–**	**(20,313)**

	31 December 2018			
	12-month ECL	Lifetime ECL-not credit-impaired	Lifetime ECL-credit-impaired	Total
Gross/net loans and advances to customers measured at FVOCI (including accrued interest)	6,772,625	–	–	6,772,625
Provision for impairment losses through other comprehensive income	(16,577)	–	–	(16,577)

(6) Movements of provision for impairment losses

For the six months ended 30 June 2019 and the year ended 31 December 2018, movements of the provision for impairment losses on loans and advances to customers are as follows:

(i) Movements of provision for impairment losses of loans and advances to customers measured at amortised cost are as follows:

	Six months ended 30 June 2019			
	12-month ECL	**Lifetime ECL-not credit-impaired**	**Lifetime ECL-credit-impaired**	**Total**
As at 1 January 2019	**1,276,373**	**1,277,670**	**987,186**	**3,541,229**
Transfer to				
– 12-month ECL	**17,660**	**(17,515)**	**(145)**	**–**
– Lifetime ECL				
– not credit-impaired loans	**(25,726)**	**26,573**	**(847)**	**–**
– credit-impaired loans	**(4,609)**	**(574,892)**	**579,501**	**–**
Charge for the period	**35,697**	**489,994**	**852,795**	**1,378,486**
Write-offs and transfer out	**–**	**–**	**(1,250,824)**	**(1,250,824)**
Recoveries of loans and advances written off	**–**	**–**	**37,651**	**37,651**
Other changes	**–**	**–**	**(27,701)**	**(27,701)**
As at 30 June 2019	**1,299,395**	**1,201,830**	**1,177,616**	**3,678,841**

	2018			
	12-month ECL	Lifetime ECL-not credit-impaired	Lifetime ECL-credit-impaired	Total
As at 1 January 2018	1,550,587	717,619	844,871	3,113,077
Transfer to				
– 12-month ECL	8,805	(8,216)	(589)	–
– Lifetime ECL				
– not credit-impaired loans	(61,501)	118,428	(56,927)	–
– credit-impaired loans	(22,913)	(236,336)	259,249	–
(Release)/Charge for the year	(198,605)	686,175	1,723,748	2,211,318
Write-offs and transfer out	–	–	(1,764,332)	(1,764,332)
Recoveries of loans and advances written off	–	–	36,725	36,725
Other changes	–	–	(55,559)	(55,559)
As at 31 December 2018	1,276,373	1,277,670	987,186	3,541,229

(ii) ***Movements of the provision for impairment losses on loans and advances to customers measured at FVOCI are as follows:***

	Six months ended 30 June 2019			
	12-month ECL	**Lifetime ECL-not credit-impaired**	**Lifetime ECL-credit-impaired**	**Total**
As at 1 January 2019	**16,577**	**–**	**–**	**16,577**
Charge for the period	**3,736**	**–**	**–**	**3,736**
As at 30 June 2019	**20,313**	**–**	**–**	**20,313**

	2018			
	12-month ECL	Lifetime ECL-not credit-impaired	Lifetime ECL-credit-impaired	Total
As at 1 January 2018	14,188	–	–	14,188
Charge for the year	2,389	–	–	2,389
As at 31 December 2018	16,577	–	–	16,577

The Group enters into securitization transactions in the normal course of business. See note 44 for details.

In addition, in six months ended 30 June 2019 and the year ended 31 December 2018, the Group transferred loans and advances to independent third parties with principal amount of RMB 0.046 billion and RMB 0.015 billion respectively, and with the transfer price (including overdue interest, penalty interest, etc.) of RMB 0.047 billion and RMB 0.017 billion respectively.

18 FINANCIAL INVESTMENTS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2019	31 December 2018
Other debt investments measured at FVTPL		
Issued by the following institutions in Mainland China		
– Banks and other financial institutions	**518,043**	206,985
– Corporate entities	**31,703**	30,295
Sub-total	**549,746**	237,280
Investment funds	**12,829,787**	7,467,620
Asset management plans	**8,775,971**	9,354,611
Trust plans	**3,143,259**	3,221,359
Wealth management products issued by financial institutions	**2,034,853**	2,080,946
Total	**27,333,616**	22,361,816
Unlisted	**27,333,616**	22,361,816

19 FINANCIAL INVESTMENTS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Note	**30 June 2019**	31 December 2018
Debt securities issued by the following institutions in Mainland China			
– Government		**8,198,717**	7,116,493
– Policy banks		**8,077,726**	11,799,812
– Banks and other financial institutions		**10,935,325**	10,117,686
– Corporate entities		**17,496,041**	17,828,393
Sub-total		**44,707,809**	46,862,384
Asset management plans		**6,172,084**	5,062,908
Other investments		**703,305**	–
Equity investments	*19(1)*	**23,250**	23,250
Accrued interest		**900,741**	1,054,209
Total		**52,507,189**	53,002,751
Listed	*19(2)*	**8,849,869**	306,226
Of which: listed outside Hong Kong		**8,849,869**	306,226
Unlisted		**43,657,320**	52,696,525
Total		**52,507,189**	53,002,751

(1) The Group holds a number of unlisted equity investments. The Group designates them as financial investments measured at FVOCI, and the details are as follows:

	Six months ended 30 June 2019					
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**	**2.15**	**–**
Clearing Center for City Commercial Banks	**250**	**–**	**–**	**250**	**0.81**	**–**
Total	**23,250**	**–**	**–**	**23,250**		**1,100**

For the six months ended 30 June 2019 and the year ended 31 December 2018, the Group did not dispose of any such equity investment, nor transfer any cumulative gain or loss from other comprehensive income to retained earning.

(2) Listed only includes bonds traded on stock exchanges.

(3) For the six months ended 30 June 2019 and the year ended 31 December 2018, movements of the provision for impairment losses on debt instruments of financial investments measured at FVOCI are as follows:

	six months ended 30 June 2019			
	12-month ECL	**Lifetime ECL-not credit-impaired**	**Lifetime ECL-credit-impaired**	**Total**
As at 1 January 2019	**32,672**	**19,122**	**–**	**51,794**
Transfer to				
– Lifetime ECL				
– not credit-impaired	**(595)**	**595**	**–**	**–**
– credit-impaired	**–**	**(1,246)**	**1,246**	**–**
(Release)/Charge for the period	**(3,270)**	**46,407**	**20,672**	**63,809**
As at 30 June 2019	**28,807**	**64,878**	**21,918**	**115,603**

	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 to				
– Lifetime ECL				
– not credit-impaired	(33)	33	–	–
Charge for the year	14,126	12,837	–	26,963
As at 31 December 2018	32,672	19,122	–	51,794

Provision for impairment losses on debt instruments of financial investments measured at FVOCI is recognised in other comprehensive income, and any impairment loss or gain is recognised in the profit or loss without decreasing the carrying amount of financial investments presented in the statement of financial position.

20 FINANCIAL INVESTMENTS MEASURED AT AMORTISED COST

	Note	**30 June 2019**	31 December 2018
Debt securities issued by the following institutions in Mainland China			
– Government		**11,475,992**	9,431,022
– Policy banks		**13,889,189**	13,887,327
– Banks and other financial institutions		**11,096,198**	11,296,117
– Corporate entities		**2,179,687**	1,229,620
Sub-total		**38,641,066**	35,844,086
Asset management plans		**18,940,246**	23,529,175
Trust plans		**3,643,550**	4,850,229
Other investments		**4,750,000**	5,170,000
Sub total		**27,333,796**	33,549,404
Accrued interest		**990,207**	1,106,068
Less: Provision for impairment losses	*20(1)*	**(391,801)**	(467,502)
Total		**66,573,268**	70,032,056
Listed	*20(2)*	**2,123,930**	1,114,690
Of which: listed outside Hong Kong		**2,123,930**	1,114,690
Unlisted		**64,449,338**	68,917,366
Total		**66,573,268**	70,032,056

(1) For the six months ended 30 June 2019 and the year ended 31 December 2018, movements of the allowance for impairment losses on financial investments measured at amortised cost are as follows:

	six months ended 30 June 2019			
	12-month ECL	**Lifetime ECL-not credit-impaired**	**Lifetime ECL-credit-impaired**	**Total**
As at 1 January 2019	**398,696**	**68,806**	**–**	**467,502**
(Release)/Charge for the period	**(104,375)**	**28,674**	**–**	**(75,701)**
As at 30 June 2019	**294,321**	**97,480**	**–**	**391,801**

	2018			
	12-month ECL	Lifetime ECL-not credit-impaired	Lifetime ECL-credit-impaired	Total
As at 1 January 2018	379,756	–	–	379,756
Transfer to				
– Lifetime ECL				
– not credit-impaired	(2,335)	2,335	–	–
Charge for the year	21,275	66,471	–	87,746
As at 31 December 2018	398,696	68,806	–	467,502

(2) Listed only includes bonds traded on stock exchanges.

21 INVESTMENT IN SUBSIDIARY

	30 June 2019	31 December 2018
BQD Financial Leasing Company Limited	**510,000**	510,000

As at 30 June 2019 and 31 December 2018, the subsidiary is as follows:

Name	**Percentage of equity interest**	**Voting rights**	**Paid-in capital**	**Amount invested by the Bank**	**Place of incorporation registration**	**Principal activities**
BQD Financial Leasing Company Limited	51.00%	51.00%	1,000,000	510,000	Qingdao, China	Financial leasing

Note: BQD Financial Leasing Company Limited was co-established by the Bank, Qingdao Hanhe Cable Co., Ltd., Qingdao Port International Co., Ltd. and Qingdao Qianwan Container Terminal Co., Ltd. on 15 February 2017, with a registered capital of RMB 1.00 billion.

22 LONG-TERM RECEIVABLES

	30 June 2019	31 December 2018
Minimum finance lease receivables	**9,810,374**	8,636,534
Less: Unearned finance lease income	**(901,944)**	(803,079)
Present value of finance lease receivables	**8,908,430**	7,833,455
Accrued interest	**88,077**	70,610
Sub-total	**8,996,507**	7,904,065
Less: Provision for impairment losses		
– 12-month ECL	**(171,799)**	(137,367)
– Lifetime ECL		
– credit-impaired	**(24,286)**	–
Net balance	**8,800,422**	7,766,698

For the six months ended 30 June 2019 and the year ended 31 December 2018, movements of the provision for impairment losses on long-term receivable are as follows:

	Six months ended 30 June 2019			
	12-month ECL	**Lifetime ECL-not credit-impaired**	**Lifetime ECL-credit-impaired**	**Total**
As at 1 January 2019	**137,367**	**–**	**–**	**137,367**
Transfer to				
– Lifetime ECL				
– credit-impaired	**(1,855)**	**–**	**1,855**	**–**
Charge for the period	**36,287**	**–**	**22,431**	**58,718**
As at 30 June 2019	**171,799**	**–**	**24,286**	**196,085**

	2018			
	12-month ECL	Lifetime ECL-not credit-impaired	Lifetime ECL-credit-impaired	Total
As at 1 January 2018	72,855	–	–	72,855
Charge for the year	64,512	–	–	64,512
As at 31 December 2018	137,367	–	–	137,367

Minimum finance lease receivables, unearned finance lease income and present value of finance lease receivables analysed by remaining period are listed as follows:

	30 June 2019			31 December 2018		
	Minimum finance lease receivables	**Unearned finance lease income**	**Present value of finance lease receivables**	Minimum finance lease receivables	Unearned finance lease income	Present value of finance lease receivables
Less than 1 year (inclusive)	**4,223,291**	**(444,479)**	**3,778,812**	3,787,333	(383,029)	3,404,304
1 year to 2 years (inclusive)	**2,435,171**	**(262,011)**	**2,173,160**	2,039,339	(224,104)	1,815,235
2 years to 3 years (inclusive)	**1,988,352**	**(138,254)**	**1,850,098**	1,577,474	(129,353)	1,448,121
3 years to 5 years (inclusive)	**1,059,538**	**(53,178)**	**1,006,360**	1,232,388	(66,593)	1,165,795
Indefinite	**104,022**	**(4,022)**	**100,000**	–	–	–
Total	**9,810,374**	**(901,944)**	**8,908,430**	8,636,534	(803,079)	7,833,455

23 PROPERTY AND EQUIPMENT

	Premises	Electronic equipment	Vehicles	Machinery equipment and others	Construction in progress	Total
Cost						
As at 1 January 2018	2,875,112	484,861	59,653	79,267	210,263	3,709,156
Increase	64,850	91,908	4,809	9,426	59,161	230,154
Decrease	(4,450)	(10,361)	(1,507)	(2,561)	(59,221)	(78,100)
As at 31 December 2018	2,935,512	566,408	62,955	86,132	210,203	3,861,210
Increase	5,065	26,097	625	2,930	–	34,717
Decrease	–	(7,681)	–	(3,172)	–	(10,853)
As at 30 June 2019	**2,940,577**	**584,824**	**63,580**	**85,890**	**210,203**	**3,885,074**
Accumulated depreciation						
As at 1 January 2018	(238,066)	(290,496)	(40,919)	(50,658)	–	(620,139)
Increase	(59,305)	(55,233)	(6,545)	(9,131)	–	(130,214)
Decrease	–	9,640	1,432	2,426	–	13,498
As at 31 December 2018	(297,371)	(336,089)	(46,032)	(57,363)	–	(736,855)
Increase	(30,597)	(30,807)	(2,871)	(4,354)	–	(68,629)
Decrease	–	7,226	–	2,744	–	9,970
As at 30 June 2019	**(327,968)**	**(359,670)**	**(48,903)**	**(58,973)**	**–**	**(795,514)**
Net book value						
As at 30 June 2019	**2,612,609**	**225,154**	**14,677**	**26,917**	**210,203**	**3,089,560**
As at 31 December 2018	2,638,141	230,319	16,923	28,769	210,203	3,124,355

As at 30 June 2019 and 31 December 2018, the Group did not have significant property and equipment which were temporarily idle.

The carrying amount of premises with incomplete title deeds of the Group as at 30 June 2019 was RMB 12.49 million (31 December 2018: RMB 1,714 million). Management is in the opinion that the incomplete title deeds would not affect the rights to these assets of the Group.

The net book values of premises at the end of the reporting period are analysed by the remaining terms of the land leases as follows:

	30 June 2019	31 December 2018
Held in Mainland China		
– Long-term leases (over 50 years)	**17,281**	17,476
– Medium-term leases (10 – 50 years)	**2,592,742**	2,618,001
– Short-term leases (less than 10 years)	**2,586**	2,664
Total	**2,612,609**	2,638,141

24 DEFERRED INCOME TAX ASSETS

(1) Analysed by nature

	30 June 2019		31 December 2018	
	Deductible/ (taxable) temporary differences	**Deferred Income tax assets/ (liabilities)**	Deductible/ (taxable) temporary differences	Deferred Income tax assets/ (liabilities)
Provision for impairment losses	**4,930,240**	**1,232,560**	4,415,420	1,103,855
Deferred interest income from discounted bills	**220,128**	**55,032**	143,040	35,760
Change in fair value	**(165,788)**	**(41,447)**	(235,904)	(58,976)
Others	**341,232**	**85,308**	288,556	72,139
Total	**5,325,812**	**1,331,453**	4,611,112	1,152,778

(2) Analysed by movement

	Provision for Impairment losses	**Deferred interest income from discounted bills** *(Note (i))*	**Change in fair value**	**Others** *(Note (ii))*	**Total**
As at 31 December 2017	643,909	16,584	382,137	41,656	1,084,286
Changes in accounting policies	184,651	–	(96,448)	35,262	123,465
As at 1 January 2018	828,560	16,584	285,689	76,918	1,207,751
Recognised in profit or loss	282,633	19,176	(12,383)	(5,611)	283,815
Recognised in other comprehensive income	(7,338)	–	(332,282)	832	(338,788)
As at 31 December 2018	**1,103,855**	**35,760**	**(58,976)**	**72,139**	**1,152,778**
Recognised in profit or loss	**145,591**	**19,272**	**(7,825)**	**13,169**	**170,207**
Recognised in other comprehensive income	**(16,886)**	**–**	**25,354**	**–**	**8,468**
As at 30 June 2019	**1,232,560**	**55,032**	**(41,447)**	**85,308**	**1,331,453**

Notes:

(i) Pursuant to the requirement issued by the local tax authority, tax obligations arise when the Group receives discounted bills. The deductible temporary difference, which arises from the interest income recognised in profit or loss using the effective interest method, forms deferred tax assets.

(ii) Others mainly include supplementary retirement benefits accrued, provisions, and other accrued expenses, which are deductible against taxable income when actual payment occurs.

25 OTHER ASSETS

	Note	30 June 2019	31 December 2018
Right-of-use assets	*25(1)*	**847,833**	–
Long-term deferred expense		**182,211**	566,276
Prepayments		**169,506**	101,521
Intangible assets	*25(2)*	**157,855**	165,153
Precious metals		**113,113**	113,459
Interest receivable	*25(3)*	**17,375**	37,299
Repossessed assets *(Note (i))*		**14,279**	10,501
Deferred expense		**6,827**	53,718
Others		**234,153**	296,429
Sub-total		**1,743,152**	1,344,356
Less: Provision for impairment losses		**(1,003)**	(792)
Total		**1,742,149**	1,343,564

Note:

(i) Repossessed assets mainly included premises, etc. As at 30 June 2019 and 31 December 2018, there is no need to recognise provision for impairments losses of repossessed assets.

(1) Right-of-use assets

	Premises	Others	Total
Cost			
As at 1 January 2019	892,651	4,114	896,765
Increase	12,041	–	12,041
As at 30 June 2019	904,692	4,114	908,806
Accumulated depreciation			
As at 1 January 2019	–	–	–
Increase	(60,647)	(326)	(60,973)
As at 30 June 2019	(60,647)	(326)	(60,973)
Net book value			
As at 30 June 2019	844,045	3,788	847,833
As at 1 January 2019	892,651	4,114	896,765

(2) Intangible assets

	Six months ended 30 June 2019	2018
Cost		
As at 1 January	**419,222**	382,281
Increase	**26,261**	36,941
As at 30 June/31 December	**445,483**	419,222
Accumulated amortisation		
As at 1 January	**(254,069)**	(184,827)
Increase	**(33,559)**	(69,242)
As at 30 June/31 December	**(287,628)**	(254,069)
Net value		
As at 1 January	**165,153**	197,454
As at 30 June/31 December	**157,855**	165,153

Intangible assets of the Group mainly include software.

(3) Interests receivable

	30 June 2019	31 December 2018
Interest receivable arising from:		
– Loans and advances to customers	**17,375**	37,299
Total	**17,375**	37,299

26 BORROWINGS FROM CENTRAL BANK

	30 June 2019	31 December 2018
Borrowings	**9,000,000**	10,000,000
Re-discounted bills	**1,029,301**	779,010
Accrued interest	**157,483**	99,825
Total	**10,186,784**	10,878,835

27 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 June 2019	31 December 2018
In Mainland China		
– Banks	**2,078,109**	3,590,947
– Other financial institutions	**12,744,783**	7,961,748
Accrued interest	**77,333**	80,287
Total	**14,900,225**	11,632,982

28 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 June 2019	31 December 2018
In Mainland China		
– Banks	**8,538,287**	6,761,699
– Other financial institutions	**100,000**	–
Outside Mainland China		
– Banks	**–**	343,160
Accrued interest	**80,124**	102,207
Total	**8,718,411**	7,207,066

29 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

(1) Analysed by type and location of counterparty

	30 June 2019	31 December 2018
In Mainland China		
– Central Bank	**–**	5,350,000
– Banks	**13,651,515**	9,496,131
Accrued interest	**2,607**	4,202
Total	**13,654,122**	14,850,333

(2) Analysed by types of collaterals

	30 June 2019	31 December 2018
Debt securities	**11,693,491**	13,632,100
Discounted bills	**1,958,024**	1,214,031
Accrued interest	**2,607**	4,202
Total	**13,654,122**	14,850,333

30 DEPOSITS FROM CUSTOMERS

	30 June 2019	31 December 2018
Demand deposits		
– Corporate deposits	**73,178,464**	72,852,694
– Personal deposits	**18,603,287**	18,313,340
Sub-total	**91,781,751**	91,166,034
Time deposits		
– Corporate deposits	**53,652,030**	45,792,055
– Personal deposits	**40,233,243**	38,585,318
Sub-total	**93,885,273**	84,377,373
Outward remittance and remittance payables	**194,129**	131,519
Fiscal deposits to be transferred	**8,824**	923
Accrued interest	**2,490,246**	2,235,398
Total	**188,360,223**	177,911,247
Including:		
Pledged deposits	**9,901,615**	8,825,215

31 DEBT SECURITIES ISSUED

	30 June 2019	31 December 2018
Debt securities issued *(Note (i))*	**19,685,532**	15,188,606
Certificates of interbank deposit issued *(Note (ii))*	**55,224,668**	49,708,055
Accrued interest	**250,860**	343,846
Total	**75,161,060**	65,240,507

Note:

(i) Financial debts with fixed interest rates were issued by the Group. The details are as follows:

(a) Ten-year Tier-two Capital Bonds were issued with an interest rate of 5.59% per annum and with a nominal amount of RMB 2.2 billion in March 2015. The debts will mature on 5 March 2025 with annual interest payments. The Group has an option to redeem the debts at the end of the fifth year at the nominal amount. As at 30 June 2019, the fair value of the debts was RMB 2.232 billion (31 December 2018: RMB 2.184 billion).

(b) Three-year Green Bonds were issued with an interest rate of 3.25% per annum and with a nominal amount of RMB 3.5 billion in March 2016. The debts matured on 14 March 2019 with annual interest payments. As at 31 December 2018, the fair value of the debts was RMB 3.499 billion.

(c) Five-year Green Bonds were issued with an interest rate of 3.40% per annum and with a nominal amount of RMB 0.5 billion in March 2016. The debts will mature on 14 March 2021 with annual interest payments. As at 30 June 2019, the fair value of the debts was RMB 0.499 billion (31 December 2018: RMB 0.493 billion).

(d) Three-year Green Bonds were issued with an interest rate of 3.30% per annum and with a nominal amount of RMB 3.0 billion in November 2016. The debts will mature on 24 November 2019 with annual interest payments. As at 30 June 2019, the fair value of the debts was RMB 3.003 billion (31 December 2018: RMB 2.990 billion).

(e) Five-year Green Bonds were issued with an interest rate of 3.40% per annum and with a nominal amount of RMB 1.0 billion in November 2016. The debts will mature on 24 November 2021 with annual interest payments. As at 30 June 2019, the fair value of the debts was RMB 0.992 billion (31 December 2018: RMB 0.981 billion).

(f) Ten-year Tier-two Capital Bonds were issued with an interest rate of 5.00% per annum and with a nominal amount of RMB 3.0 billion in June 2017. The debts will mature on 29 June 2027 with annual interest payments. The Group has an option to redeem the debts at the end of the fifth year at the nominal amount. As at 30 June 2019, the fair value of the debts was RMB 2.906 billion (31 December 2018: RMB 2.834 billion).

(g) Ten-year Tier-two Capital Bonds were issued with an interest rate of 5.00% per annum and with a nominal amount of RMB 2.0 billion in July 2017. The debts will mature on 14 July 2027 with annual interest payments. The Group has an option to redeem the debts at the end of the fifth year at the nominal amount. As at 30 June 2019, the fair value of the debts was RMB 1.936 billion (31 December 2018: RMB 1.889 billion).

(h) Three-year Financial Bonds were issued with an interest rate of 3.65% per annum and with a nominal amount of RMB 3.0 billion in May 2019.The debts will mature on 22 May 2022 with annual interest payments. As at 30 June 2019, the fair value of the debts was RMB 2.988 billion.

(i) Five-year Financial Bonds were issued with an interest rate of 3.98% per annum and with a nominal amount of RMB 1.0 billion in May 2019.The debts will mature on 22 May 2024 with annual interest payments. As at 30 June 2019, the fair value of the debts was RMB 0.997 billion.

(j) Three-year Financial Bonds were issued with an interest rate of 3.70% per annum and with a nominal amount of RMB 3.0 billion in May 2019.The debts will mature on 31 May 2022 with annual interest payments. As at 30 June 2019, the fair value of the debts was RMB 2.992 billion.

(k) Five-year Financial Bonds were issued with an interest rate of 3.98% per annum and with a nominal amount of RMB 1.0 billion in May 2019.The debts will mature on 31 May 2024 with annual interest payments. As at 30 June 2019, the fair value of the debts was RMB 0.997 billion.

(ii) The Group issued a number of certificates of interbank deposit with duration between 1 month and 1 year. As at 30 June 2019 and 31 December 2018, the outstanding fair value of certificates of interbank deposit was RMB 55.265 billion and RMB 49.727 billion, respectively.

32 OTHER LIABILITIES

	Note	**30 June 2019**	31 December 2018
Dividend payable		**917,229**	15,353
Employee benefits payable	*32(1)*	**648,736**	755,237
Payable raising from fiduciary activities		**626,161**	392,684
Settlement payable		**484,506**	143,327
Lease liability	*32(2)*	**440,843**	–
Risk guarantee for leasing business		**400,710**	267,379
Taxes payable	*32(3)*	**126,263**	106,534
ECL on credit commitments	*32(4)*	**101,059**	104,964
Others		**488,239**	642,156
Total		**4,233,746**	2,427,634

(1) Employee benefits payable

	30 June 2019	31 December 2018
Salaries, bonuses and allowances payable	**523,692**	640,704
Social insurance and housing allowances payable	**174**	145
Staff education expenses	**32,184**	20,034
Labor union expenses	**18,926**	18,504
Post-employment benefits-defined contribution plans	**130**	150
Supplementary retirement benefits	**73,630**	75,700
Total	**648,736**	755,237

(2) Lease liabilities

Maturity analysis on lease liabilities of the Group – analysis on undiscounted cash flows：

	30 June 2019
Less than 1 year (inclusive)	**109,054**
1 year to 2 years (inclusive)	**102,174**
2 years to 3 years (inclusive)	**84,426**
3 years to 5 years (inclusive)	**133,814**
Over 5 years	**81,089**
Total undiscounted cash flows of lease liabilities as at 30 June 2019	**510,557**
Lease liabilities on statement of financial position as at 30 June 2019	**440,843**

(3) Taxes payable

	30 June 2019	31 December 2018
Value added tax payable	**110,621**	94,462
Urban construction tax and surcharges payable	**14,963**	11,397
Others	**679**	675
Total	**126,263**	106,534

(4) Expected credit loss on credit commitments

For the six months ended 30 June 2019 and 2018, movements of expected credit loss on credit commitments are as follows:

	Six months ended 30 June 2019			
	12-month ECL	**Lifetime ECL-not credit-impaired**	**Lifetime ECL-credit-impaired**	**Total**
As at 1 January 2019	**103,845**	**1,101**	**18**	**104,964**
Transfer to				
– Lifetime ECL				
– not credit-impaired	**(373)**	**373**	**–**	**–**
– credit-impaired	**–**	**(2)**	**2**	**–**
(Release)/Charge for the period	**(9,006)**	**5,087**	**14**	**(3,905)**
As at 30 June 2019	**94,466**	**6,559**	**34**	**101,059**

	2018			
	12-month ECL	Lifetime ECL-not credit-impaired	Lifetime ECL-credit-impaired	Total
As at 1 January 2018	136,891	4,152	7	141,050
Transfer to				
– 12 Month ECL	3,239	(3,239)	–	–
– Lifetime ECL				
– not credit-impaired	(1,872)	1,872	–	–
(Release)/Charge for the year	(34,413)	(1,684)	11	(36,086)
As at 31 December 2018	103,845	1,101	18	104,964

33 SHARE CAPITAL

Authorised and issued share capital

	30 June 2019	31 December 2018
Number of shares authorised, issued and fully paid at nominal value (in thousands)	**4,509,690**	4,058,713

In January 2019, the Bank issued 451 million ordinary shares with a nominal value of RMB 1 at RMB 4.52 per share. After deducting the issuance costs, the premium arising from the issuance of new shares amounting to RMB 1.512 billion was recorded in capital reserve. After the above issuance, the book balance of the share capital was RMB 4.510 billion, and the book balance of the capital reserve was RMB 8.338 billion.

34 PREFERENCE SHARES

(1) Preference shares outstanding at the end of the period

Financial instrument outstanding	Issue date	Accounting classification	Initial dividend rate	Issue price	Amount	In original currency	In RMB	Maturity	Conversion
					(in thousands of shares)	*(in thousands)*	*(in thousands)*		
Overseas preference shares	19 Sep 2017	Equity	5.5%	20 USD/Share	60,150	1,203,000	7,883,259	None	No
Total							7,883,259		
Less: Issuance costs							(29,295)		
Book value							7,853,964		

(2) Main Clauses

(a) Dividend

There is a fixed rate for a certain period after issuance. Dividend reset every 5 years thereafter to the sum of the benchmark rate and the fixed spread. Dividends will be paid annually.

(b) Conditions to distribution of dividends

The Bank could pay dividends while the Bank still has distributable after-tax profit after making up for the previous years' losses, contributing to the statutory surplus reserve and general reserve, and the Bank's capital adequacy ratio meets regulatory requirements. Preference shareholders of the Bank are senior to the ordinary shareholders on the right to dividends. The Bank may elect to cancel any dividend which will not constitute a default, but such cancellation will require a shareholder's resolution to be passed.

(c) Dividend stopper

If the Bank cancels all or part of the dividends to the preference shareholders, the Bank shall not make any dividend distribution to ordinary shareholders before the Bank pays the dividends for the current dividend period to the preference shareholders in full.

(d) Order of distribution and liquidation method

The USD overseas preference shareholders will rank equally for payment. The preference shareholders will be subordinated to the depositors, ordinary creditors and holders of Tier 2 capital bonds, but will be senior to the ordinary shareholders.

(e) Mandatory conversion trigger events

Upon the occurrence of an Additional Tier 1 Capital Trigger Event (Core Tier 1 Capital Adequacy Ratio of the Bank falling to 5.125% or below), the Bank shall have the right to convert all or part of the preference shares into H shares, having notified and obtained the consent of CBRC but without the need for the consent of preference shareholders or ordinary shareholders, in order to restore the Core Tier 1 Capital Adequacy Ratio of the Bank to above 5.125%; If preference shares were converted to H shares, it could not be converted to preference shares again.

Upon the occurrence of a Tier 2 Capital Trigger Event (Earlier of the two situations: (1) CBRC has determined that the Bank would become non-viable if there is no conversion or write-down of capital; (2) the relevant authorities have determined that a public sector injection of capital or equivalent support is necessary, without which the Bank would become non-viable), the Bank shall have the right to convert all preference shares into H shares, having notified and obtained the consent of CBRC but without the need for the consent of preference shareholders or ordinary shareholders. If preference shares were converted to H shares, it could not be converted to preference shares again.

(f) Redemption

Under the premise of obtaining the approval of the CBRC and condition of redemption, the Bank has right to redeem all or some of overseas preference stocks in first redemption date and subsequent any dividend payment date. (Redemption price is equal to issue price plus accrued dividend in current period).

The first redemption date of USD preference shares is five years after issuance.

(g) Dividend setting mechanism

Non-cumulative dividend is a dividend on preference shares which does not cumulate upon omission of payment so as to require payment of a passed or omitted dividend of one year out of earnings of a following year. After receiving dividend at agreed dividend rate, preference shareholders of the Bank will not participate the distribution of residual profits with ordinary shareholders. Preference shareholders are senior to the ordinary shareholders on the right to dividends.

(3) Changes in preference shares outstanding

1 January 2019		**Increase during the period**		**30 June 2019**	
Amount ***(in thousands of shares)***	**Book value** ***(in thousands of RMB)***	**Amount** ***(in thousands of shares)***	**Book value** ***(in thousands of RMB)***	**Amount** ***(in thousands of shares)***	**Book value** ***(in thousands of RMB)***
60,150	**7,853,964**	**–**	**–**	**60,150**	**7,853,964**

1 January 2018		Increase during the year		31 December 2018	
Amount *(in thousands of shares)*	Book value *(in thousands of RMB)*	Amount *(in thousands of shares)*	Book value *(in thousands of RMB)*	Amount *(in thousands of shares)*	Book value *(in thousands of RMB)*
60,150	7,853,964	–	–	60,150	7,853,964

(4) Interests attribute to equity instruments' holders

Item	**30 June 2019**	31 December 2018
Total equity attribute to equity holders of the Bank	**29,458,663**	26,984,973
– Equity attribute to ordinary shareholders of the Bank	**21,604,699**	19,131,009
– Equity attribute to preference shareholders of the Bank	**7,853,964**	7,853,964
Total equity attribute to non-controlling interests	**539,418**	511,751
– Equity attribute to non-controlling interests of ordinary shares	**539,418**	511,751

35 RESERVES

(1) Capital reserve

Capital reserve mainly includes share premium arising from the issuance of new shares at prices in excess of nominal value.

(2) Surplus reserve

The surplus reserve at the end of the reporting period represented statutory surplus reserve fund and discretionary surplus reserve fund.

Pursuant to the Company Law of the PRC and the Article of Association, the Bank is required to appropriate 10% of its net profit as determined under the Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People's Republic of China (the "MOF") after making up for the previous years' losses, to statutory surplus reserve fund until the reserve fund balance reaches 50% of the Bank's registered capital.

(3) General reserve

From 1 July 2012, pursuant to the "Measures on Impairment Allowances for Financial Enterprises (Cai Jin [2012] No.20)" issued by the MOF in March 2012, the Bank is required to appropriate a general reserve through profit appropriation which should not be lower than 1.5% of the ending balance of its gross risk-bearing assets within five years.

The Bank appropriates a general reserve upon approval by the shareholders in general meetings. The general reserve balance of the Bank as at 31 December 2018 amounted to RMB 3.969 billion, which has reached 1.5% of the year ending balance of the Bank's gross risk-bearing assets.

(4) Other comprehensive income

		Six months ended 30 June 2019				
Item	**Balance at the beginning of the period**	**Before-tax amount**	**Less: Previously recognised amount transferred to profit or loss**	**Less: Income tax expense**	**Net-of-tax amount**	**Balance at the end of the period**
Items that will not be reclassified to profit or loss						
Including: Remeasurements of defined benefit plan	**(5,941)**	**–**	**–**	**–**	**–**	**(5,941)**
Items that may be reclassified to profit or loss						
Including: Changes in fair value from debt investments measured at FVOCI	**507,856**	**171,298**	**(272,715)**	**25,354**	**(76,063)**	**431,793**
Credit losses of debt investments measured at FVOCI	**51,278**	**97,613**	**(30,068)**	**(16,886)**	**50,659**	**101,937**
Total	**553,193**	**268,911**	**(302,783)**	**8,468**	**(25,404)**	**527,789**

Item	2018					
	Balance at the beginning of the year	Before-tax amount	Less: Previously recognised amount transferred to profit or loss	Less: Income tax expense	Net-of-tax amount	Balance at the end of the year
Items that will not be reclassified to profit or loss						
Including: Remeasurements of defined benefit plan	(3,443)	(3,330)	–	832	(2,498)	(5,941)
Items that may be reclassified to profit or loss						
Including: Changes in fair value from debt investments measured at FVOCI	(488,992)	1,441,431	(112,301)	(332,282)	996,848	507,856
Credit losses of debt investments measured at FVOCI	29,264	59,104	(29,752)	(7,338)	22,014	51,278
Total	(463,171)	1,497,205	(142,053)	(338,788)	1,016,364	553,193

36 PROFIT APPROPRIATION

(1) At the 2018 annual general meeting held on 17 May 2019, the shareholders approved the following profit appropriation for the year ended 31 December 2018:

- Appropriated RMB 200 million to statutory surplus reserve;
- Declared cash dividends to all ordinary shareholders of approximately RMB 902 million representing RMB 0.20 per share (including tax).

(2) 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 USD 73.5167 million (including tax), calculated at the initial annual dividend rate of 5.50% (after tax) before the first reset date pursuant to the terms and conditions of overseas preference shares. The dividend payment date is 19 September 2018, and the amount of dividend is equivalent to approximately RMB 504 million (including tax).

(3) 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 RMB 190 million to statutory surplus reserve;
- Appropriated RMB 273 million to general reserve;
- Declared cash dividends to all ordinary shareholders of approximately RMB 812 million representing RMB 0.20 per share (including tax).

37 NOTES TO CONSOLIDATED CASH FLOW STATEMENT

Cash and cash equivalents:

	30 June 2019	30 December 2018
Cash	**504,261**	605,639
Surplus deposit reserves with central bank	**14,045,254**	7,428,492
Original maturity within three months:		
– Deposits with banks and other financial institutions	**1,319,912**	2,268,141
– Placements with banks and other financial institutions	**653,097**	2,272,043
– Debt securities investments	**995,719**	398,062
Total	**17,518,243**	12,972,377

38 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(1) Relationship of related parties

(a) Major shareholders

Major shareholders include shareholders of the Bank with direct ownership of 5% or above.

Major shareholders' information

Company name	Amount of ordinary shares of the Bank held by the Company *(in thousands)*	Proportion of ordinary shares of the Bank held by the Company		Registered location	Business	Legal form	Legal representative
		30 June 2019	31 December 2018				
Intesa Sanpaolo S.p.A. ("ISP")	624,754	**13.85%**	15.39%	Italy	Commercial banking	Joint stock limited company	Gian Maria GROS-PIETRO
Qingdao Conson Industrial Co., Ltd. ("Qingdao Conson")	503,556	**11.17%**	12.41%	Qingdao	State-owned assets operation and investment, import and export of goods and technology	Limited company	WANG Jianhui
Qingdao Haier Investment and Development Co., Ltd. ("Haier Investment")	409,693	**9.08%**	10.09%	Qingdao	Outbound investment	Limited company	ZHANG Ruimin
AMTD Strategic Investment Limited ("AMTD")	301,800	**6.69%**	7.44%	Hong Kong	Outbound investment	Limited company	YAU Wai Man, Philip
Qingdao Haier Air-Conditioning Electronic Co., Ltd. ("Haier Air-Conditioning")	218,692	**4.85%**	5.39%	Qingdao	Production, sales and service of air conditioners and refrigeration equipment	Limited company	WANG Li

Note:

(i) In January 2019, the Bank issued 451 million ordinary shares. The ownership ratio of Haier Air-Conditioning fell below 5%.

Changes in ordinary shares of the Bank held by major shareholders

	ISP		Qingdao Conson		Haier Investment		AMTD		Haier Air-Conditioning	
	Amount	**Percentage**	**Amount**	**Percentage**	**Amount**	**Percentage**	**Amount**	**Percentage**	**Amount**	**Percentage**
As at 1 January 2018	623,909	15.37%	503,556	12.41%	409,693	10.09%	301,800	7.44%	218,692	5.39%
Increase	845	0.02%	–	–	–	–	–	–	–	–
As at 31 December 2018	624,754	15.39%	503,556	12.41%	409,693	10.09%	301,800	7.44%	218,692	5.39%
Decrease	–	(1.54%)	–	(1.24%)	–	(1.01%)	–	(0.75%)	–	(0.54%)
As at 30 June 2019	624,754	13.85%	503,556	11.17%	409,693	9.08%	301,800	6.69%	218,692	4.85%

Changes in registered capital of major shareholders

	Currency	**30 June 2019**	31 December 2018
ISP	EUR	**9,085 Million**	9,085 Million
Qingdao Conson	RMB	**2,000 Million**	2,000 Million
Haier Investment	RMB	**252 Million**	252 Million
AMTD	HKD	**1 HKD**	1 HKD

(b) Subsidiary of the Bank

The detailed information of the Bank's subsidiary is set out in Note 21.

(c) Other related parties

Other related parties include members of the board of directors, the board of supervisors and senior management and close family members of such individuals; entities (and their subsidiaries) controlled or jointly controlled by members of the board of directors, the board of supervisors and senior management, and close family members of such individuals, etc.

(2) Related party transactions and balances

Related party transactions of the Group mainly refer to loans, deposits and financial investments, which are entered into in the normal course and terms of business, with consistent pricing policies as in transactions with independent third parties.

(a) Transactions with the related parties except subsidiary (excluding remuneration of key management personnel)

	ISP and its group	Qingdao Conson and its group	Haier Investment and its group	AMTD and its group	Companies and other organizations served by key management personnel (Note(i)) (Other than shareholders and its group above)	Others	Total	Proportion to gross amount/ balance of similar transactions
As at 30 June 2019								
On-balance sheet items:								
Loans and advances to customers *(Note(ii))*	–	1,502,400	300,525	–	757,418	13,503	2,573,846	1.75%
Financial investments measured at amortised cost *(Note(iii))*	–	–	951,300	–	–	–	951,300	1.42%
Financial investments measured at FVOCI	–	–	–	–	209,734	–	209,734	0.40%
Financial investments measured at FVTPL	–	–	–	2,435,724	–	–	2,435,724	8.91%
Deposits with banks and other financial institutions	855	–	–	–	–	–	855	0.06%
Placements with banks and other financial institutions	–	–	713,401	–	–	–	713,401	15.52%
Deposits from customers	230,015	361,194	521,927	–	304,073	30,215	1,447,424	0.77%
Deposits from banks and other financial institutions	–	–	1,522	–	1,699	–	3,221	0.02%
Off-balance sheet items:								
Letters of guarantees *(Note(iv))*	–	–	18	–	–	–	18	0.00%
Six months ended 30 June 2019								
Interest income	–	57,897	38,563	–	17,610	282	114,352	1.68%
Interest expense	1,743	7,347	2,073	–	468	666	12,297	0.33%
Fee and commission income	–	–	10,859	–	–	16,576	27,435	4.47%
Net gains arising from investments	–	–	–	90,836	–	–	90,836	12.07%

	ISP and its group	Qingdao Conson and its group	Haier Investment/ Haier Air-conditioning and its group	AMTD and its group	Companies and other organizations served by key management personnel (Note(i)) (Other than shareholders and its group above)	Others	Total	Proportion to gross amount/ balance of similar transactions
As at 31 December 2018								
On-balance sheet items:								
Loans and advances to customers *(Note(ii))*	–	1,502,647	300,578	–	456,412	13,476	2,273,113	1.79%
Financial investments measured at amortised cost *(Note(iii))*	–	–	1,712,538	–	–	–	1,712,538	2.43%
Financial investments measured at FVOCI	–	–	–	–	310,108	–	310,108	0.59%
Financial investments measured at FVTPL	–	–	–	2,435,724	–	–	2,435,724	10.89%
Deposits with banks and other financial institutions	270	–	–	–	–	–	270	0.02%
Placements with banks and other financial institutions	–	–	830,722	–	–	–	830,722	20.15%
Deposits from customers	253,749	1,312,963	242,432	–	314,764	54,144	2,178,052	1.22%
Deposits from banks and other financial institutions	–	–	1,376	–	230	–	1,606	0.01%
Off-balance sheet items:								
Letters of guarantees *(Note(iv))*	–	–	212,933	–	–	–	212,933	8.83%
Six months ended 30 June 2018								
Interest income	2,475	25,748	44,478	–	17,061	234	89,996	1.65%
Interest expense	516	384	991	–	1,619	446	3,956	0.11%
Fee and commission income	–	–	12,104	–	–	–	12,104	3.24%
Other operating losses	–	–	–	–	345	–	345	25.07%

Notes:

(i) Companies and other organizations controlled by key management personnel include entities that key management personnel or a close member of that person's family controls or jointly controls, or serves as director and senior management.

(ii) Loans to related parties (excluding accrued interest)

	30 June 2019	31 December 2018
Qingdao Conson Financial Holdings Co., Ltd.	**1,500,000**	1,500,000
Qingdao Huatong State-owned Capital Operation (Group) Co., Ltd.	**748,500**	450,000
Haier Financial Factoring (Chongqing) Co., Ltd.	**300,000**	300,000
Qingdao Huatong Military Industry Investment Co., Ltd.	**5,000**	5,000
Qingdao Baiyang Pharmaceutical Co., Ltd.	**3,064**	–
Individuals	**13,451**	13,447
Total	**2,570,015**	2,268,447

(iii) Financial investments measured at amortised cost (excluding accrued interest)

	30 June 2019	31 December 2018
Qingdao Changyuan Land Co., Ltd.	**950,000**	960,000
Qingdao Haier Real Estate Group Co., Ltd.	**–**	750,000
Total	**950,000**	1,710,000

(iv) Letters to guarantees of related parties

	30 June 2019	31 December 2018
Qingdao Haier Home Integration Co., Ltd.	**18**	211,933
Haier Information Technology (Shenzhen) Co. Limited	**–**	1,000
Total	**18**	212,933

(b) Transactions with subsidiary

	30 June 2019	31 December 2018
Balances at the end of the period/year:		
On-balance sheet items:		
Deposits from banks and other financial institutions	**131,485**	39,932

	Six months ended 30 June	
	2019	2018
Transactions during the period:		
Interest income	**–**	3,833
Interest expense	**613**	567
Fee and commission income	**–**	9
Other operating income	**1,456**	3,306

(3) Key management personnel

The Bank's key management personnel includes people having authority and responsibility, directly or indirectly, to plan, command and control the activities of the Bank, including directors, supervisors and senior management at bank level.

	Six months ended 30 June	
	2019	2018
Remuneration of key management personnel	**7,147**	7,991

The total compensation package for certain key management personnel for the six months ended 30 June 2019 have not yet been finalized. The difference in emoluments is not expected to have significant impact on the Group's interim financial report for the six months ended 30 June 2019.

As at 30 June 2019, outstanding loans to the key management personnel amounted to RMB 0.08 million (31 December 2018: RMB 0.09 million), which have been included in loans and advances to related parties stated in Note 38(2).

39 SEGMENT REPORTING

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

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

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

Corporate banking

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

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 the Group's financial market operations. The financial market business includes 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 2019				
	Corporate banking	Retail banking	Financial market business	Un-allocated items and others	Total
External net interest income	1,669,701	461,723	921,523	91,596	3,144,543
Internal net interest income/(expense)	538,830	193,955	(732,785)	–	–
Net interest income	2,208,531	655,678	188,738	91,596	3,144,543
Net fee and commission income	121,282	289,111	100,073	70,344	580,810
Net trading gains	3,213	4,309	7,840	–	15,362
Net gains arising from investments	2,341	–	783,200	–	785,541
Other operating income, net	1,054	1,495	86	5,677	8,312
Operating income	2,336,421	950,593	1,079,937	167,617	4,534,568
Operating expenses	(628,250)	(347,334)	(263,811)	(27,094)	(1,266,489)
Impairment losses	(1,316,178)	(76,868)	23,569	(58,718)	(1,428,195)
Profit before taxation	391,993	526,391	839,695	81,805	1,839,884
Other segment information					
– Depreciation and amortisation	(84,612)	(120,143)	(6,933)	(1,049)	(212,737)
– Capital expenditure	63,666	90,403	5,217	–	159,286

	30 June 2019				
	Corporate banking	Retail banking	Financial market business	Un-allocated items and others	Total
Segment assets	134,328,158	58,353,250	142,392,578	8,825,507	343,899,493
Deferred tax assets					1,331,453
Total assets					345,230,946
Segment liabilities/Total liabilities	139,357,738	62,130,626	105,837,507	7,905,574	315,232,865
Credit commitments	20,147,300	3,617,025	–	–	23,764,325

	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	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

	31 December 2018				
	Corporate banking	Retail banking	Financial market business	Un-allocated items and others	Total
Segment assets	103,982,904	53,224,994	151,498,294	7,799,532	316,505,724
Deferred tax assets					1,152,778
Total assets					317,658,502
Segment liabilities/Total liabilities	131,071,510	59,123,648	93,135,714	6,830,906	290,161,778
Credit commitments	17,013,157	1,698,681	–	–	18,711,838

40 RISK MANAGEMENT

The Group has exposure to the following risks from its use of financial instruments in the normal course of the Group's operations, which mainly include credit risk, interest rate risk, foreign currency risk, liquidity risk and operational risk. This note presents information about the Group's exposure to each of the above risks and their sources, as well as the Group's risk management objectives, policies and processes for measuring and managing risks.

The Group aims to seek an appropriate balance between the risks and benefits from its use of financial instruments and to mitigate the adverse effects that the risks of financial instruments have on the Group's financial performance. Based on such objectives, the Group has established policies and procedures to identify and analyse these risks, to set appropriate risk limits and controls, and to constantly monitor the risks and limits by means of management information systems.

(1) Credit risk

Credit risk represents the potential financial loss that arises from the failure of a debtor or counterparty to discharge its contractual obligations or commitments to the Group. Credit risk mainly arises from loan portfolio, investment portfolio, guarantees and various other on/off-balance sheet credit risk exposures.

(a) Management of credit risk

The Committee on Risk Management and Consumer Protection of the Board of Directors monitors the control of credit risk, and regularly reviews related reports on risk profile. Several departments including the Credit Approval Department, Credit Management Department and Financial Market Business Unit, etc., are responsible for the management of credit risk, which includes the following procedures:

- Formulating credit policies, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.

- Establishing the authorisation structure for the approval and renewal of credit facilities and financial market business. Establishing internal procedures for the three business lines of corporate business, retail and financial market, to ensure authorisation and approval of the relative business. The business beyond the scope of approval right of a business line shall be accordingly submitted to the Loan Extension Committee, Investment Business Extension Committee, Large-sum Credit Extension Committee, and finally to the Risk Management Committee of the management.

- Reviewing and assessing credit risk: The authorized approval departments assess all the credit exposures in excess of designated limits, before business facilities are committed to customers. Renewals and reviews of credit facilities and financial market business are subject to the same review process.

- Managing concentrations of exposure to counterparties, industries, etc. for loans and advances, financial guarantees and similar exposures, and managing concentrations of exposure by issuer, market liquidity, etc. for investment securities.

- Developing and maintaining the Group's credit rating system to categorise exposures according to the degree of risk of default. The current risk grading framework consists of 11 grades reflecting varying degrees of risk of default.

- Developing and maintaining the Group's processes for measuring ECL.

- Reviewing compliance of business units with agreed exposure limits, including those for selected industries and product types. Regular reports on the credit quality of local portfolios are provided by Credit Management Department, which may require appropriate corrective action to be taken.

- Providing ongoing training to business units for different levels of credit management personnel, to promote the management of credit risk.

Each business unit is required to implement credit policies and procedures, and is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval.

Without taking account of any collateral and other credit enhancements, the maximum exposure to credit risk is represented by the carrying amount of each type of financial assets and the contract amount of credit commitments. In addition to the Group's credit commitments disclosed in Note 42(1), the Group did not provide any other guarantee that might expose the Group to credit risk. The maximum exposure to credit risk in respect of above credit commitments as at the end of the reporting period is disclosed in Note 42(1).

(b) Credit risk assessment method

Stage of financial instruments

The Group classifies financial instruments into three stages and makes provisions for ECL accordingly, depending on whether credit risk on that financial instrument has increased significantly since initial recognition.

The three risk stages are defined as follows:

Stage 1: A financial instrument of which the credit risk has not significantly increase since initial recognition. The amount equal to 12-month ECL is recognised as loss allowance.

Stage 2: A financial instrument with a significant increase in credit risk since initial recognition but is not considered to be credit-impaired. The amount equal to lifetime ECL is recognised as loss allowance.

Stage 3: A financial instrument is considered to be credit-impaired as at the end of the reporting period. The amount equal to lifetime ECL is recognised as loss allowance.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed as at the end of the reporting period with that assessed at the date of initial recognition.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort, including forward-looking information. In particular, the following information is taken into account:

– failure to make payments of principal or interest on their contractually due dates;

– an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

– an actual or expected significant deterioration in the operating results of the debtor; and

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

The Group compares the risk of default of a single financial instrument or a portfolio of financial instruments with similar credit risk characteristics as at the end of the reporting period and its risk of default at the date of initial application to determine changes in the risk of default during the lifetime of a financial instrument or a portfolio of financial instruments.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

Definition of default

The Group considers a financial asset to be in default when:

– the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or

– the financial asset is more than 90 days past due.

Impairment assessment

At each date of statement of financial position, the Group assesses whether financial assets carried at amortised cost and debt investments measured at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

– significant financial difficulty of the borrower or issuer;

– a breach of contract, such as a default or delinquency in interest or principal payments for over 90 days;

– for economic or contractual reasons relating to the borrower's financial difficulty, the Group having granted to the borrower a concession that would not otherwise consider;

– it is probable that the borrower will enter bankruptcy or other financial reorganization; or

– the disappearance of an active market for that financial asset because of financial difficulties.

Measuring ECL – the parameters, assumptions and valuation techniques

Based on whether there is significant increase in credit risk and whether the asset has suffered credit impairment, the Group measures provision for loss of different assets with 12-month ECL or lifetime ECL respectively. The expected credit loss is the result of the product of probability of default (PD), exposure at default (EAD) and loss given default (LGD), taking into account the time value of the currency. The definitions of these terms are as follows:

• PD refers to the likelihood that a borrower will be unable to meet his repayment obligations over the next 12 months or the remaining lifetime of the loan.

• EAD is the amount that the Group should be reimbursed upon default of an obligor over the next 12 months or the remaining lifetime of the loan.

• LGD refers to the expected degree of loss arising from the exposure at default which is predicted by the Group. LGD varies due to different types of counterparties, methods and priority of recovering debts, and the availability of collaterals or other credit support.

The assumptions underlying the ECL calculation, such as how the PDs and LGDs of different maturity profiles change are monitored and reviewed on a quarterly basis by the Group.

During the six months ended 30 June 2019, there has been no significant changes in the estimate techniques and key assumptions of the Group.

The impairment loss on credit-impaired corporate loans and advance to customers applied cash flow discount method, if there is objective evidence that an impairment loss on a loan or advance has incurred, the amount of the loss is measured as the difference between the asset's gross carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The allowance for impairment loss is deducted in the carrying amount. The impairment loss is recognised in the statement of profit or loss. In determining allowances on an individual basis, the following factors are considered:

- The sustainability of the borrower's business plan;
- The borrower's ability to improve performance once a financial difficulty has arisen;
- The estimated recoverable cash flows from projects and liquidation;
- The availability of other financial support and the realisable value of collateral; and
- The timing of the expected cash flows.

It may not be possible to identify a single, or discrete events that result in the impairment, but it may be possible to identify impairment through the combined effect of several events. The impairment losses are evaluated at the end of each reporting period, unless unforeseen circumstances require more careful attention.

Forward-looking information included in the expected credit loss model

Both the assessment of significant increase in credit risk and the measurement of ECL involve forward-looking information. Based on the analysis on historical data, the Group identified critical economic indicators that affect the credit risk and ECL of asset portfolios, including gross domestic product (GDP), consumer price index (CPI), and producer price index (PPI), etc. The Group identified the relations between these economic indicators and the probability of default historically by conducting regression analysis, and identified the expected probability of default by predicting future economic indicators.

When judging whether there is significant increase in credit risk, the Group multiplies the lifetime PD at the benchmark and under other scenarios by the weight of scenarios, and considers the qualitative and maximum indicators. The Group measures relevant provision for loss by the weighted 12-month ECL (for stage 1) or the weighted lifetime ECL (for stage 2 and stage 3). The above weighted credit losses are calculated from multiplying the ECL under different scenarios by the weight of the corresponding scenarios.

Similar to other economic forecasts, there is highly inherent uncertainty in the assessment of estimated economic indicators and the probability of occurrence, and therefore, the actual results may be materially different from the forecasts. The Group believes that these forecasts reflect the Group's best estimate of possible outcomes.

Other forward-looking factors not incorporated in above scenarios, such as the impact of regulatory and legal changes, have also been taken into account. However, they were not considered to have significant impact, and the ECL were not adjusted accordingly. The Group reviews and monitors the appropriateness of the above assumptions on a quarterly basis.

(c) Assessing credit risk of financial assets after the amendment of contractual cash flows

In order to achieve maximum collection, the Group may modify the contractual terms of loans due to business negotiations or financial difficulties of the borrowers at times.

Such rescheduling activities include extended payment term arrangements, payment holidays and payment forgiveness. Rescheduling policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue. These policies are kept under continuous review. The restructuring of loans is most common in the management of medium and long-term loans. The risk stage can only be adjusted lower if the rescheduled loans are reviewed for at least 6 consecutive months and the corresponding stage classification criteria is reached.

(d) Collateral and other credit enhancements

The Group and its subsidiaries have individually established a range of risk management policies and adopted different methods to mitigate credit risk. A critical method for the Group's control of its credit risks is to acquire collateral, security deposits and guarantees from enterprises or individuals. The Group has specified acceptable types of collaterals, mainly including the following:

– Real estate and land use rights

– Machinery and equipment

– Right to receive payments and accounts receivable

– Financial instruments such as time deposits, debt securities and equities.

In order to minimise its credit risk, once an indication of impairment has been identified with an individual loan, the Group will seek additional collateral from counterparties/require additional guarantors or squeeze the credit limit. It is the Group's policy to dispose of repossessed assets in an orderly manner. In general, the Group does not occupy repossessed assets for business use.

Collateral held as security for financial assets other than loans and receivable is determined by the instruments' nature. Debt securities are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

(e) Total maximum credit risk exposure

As at the end of the reporting period, the maximum credit risk exposure of the Group without taking account of any collateral and other credit enhancements is set out below:

	30 June 2019	31 December 2018
Deposits with central bank	**34,095,838**	29,103,157
Deposits with banks and other financial institutions	**1,321,082**	1,542,437
Placements with banks and other financial institutions	**4,588,207**	4,110,464
Derivative financial assets	**323**	–
Financial assets held under resale agreements	**–**	300,262
Loans and advances to customers	**143,343,578**	123,366,891
Financial investments:		
– Financial investments measured at FVTPL	**14,503,829**	14,894,196
– Financial investments measured at FVOCI	**52,483,939**	52,979,501
– Financial investments measured at amortised cost	**66,573,268**	70,032,056
Long-term receivables	**8,800,422**	7,766,698
Others	**250,525**	332,936
Subtotal	**325,961,011**	304,428,598
Off-balance sheet credit commitments	**23,764,325**	18,711,838
Total maximum credit risk exposure	**349,725,336**	323,140,436

(f) Analysis on the credit quality of financial instruments

As at 30 June 2019, the Group's credit risk stages of financial instruments are as follows:

	30 June 2019							
	Book balance				Provision for expected credit losses			
Financial assets measured at amortised cost	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Cash and balances with central banks	**34,600,099**	**–**	**–**	**34,600,099**	**–**	**–**	**–**	**–**
Deposits with banks and other financial institutions	**1,321,806**	**–**	**–**	**1,321,806**	**(724)**	**–**	**–**	**(724)**
Placements with banks and other financial institutions	**4,595,801**	**–**	**–**	**4,595,801**	**(7,594)**	**–**	**–**	**(7,594)**
Loans and advances to customers								
– General corporate loans and advances	**81,313,930**	**6,585,216**	**2,119,434**	**90,018,580**	**(1,132,569)**	**(1,181,976)**	**(997,656)**	**(3,312,201)**
– Personal loans and advances	**44,308,813**	**224,601**	**353,737**	**44,887,151**	**(166,826)**	**(19,854)**	**(179,960)**	**(366,640)**
Financial investments	**66,447,042**	**518,027**	**–**	**66,965,069**	**(294,321)**	**(97,480)**	**–**	**(391,801)**
Long-term receivables	**8,893,820**	**–**	**102,687**	**8,996,507**	**(171,799)**	**–**	**(24,286)**	**(196,085)**
Total	**241,481,311**	**7,327,844**	**2,575,858**	**251,385,013**	**(1,773,833)**	**(1,299,310)**	**(1,201,902)**	**(4,275,045)**

	30 June 2019							
	Book balance				Provision for expected credit losses			
Financial assets measured at FVOCI	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans and advances to customers								
– Discounted bills	**12,116,688**	**–**	**–**	**12,116,688**	**(20,313)**	**–**	**–**	**(20,313)**
Financial investments	**50,381,238**	**2,061,028**	**41,673**	**52,483,939**	**(28,807)**	**(64,878)**	**(21,918)**	**(115,603)**
Total	**62,497,926**	**2,061,028**	**41,673**	**64,600,627**	**(49,120)**	**(64,878)**	**(21,918)**	**(135,916)**
Off-balance sheet credit commitments	**23,625,202**	**138,748**	**375**	**23,764,325**	**(94,466)**	**(6,559)**	**(34)**	**(101,059)**

Financial assets measured at amortised cost	31 December 2018 Book balance Stage 1	Stage 2	Stage 3	Total	Provision for expected credit losses Stage 1	Stage 2	Stage 3	Total
Cash and balances with central banks	29,554,430	–	–	29,554,430	–	–	–	–
Deposits with banks and other financial institutions	1,543,110	–	–	1,543,110	(673)	–	–	(673)
Placements with banks and other financial institutions	4,122,087	–	–	4,122,087	(11,623)	–	–	(11,623)
Financial assets held under resale agreements	300,384	–	–	300,384	(122)	–	–	(122)
Loans and advances to customers								
– General corporate loans and advances	69,940,848	6,939,668	1,804,412	78,684,928	(1,126,657)	(1,233,761)	(811,122)	(3,171,540)
– Personal loans and advances	40,872,468	265,333	312,766	41,450,567	(149,716)	(43,909)	(176,064)	(369,689)
Financial investments	70,036,794	462,764	–	70,499,558	(398,696)	(68,806)	–	(467,502)
Long-term receivables	7,904,065	–	–	7,904,065	(137,367)	–	–	(137,367)
Total	224,274,186	7,667,765	2,117,178	234,059,129	(1,824,854)	(1,346,476)	(987,186)	(4,158,516)

Financial assets measured at FVOCI	31 December 2018 Book balance Stage 1	Stage 2	Stage 3	Total	Provision for expected credit losses Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers								
– Discounted bills	6,772,625	–	–	6,772,625	(16,577)	–	–	(16,577)
Financial investments	51,654,675	1,324,826	–	52,979,501	(32,672)	(19,122)	–	(51,794)
Total	58,427,300	1,324,826	–	59,752,126	(49,249)	(19,122)	–	(68,371)
Off-balance sheet credit commitments	18,640,353	70,591	894	18,711,838	(103,845)	(1,101)	(18)	(104,964)

Note:

(i) As simplified approach of impairment allowance is applied to other financial assets measured at amortised cost, three-stage model is not applicable.

(2) Market risk

Market risk is the risk of loss, in respect of the Group's activities, arising from adverse movements in market rates including interest rates, exchange rates, commodity prices, stock prices and other prices, etc.

The Group is exposed to market risk mainly in its financial market operations. The Group has constructed a market risk management system that formulates procedures to identify, measure, supervise and control market risks. This system aims to limit market risk to an acceptable level through examining and approving new products and quota management.

The Group employs sensitivity analysis, interest repricing gap analysis and foreign currency gap analysis to measure and monitor market risks. The Group classifies the transactions as banking book and trading book transactions, and applies different approaches based on the nature and characteristics of these books to monitor the risks.

Interest rate risk and currency risk are major market risks that confront the Group.

(a) *Interest rate risk*

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

The Group primarily uses gap analysis to assess and monitor its repricing risk and adjusts the ratio of floating and fixed rate accounts, the loan repricing cycle, as well as optimises the term structure of its deposits according to the gap status.

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

The following tables indicate the assets and liabilities analysis as at the end of the reporting period by the expected next repricing dates or by maturity dates, depending on which is earlier:

	30 June 2019					
	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets						
Cash and deposits with central bank	34,600,099	612,180	33,987,919	–	–	–
Deposits with banks and other financial institutions	1,321,082	1,894	1,319,188	–	–	–
Placements with banks and other financial institutions	4,588,207	86,976	2,005,258	2,495,973	–	–
Loans and advances to customers *(Note (i))*	143,343,578	630,061	45,844,396	90,164,582	5,361,145	1,343,394
Financial investments *(Note (ii))*	146,414,073	1,914,198	7,319,597	26,106,192	72,529,346	38,544,740
Long-term receivables	8,800,422	88,077	7,469,244	1,243,101	–	–
Others	6,163,485	6,163,485	–	–	–	–
Total assets	345,230,946	9,496,871	97,945,602	120,009,848	77,890,491	39,888,134
Liabilities						
Borrowings from central bank	10,186,784	157,483	6,353,767	3,675,534	–	–
Deposits from banks and other financial institutions	14,900,225	77,333	4,312,892	10,510,000	–	–
Placements from banks and other financial institutions	8,718,411	80,124	4,683,209	3,823,040	132,038	–
Financial assets sold under repurchase agreements	13,654,122	2,607	13,651,515	–	–	–
Deposits from customers	188,360,223	2,684,375	122,997,359	34,187,649	28,377,985	112,855
Debt securities issued	75,161,060	250,860	16,020,106	42,203,978	9,494,207	7,191,909
Others	4,252,040	3,811,197	–	1,145	139,428	300,270
Total liabilities	315,232,865	7,063,979	168,018,848	94,401,346	38,143,658	7,605,034
Asset-liability gap	29,998,081	2,432,892	(70,073,246)	25,608,502	39,746,833	32,283,100

	31 December 2018					
	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets						
Cash and deposits with central bank	29,554,430	489,559	29,064,871	–	–	–
Deposits with banks and other financial institutions	1,542,437	9,909	1,332,609	199,919	–	–
Placements with banks and other financial institutions	4,110,464	87,236	932,723	3,090,505	–	–
Financial assets held under resale agreements	300,262	384	299,878	–	–	–
Loans and advances to customers *(Note (i))*	123,366,891	521,250	46,007,345	69,134,140	6,010,630	1,693,526
Financial investments *(Note (ii))*	145,396,623	2,183,527	9,197,205	20,171,587	70,734,644	43,109,660
Long-term receivables	7,766,698	70,610	6,244,867	1,451,221	–	–
Others	5,620,697	5,620,697	–	–	–	–
Total assets	317,658,502	8,983,172	93,079,498	94,047,372	76,745,274	44,803,186
Liabilities						
Borrowings from central bank	10,878,835	99,825	252,891	10,526,119	–	–
Deposits from banks and other financial institutions	11,632,982	80,287	5,095,694	6,457,001	–	–
Placements from banks and other financial institutions	7,207,066	102,207	3,333,630	3,586,416	184,813	–
Financial assets sold under repurchase agreements	14,850,333	4,202	14,846,131	–	–	–
Deposits from customers	177,911,247	2,366,917	120,420,179	28,622,624	26,113,704	387,823
Debt securities issued	65,240,507	343,846	16,636,912	39,570,111	1,499,470	7,190,168
Others	2,440,808	2,440,808	–	–	–	–
Total liabilities	290,161,778	5,438,092	160,585,437	88,762,271	27,797,987	7,577,991
Asset-liability gap	27,496,724	3,545,080	(67,505,939)	5,285,101	48,947,287	37,225,195

Notes:

(i) For the Group's loans and advances to customers, the category "Less than three months" as at 30 June 2019 includes overdue loans and advances (net of provision for impairment losses) of RMB 2,379 million (31 December 2018: RMB 3,077 million).

(ii) Financial investments include financial investments measured at FVTPL, financial investments measured at FVOCI, financial investments measured at amortised cost.

The Group uses sensitivity analysis to measure the potential effect of changes in interest rates on the Group's net interest income. The following table sets forth the results of the Group's interest rate sensitivity analysis based on assets and liabilities at that date at 30 June 2019 and 31 December 2018.

Changes in annualized net interest income	**30 June 2019** **(Decrease)/ Increase**	31 December 2018 (Decrease)/ Increase
Interest rates increase by 100 bps	**(508,669)**	(635,421)
Interest rates decrease by 100 bps	**508,669**	635,421

This sensitivity analysis is based on a static interest rate risk profile of the Group's assets and liabilities and certain simplified assumptions. The analysis measures only the impact of changes in the interest rates within one year, showing how annualized interest income would have been affected by the repricing of the Group's assets and liabilities within the one-year period. The analysis is based on the following assumptions:

(i) All assets and liabilities that are repriced or mature within three months and after three months but within one year are repriced or mature at the beginning of the respective periods (i.e., all the assets and liabilities that are repriced or mature within three months are repriced or mature immediately, and all the assets and liabilities that are repriced or mature after three months but within one year are repriced or mature immediately after three months);

(ii) There is a parallel shift in the yield curve and in interest rates; and

(iii) There are no other changes to the portfolio and all positions will be retained and rolled over upon maturity.

The analysis does not take into account the effect of risk management measures taken by management. Due to the assumptions adopted, actual changes in the Group's net interest income resulting from increases or decreases in interest rates may differ from the results of this sensitivity analysis.

(b) Currency risk

The Group's currency risk mainly arises from the foreign currency portfolio within the treasury's proprietary investments, and other foreign currency exposures. The Group manages currency risk by matching its foreign currency denominated assets with corresponding liabilities in the same currencies.

The currency exposures of the Group's assets and liabilities as at the end of the reporting period are as follows:

	30 June 2019			
	RMB	**USD *(RMB equivalent)***	**Others *(RMB equivalent)***	**Total *(RMB equivalent)***
Assets				
Cash and deposits with central bank	**34,535,194**	**58,724**	**6,181**	**34,600,099**
Deposits with banks and other financial institutions	**950,029**	**337,715**	**33,338**	**1,321,082**
Placements with banks and other financial institutions	**3,676,123**	**912,084**	**–**	**4,588,207**
Loans and advances to customers	**142,751,102**	**591,316**	**1,160**	**143,343,578**
Financial investments *(Note (i))*	**136,511,848**	**9,902,225**	**–**	**146,414,073**
Long-term receivables	**8,800,422**	**–**	**–**	**8,800,422**
Others	**6,160,590**	**1,999**	**896**	**6,163,485**
Total assets	**333,385,308**	**11,804,063**	**41,575**	**345,230,946**
Liabilities				
Borrowings from central bank	**10,186,784**	**–**	**–**	**10,186,784**
Deposits from banks and other financial institutions	**14,555,305**	**344,920**	**–**	**14,900,225**
Placements from banks and other financial institutions	**7,337,534**	**1,380,877**	**–**	**8,718,411**
Financial assets sold under repurchase agreements	**13,654,122**	**–**	**–**	**13,654,122**
Deposits from customers	**187,126,235**	**1,209,398**	**24,590**	**188,360,223**
Debt securities issued	**75,161,060**	**–**	**–**	**75,161,060**
Others	**4,194,149**	**51,963**	**5,928**	**4,252,040**
Total liabilities	**312,215,189**	**2,987,158**	**30,518**	**315,232,865**
Net position	**21,170,119**	**8,816,905**	**11,057**	**29,998,081**
Off-balance sheet credit commitments	**23,233,270**	**362,492**	**168,563**	**23,764,325**

	31 December 2018			
	RMB	USD *(RMB equivalent)*	Others *(RMB equivalent)*	Total *(RMB equivalent)*
Assets				
Cash and deposits with central bank	29,522,481	28,105	3,844	29,554,430
Deposits with banks and other financial institutions	1,187,598	332,317	22,522	1,542,437
Placements with banks and other financial institutions	3,874,944	235,520	–	4,110,464
Financial assets held under resale agreements	300,262	–	–	300,262
Loans and advances to customers	123,210,169	153,093	3,629	123,366,891
Financial investments *(Note (i))*	135,931,485	9,465,138	–	145,396,623
Long-term receivables	7,766,698	–	–	7,766,698
Others	5,617,694	2,252	751	5,620,697
Total assets	307,411,331	10,216,425	30,746	317,658,502
Liabilities				
Borrowings from central bank	10,878,835	–	–	10,878,835
Deposits from banks and other financial institutions	11,632,982	–	–	11,632,982
Placements from banks and other financial institutions	6,240,715	966,351	–	7,207,066
Financial assets sold under repurchase agreements	14,850,333	–	–	14,850,333
Deposits from customers	177,223,409	631,187	56,651	177,911,247
Debt securities issued	65,240,507	–	–	65,240,507
Others	2,411,680	27,363	1,765	2,440,808
Total liabilities	288,478,461	1,624,901	58,416	290,161,778
Net position	18,932,870	8,591,524	(27,670)	27,496,724
Off-balance sheet credit commitments	18,038,135	482,852	190,851	18,711,838

Note:

(i) Financial investments include financial investments measured at FVTPL, financial investments measured at FVOCI and financial investments measured at amortised cost.

Changes in annualized net profit	**30 June 2019 Increase/ (Decrease)**	31 December 2018 Increase/ (Decrease)
Foreign exchange rate increase by 100 bps	**9,631**	9,358
Foreign exchange rate decrease by 100 bps	**(9,631)**	(9,358)

This sensitivity analysis is based on a static foreign exchange exposure profile of assets and liabilities and certain simplified assumptions. The analysis is based on the following assumptions:

(i) the foreign exchange sensitivity is the gain or loss recognised as a result of 100 basis points fluctuation in the foreign currency exchange rates against RMB;

(ii) the exchange rates against RMB for all foreign currencies change in the same direction simultaneously;

(iii) the foreign exchange exposures calculated include both spot foreign exchange exposures, forward foreign exchange exposures and options, and all positions will be retained and rolled over upon maturity.

The analysis does not take into account the effect of risk management measures taken by management. Due to the assumptions adopted, actual changes in the Group's net foreign exchange gain or loss resulting from increases or decreases in foreign exchange rates may differ from the results of this sensitivity analysis.

(3) Liquidity risk

Liquidity risk is the risk that a commercial bank is unable to obtain funds on a timely basis or obtain funds at a reasonable cost to meet repayment obligations or sustain its asset business even if a bank's solvency remains strong. Liquidity risk management is to ensure that the Group has sufficient cash flow to meet payment obligations and fund business operations on a timely basis. To achieve this, the Group should have the ability to make full payment due on demand deposits or early withdrawal of term deposits, make full repayment of placement upon maturity, or meet other payment obligations. The Bank also needs to comply with statutory requirements on liquidity ratios, and actively carry out lending and investment business. The Group monitors the future cash flow according to its liquidity management policies, and keeps its high liquidity assets at an appropriate level.

Under the guidance of the Asset and Liability Management Committee, the Financial Planning Department performs daily management of liquidity risk in accordance with the liquidity management objectives, and to ensure payment of the business.

The Group holds an appropriate amount of liquid assets (such as deposits with central bank, other short-term deposits and securities) to ensure liquidity needs and unpredictable demand for payment in the ordinary course of business. A substantial portion of the Group's assets are funded by deposits from customers. As a major source of funding, customer deposits have been growing steadily in recent years and are widely diversified in terms of type and duration.

The Group principally uses liquidity gap analysis to measure liquidity risk. Stress testing is also adopted to assess the impact of liquidity risk.

(a) Maturity analysis

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the reporting period:

	30 June 2019							
	Indefinite *(Note (ii))*	**Repayable on demand** *(Note (ii))*	**Within one month**	**Between one month and three months**	**Between three months and one year**	**Between one year and five years**	**More than five years**	**Total**
Assets								
Cash and deposits with central bank	**20,039,895**	**14,560,204**	**–**	**–**	**–**	**–**	**–**	**34,600,099**
Deposits with banks and other financial institutions	**–**	**1,321,082**	**–**	**–**	**–**	**–**	**–**	**1,321,082**
Placements with banks and other financial institutions	**–**	**–**	**411,476**	**1,642,447**	**2,534,284**	**–**	**–**	**4,588,207**
Loans and advances to customers	**1,551,266**	**949,249**	**5,769,490**	**11,166,134**	**48,690,790**	**34,118,494**	**41,098,155**	**143,343,578**
Financial investments *(Note (i))*	**23,250**	**–**	**2,109,524**	**4,734,153**	**26,587,298**	**74,277,483**	**38,682,365**	**146,414,073**
Long-term receivables	**97,799**	**–**	**275,678**	**905,948**	**2,602,087**	**4,918,910**	**–**	**8,800,422**
Others	**5,304,228**	**11,101**	**–**	**–**	**4,302**	**158,141**	**685,713**	**6,163,485**
Total assets	**27,016,438**	**16,841,636**	**8,566,168**	**18,448,682**	**80,418,761**	**113,473,028**	**80,466,233**	**345,230,946**
Liabilities								
Borrowings from central bank	**–**	**–**	**4,846,482**	**1,660,872**	**3,679,430**	**–**	**–**	**10,186,784**
Deposits from banks and other financial institutions	**–**	**3,071,763**	**103,999**	**1,160,228**	**10,564,235**	**–**	**–**	**14,900,225**
Placements from banks and other financial institutions	**–**	**–**	**2,844,266**	**1,890,918**	**3,851,015**	**132,212**	**–**	**8,718,411**
Financial assets sold under repurchase agreements	**–**	**–**	**13,654,122**	**–**	**–**	**–**	**–**	**13,654,122**
Deposits from customers	**–**	**92,743,689**	**14,387,967**	**16,575,266**	**35,280,555**	**29,259,891**	**112,855**	**188,360,223**
Debt securities issued	**–**	**–**	**2,931,053**	**13,185,491**	**42,358,400**	**9,494,207**	**7,191,909**	**75,161,060**
Others	**115,583**	**337,785**	**1,918,093**	**66,759**	**427,879**	**1,012,041**	**373,900**	**4,252,040**
Total liabilities	**115,583**	**96,153,237**	**40,685,982**	**34,539,534**	**96,161,514**	**39,898,351**	**7,678,664**	**315,232,865**
Net position	**26,900,855**	**(79,311,601)**	**(32,119,814)**	**(16,090,852)**	**(15,742,753)**	**73,574,677**	**72,787,569**	**29,998,081**

	31 December 2018							
	Indefinite *(Note (ii))*	Repayable on demand *(Note (ii))*	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Total
Assets								
Cash and deposits with central bank	20,835,735	8,718,695	–	–	–	–	–	29,554,430
Deposits with banks and other financial institutions	–	1,341,224	–	–	201,213	–	–	1,542,437
Placements with banks and other financial institutions	–	–	239,838	713,109	3,157,517	–	–	4,110,464
Financial assets held under resale agreements	–	–	300,262	–	–	–	–	300,262
Loans and advances to customers	2,156,367	940,792	6,331,329	10,979,327	41,645,801	25,418,753	35,894,522	123,366,891
Financial investments *(Note (i))*	23,250	–	1,378,417	7,684,772	21,216,658	71,838,897	43,254,629	145,396,623
Long-term receivables	–	–	200,327	758,346	2,456,543	4,351,482	–	7,766,698
Others	5,601,299	19,398	–	–	–	–	–	5,620,697
Total assets	28,616,651	11,020,109	8,450,173	20,135,554	68,677,732	101,609,132	79,149,151	317,658,502
Liabilities								
Borrowings from central bank	–	–	176,217	76,674	10,625,944	–	–	10,878,835
Deposits from banks and other financial institutions	–	1,817,247	2,397,146	906,887	6,511,702	–	–	11,632,982
Placements from banks and other financial institutions	–	–	1,368,515	2,025,440	3,628,030	185,081	–	7,207,066
Financial assets sold under repurchase agreements	–	–	14,850,333	–	–	–	–	14,850,333
Deposits from customers	–	91,748,668	18,338,126	10,846,766	29,388,722	27,201,142	387,823	177,911,247
Debt securities issued	–	–	4,779,439	12,064,185	39,707,245	1,499,470	7,190,168	65,240,507
Others	119,499	143,478	639,057	56,053	710,163	696,858	75,700	2,440,808
Total liabilities	119,499	93,709,393	42,548,833	25,976,005	90,571,806	29,582,551	7,653,691	290,161,778
Net position	28,497,152	(82,689,284)	(34,098,660)	(5,840,451)	(21,894,074)	72,026,581	71,495,460	27,496,724

Notes:

(i) Financial investments include financial investments measured at FVTPL, financial investments measured at FVOCI and financial investments measured at amortised cost.

(ii) For cash and deposits with central bank, the indefinite period amount represents statutory deposit reserves and fiscal deposits maintained with the PBOC. Equity investments are also reported under indefinite period. For loans and advances to customers, the "indefinite" period amount represents the balance being credit-impaired or overdue for more than one month, and the balance not credit-impaired/impaired but overdue within one month is included in "repayable on demand".

(b) Analysis on contractual undiscounted cash flows

The following tables provide an analysis of the contractual undiscounted cash flow of financial liabilities at the end of the reporting period:

	30 June 2019								
	Indefinite	**Repayable on demand**	**Within one month**	**Between one month and three months**	**Between three months and one year**	**Between one year and five years**	**More than five years**	**Contractual undiscounted cash flow**	**Carrying Amount**
Borrowings from central bank	**–**	**–**	**4,855,690**	**1,682,558**	**3,737,789**	**–**	**–**	**10,276,037**	**10,186,784**
Deposits from banks and other financial institutions	**–**	**3,071,763**	**104,055**	**1,165,300**	**10,759,513**	**–**	**–**	**15,100,631**	**14,900,225**
Placements from banks and other financial institutions	**–**	**–**	**2,847,620**	**1,910,436**	**3,932,314**	**132,038**	**–**	**8,822,408**	**8,718,411**
Financial assets sold under repurchase agreements	**–**	**–**	**13,655,254**	**–**	**–**	**–**	**–**	**13,655,254**	**13,654,122**
Deposits from customers	**–**	**92,743,690**	**14,402,397**	**16,660,218**	**35,851,496**	**31,775,080**	**127,551**	**191,560,432**	**188,360,223**
Debt securities issued	**–**	**–**	**2,940,000**	**13,260,000**	**43,693,080**	**11,836,320**	**8,172,980**	**79,902,380**	**75,161,060**
Others	**115,583**	**337,785**	**1,918,093**	**66,568**	**427,797**	**1,012,041**	**373,900**	**4,251,767**	**4,251,767**
Total	**115,583**	**96,153,238**	**40,723,109**	**34,745,080**	**98,401,989**	**44,755,479**	**8,674,431**	**323,568,909**	**315,232,592**

	31 December 2018								
	Indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Contractual undiscounted cash flow	Carrying Amount
Borrowings from central bank	–	–	176,370	76,950	10,845,905	–	–	11,099,225	10,878,835
Deposits from banks and other financial institutions	–	1,817,247	2,399,559	911,385	6,641,162	–	–	11,769,353	11,632,982
Placements from banks and other financial institutions	–	–	1,370,635	2,045,181	3,749,160	194,204	–	7,359,180	7,207,066
Financial assets sold under repurchase agreements	–	–	14,855,016	–	–	–	–	14,855,016	14,850,333
Deposits from customers	–	91,748,668	18,351,229	10,892,065	29,816,577	29,487,700	461,810	180,758,049	177,911,247
Debt securities issued	–	–	4,790,000	12,163,730	40,863,000	3,093,920	8,445,960	69,356,610	65,240,507
Others	119,499	143,478	639,057	56,053	710,163	696,858	75,700	2,440,808	2,440,808
Total	119,499	93,709,393	42,581,866	26,145,364	92,625,967	33,472,682	8,983,470	297,638,241	290,161,778

This analysis of the liabilities by contractual undiscounted cash flow might differ from actual results.

(4) Operational risk

Operational risk refers to the risk arising from inadequate or failed internal control procedures, personnel and information technology systems, or external events. The primary operational risks the Group face include internal and external frauds, worksite safety failures, business interruptions and failure in the information technology system.

The board of directors of the Bank is ultimately responsible for the operational risk management, and the Bank's senior management leads the bank-wide operational risk management on a day-to-day basis. The Group has established "three lines of defenses" to manage operational risk on an end-to-end basis. The business lines and functions are the first line of defense against operational risks, taking direct responsibilities for operational risk management. The legal and compliance department is the second line of defense against operational risks, responsible for the establishment of operational risk management policies and procedures and the coordination, support, and supervision of operational risk management. The audit department is the third line of defense against operational risk, responsible for evaluating the adequacy and effectiveness of operational risk management policies and procedures and assessing the internal control system and compliance.

(5) Capital management

The Group's capital management includes capital adequacy ratio management, capital financing management and economic capital management. Among them, capital adequacy ratio management is especially important. The Group calculates capital adequacy ratios in accordance with the guidance issued by the CBRC. The capital of the Group is divided into three pieces: core tier-one capital, additional tier-one capital and tier-two capital.

Capital adequacy ratio management is the core of the capital management of the Group. Capital adequacy ratio reflects the Group's capability in sound operations and risk management. The Group's capital management objectives are to meet the legal and regulatory requirements, and to prudently determine the capital adequacy ratio under realistic exposures with reference to the capital adequacy ratio levels of leading global banks and the Group's operating situations.

The Group considers its strategic development plans, business expansion plans and risk variables in conducting its scenario analysis, stress testing and other measures to forecast, plan and manage capital adequacy ratio. The required information is filed with the regulatory authority by the Group periodically.

As at 30 June 2019 and 31 December 2018, the Group calculated the capital adequacy ratios in accordance with the Regulation Governing Capital of Commercial Banks (Provisional) (商業銀行資本管理辦法(試行)) issued by the CBRC in 2012 and relevant requirements promulgated by the CBRC as follows:

	30 June 2019	31 December 2018
Total core tier-one capital	**21,947,793**	19,433,753
Share capital	**4,509,690**	4,058,713
Qualifying portion of capital reserve	**8,337,869**	6,826,276
Surplus reserve	**1,403,575**	1,403,575
General reserve	**3,969,452**	3,969,452
Retained earnings	**2,856,324**	2,319,800
Other comprehensive income	**527,789**	553,193
Qualifying portion of non-controlling interests	**343,094**	302,744
Core tier-one capital deductions	**(157,855)**	(165,153)
Net core tier-one capital	**21,789,938**	19,268,600
Other tier-one capital	**7,899,710**	7,894,330
Net tier-one capital	**29,689,648**	27,162,930
Tier two capital	**8,610,872**	8,858,726
Qualifying portions of tier-two capital instruments issued	**7,200,000**	7,200,000
Surplus provision for loan impairment	**1,319,380**	1,577,994
Qualifying portion of non-controlling interests	**91,492**	80,732
Net capital base	**38,300,520**	36,021,656
Total risk weighted assets	**236,429,937**	229,776,495
Core tier-one capital adequacy ratio	**9.22%**	8.39%
Tier-one capital adequacy ratio	**12.56%**	11.82%
Capital adequacy ratio	**16.20%**	15.68%

41 FAIR VALUE

(1) Methods and assumptions for measurement of fair value

Fair value estimates are generally subjective in nature, and are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The Group has established policies and internal controls with respect to the measurement of fair value, specify the framework of fair value measurement of financial instruments, fair value measurement methodologies and procedures.

The Group adopts the following methods and assumptions when evaluating fair value:

(a) Debt securities investments

The fair value of debt securities that are traded in an active market is based on their quoted market prices at the end of the reporting period.

(b) Other financial investments and other non-derivative financial assets

Fair value is estimated as the present value of the future cash flows, discounted at the market interest rates at the end of the reporting period.

(c) Debt securities issued and other non-derivative financial liabilities

The fair value of debt securities issued is based on their quoted market prices at the end of the reporting period, or the present value of estimated future cash flows. The fair value of other non-derivative financial liabilities is evaluated at the present value of estimated future cash flows. The discount rates are based on the market interest rates at the end of the reporting period.

(d) Derivative financial instruments

Derivative financial instruments valued using a valuation technique with market observable inputs are mainly interest rate swaps, foreign exchange forwards and swaps, etc. The most frequently applied valuation techniques include discounted cash flow model, etc. The models incorporate various inputs including foreign exchange spot and forward rates, foreign exchange rate volatility, interest rate yield curves, etc.

(2) Financial instruments recorded at fair value

The following tables show an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	30 June 2019			
	Level 1 *Note (i)*	**Level 2** *Note (i)*	**Level 3** *Note (i) ~ (ii)*	**Total**
Financial investments measured at FVTPL				
– Debt securities	**–**	**549,746**	**–**	**549,746**
– Asset management plans	**–**	**–**	**8,775,971**	**8,775,971**
– Wealth management products issued by financial institutions	**–**	**–**	**2,034,853**	**2,034,853**
– Trust plans	**–**	**–**	**3,143,259**	**3,143,259**
– Investment funds	**–**	**12,779,746**	**50,041**	**12,829,787**
Derivative financial assets	**–**	**323**	**–**	**323**
Financial investments measured at FVOCI				
– Debt securities	**–**	**45,471,304**	**–**	**45,471,304**
– Asset management plans	**–**	**6,303,089**	**–**	**6,303,089**
– Other investments	**–**	**–**	**709,546**	**709,546**
– Equity investments	**–**	**–**	**23,250**	**23,250**
Loans and advances to customers measured at FVOCI	**–**	**–**	**12,116,688**	**12,116,688**
Total	**–**	**65,104,208**	**26,853,608**	**91,957,816**
Derivative financial liabilities	**–**	**273**	**–**	**273**
Total	**–**	**273**	**–**	**273**

	31 December 2018			
	Level 1 *Note (i)*	Level 2 *Note (i)*	Level 3 *Note (i) ~ (ii)*	Total
Financial investments measured at FVTPL				
– Debt securities	–	237,280	–	237,280
– Asset management plans	–	–	9,354,611	9,354,611
– Wealth management products issued by financial institutions	–	–	2,080,946	2,080,946
– Trust plans	–	–	3,221,359	3,221,359
– Investment funds	–	7,417,936	49,684	7,467,620
Financial investments measured at FVOCI				
– Debt securities	–	47,796,047	–	47,796,047
– Asset management plans	–	5,183,454	–	5,183,454
– Equity investments	–	–	23,250	23,250
Loans and advances to customers measured at FVOCI	–	–	6,772,625	6,772,625
Total	–	60,634,717	21,502,475	82,137,192

Notes:

(i) During the reporting period, there were no significant transfers among each level.

(ii) Movements in Level 3 of the fair value hierarchy

				Total gains or losses for the period		Purchases, issues, disposals and settlements			
	As at 1 January 2019	Transfer into level 3	Transfer out of level 3	In profit or loss	In other comprehensive income	Purchases	Issues	Disposals and settlements	As at 30 June 2019
Financial investments measured at FVTPL									
– Asset management plans	9,354,611	-	-	22,974	-	3,715,000	-	(4,316,614)	8,775,971
– Wealth management products issued by financial institutions	2,080,946	-	-	34,853	-	2,000,000	-	(2,080,946)	2,034,853
– Trust plans	3,221,359	-	-	56,774	-	300,000	-	(434,874)	3,143,259
– Investment funds	49,684	-	-	357	-	-	-	-	50,041
Financial investments measured at FVOCI									
– Other investments	-	-	-	6,241	3,305	700,000	-	-	709,546
– Equity investments	23,250	-	-	-	-	-	-	-	23,250
Loans and advances to customers measured at FVOCI	6,772,625	-	-	157,267	6,585	12,660,422	-	(7,480,211)	12,116,688
Total	21,502,475	-	-	278,466	9,890	19,375,422	-	(14,312,645)	26,853,608

	As at 1 January 2018	Transfer into level 3	Transfer out of level 3	Total gains or losses for the year: In profit or loss	Total gains or losses for the year: In other comprehensive income	Purchases, issues, disposals and settlements: Purchases	Purchases, issues, disposals and settlements: Issues	Purchases, issues, disposals and settlements: Disposals and settlements	As at 31 December 2018
Financial investments measured at FVTPL									
– Asset management plans	10,863,060	–	–	146,488	–	2,249,559	–	(3,904,496)	9,354,611
– Wealth management products issued by financial institutions	20,992,466	–	–	183,456	–	5,000,000	–	(24,094,976)	2,080,946
– Trust plans	8,456,436	–	–	77,401	–	395,000	–	(5,707,478)	3,221,359
– Investment funds	60,155	–	–	1,501	–	–	–	(11,972)	49,684
Financial investments measured at FVOCI									
– Asset management plans	3,203,033	–	–	67,501	(5,938)	–	–	(3,264,596)	–
– Equity investments	23,250	–	–	–	–	–	–	–	23,250
Loans and advances to customers measured at FVOCI	2,941,746	–	–	249,566	15,908	28,225,793	–	(24,660,388)	6,772,625
Total	46,540,146	–	–	725,913	9,970	35,870,352	–	(61,643,906)	21,502,475

(3) Fair value of financial assets and liabilities not carried at fair value

(i) Cash and deposits with central bank, borrowings from central bank, deposits and placements with/from banks and other financial institutions, financial assets held under resale agreements and sold under repurchase agreements

Given that these financial assets and financial liabilities mainly mature within one year or adopt floating interest rates, their carrying amounts approximate their fair value.

(ii) Loans and advances to customers measured at amortised cost, non-debt securities financial investments measured at amortised cost and long-term receivables

The estimated fair value of loans and advances to customers measured at amortised cost, non-debt securities financial investments measured at amortised cost and long-term receivables represents the amount of estimated future cash flows expected to be received, discounted at current market rates.

(iii) Debt securities financial investments measured at amortised cost

The fair value for debt securities financial investments measured at amortised cost is based on "bid" market prices or brokers'/dealers' price quotations. If relevant market information is not available, the fair value is based on quoted price of security products with similar characteristics such as credit risk, maturities and yield.

(iv) Deposits from customers

The fair value of checking, savings and short-term money market accounts is the amount payable on demand at the end of the reporting period. The fair value of fixed interest-bearing deposits without quoted market prices is estimated based on discounted cash flows using interest rates for new deposits with similar remaining maturities.

(v) Debt securities issued

The fair value of debt securities issued is based on quoted market prices. For debt securities where quoted market prices are not available, a discounted cash flow model is used to calculate their fair value using current market rates appropriate for debt securities with similar remaining maturities.

The following tables summarise the carrying amounts, the fair value and the analysis by level of the fair value hierarchy of debt securities financial instruments measured at amortised cost and debt securities issued:

	30 June 2019				
	Carrying amount	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Financial assets					
Financial investments measured at amortised cost (including accrued interest)					
– Debt securities	**39,348,523**	**39,342,343**	**–**	**39,255,290**	**87,053**
Total	**39,348,523**	**39,342,343**	**–**	**39,255,290**	**87,053**
Financial liabilities					
Securities issued (including accrued interest)					
– Debt securities	**19,936,392**	**19,793,752**	**–**	**19,793,752**	**–**
– Certificates of interbank deposit	**55,224,668**	**55,265,178**	**–**	**55,265,178**	**–**
Total	**75,161,060**	**75,058,930**	**–**	**75,058,930**	**–**

	31 December 2018				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Financial investments measured at amortised cost (including accrued interest)					
– Debt securities	36,665,810	36,674,559	–	36,583,883	90,676
Total	36,665,810	36,674,559	–	36,583,883	90,676
Financial liabilities					
Securities issued (including accrued interest)					
– Debt securities	15,532,452	15,212,729	–	15,212,729	–
– Certificates of interbank deposit	49,708,055	49,726,684	–	49,726,684	–
Total	65,240,507	64,939,413	–	64,939,413	–

42 COMMITMENTS AND CONTINGENT LIABILITIES

(1) Credit commitments

The Group's credit commitments mainly 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 2019	31 December 2018
Bank acceptances	**17,214,591**	13,700,722
Unused credit card commitments	**3,617,025**	1,698,681
Letters of guarantees	**1,645,185**	2,410,966
Letters of credit	**1,013,354**	657,499
Irrevocable loan commitments	**274,170**	243,970
Total	**23,764,325**	18,711,838

Irrevocable loan commitments only include unused loan commitments granted to syndicated loans.

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

For details of ECL of credit commitments, please refer to Note 32(4).

(2) Credit risk-weighted amount

	30 June 2019	31 December 2018
Credit risk-weighted amount of contingent liabilities and commitments	**9,230,179**	9,694,305

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 31 December 2018, the Group's future minimum lease payments under non-cancellable operating leases for properties are as follows:

	31 December 2018
Within one year (inclusive)	108,802
After one year but within five years (inclusive)	320,161
After five years	90,464
Total	519,427

(4) Capital commitments

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

	30 June 2019	31 December 2018
Contracted but not paid for	**203,452**	213,625
Total	**203,452**	213,625

(5) Outstanding litigations and disputes

As at 30 June 2019 and 31 December 2018, there were no significant legal proceedings outstanding against the Group. Management is in the opinion that it is not necessary to provide any provisions 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 unpaid interest accrued up to the redemption date. Accrued interest payables to the bond holders are calculated in accordance with relevant rules of the MOF and the PBOC. The redemption price may be different from the fair value of similar instruments traded at the redemption date.

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

	30 June 2019	31 December 2018
Bonds redemption obligations	**4,737,957**	4,153,146

(7) Pledged assets

	30 June 2019	31 December 2018
Investment securities	**29,063,474**	28,618,903
Discounted bills	**1,958,024**	1,214,031
Total	**31,021,498**	29,832,934

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

The Group maintains statutory deposit reserves with the PBOC as required (Note 12). 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 2019 and 31 December 2018, the Group did not have these discounted bills under resale agreements. As at 30 June 2019 and 31 December 2018, the Group did not sell or repledge any pledged assets which it has an obligation to resale when they are due.

43 INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES

(1) Structured entities sponsored by third party institutions in which the Group holds an interest

The Group holds an interest in some structured entities sponsored by third party institutions through investments in the notes issued by these structured entities. The Group does not consolidate these structured entities. Such structured entities include wealth management products issued by financial institutions, asset management plans, trust plans, asset-backed securities and investment funds. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors and are financed through the issue of notes to investors.

The following tables set out an analysis of the carrying amounts of interests held by the Group as at 30 June 2019 and 31 December 2018 in the structured entities sponsored by third party institutions, as well as an analysis of the line items in the statement of financial position in which relevant assets are recognized:

	30 June 2019				
	Financial investments measured at FVTPL	**Financial investments measured at FVOCI**	**Financial investments measured at amortised cost**	**Carrying amount**	**Maximum exposure**
Asset management plans	**8,775,971**	**6,183,177**	**18,748,863**	**33,708,011**	**33,708,011**
Trust plans	**3,143,259**	**–**	**3,556,475**	**6,699,734**	**6,699,734**
Wealth management products issued by financial institutions	**2,034,853**	**–**	**–**	**2,034,853**	**2,034,853**
Asset-backed securities	**–**	**1,534,791**	**–**	**1,534,791**	**1,534,791**
Investment funds	**12,829,787**	**–**	**–**	**12,829,787**	**12,829,787**
Total	**26,783,870**	**7,717,968**	**22,305,338**	**56,807,176**	**56,807,176**

	31 December 2018				
	Financial investments measured at FVTPL	Financial investments measured at FVOCI	Financial investments measured at amortised cost	Carrying amount	Maximum exposure
Asset management plans	9,354,611	5,183,454	23,345,844	37,883,909	37,883,909
Trust plans	3,221,359	–	4,749,685	7,971,044	7,971,044
Wealth management products issued by financial institutions	2,080,946	–	–	2,080,946	2,080,946
Asset-backed securities	–	1,952,607	–	1,952,607	1,952,607
Investment funds	7,467,620	–	–	7,467,620	7,467,620
Total	22,124,536	7,136,061	28,095,529	57,356,126	57,356,126

The maximum exposures to loss in the above structured entities are the amortised cost or the fair value of the assets held by the Group at the end of the reporting period in accordance with the line items of these assets recognized in the statement of financial position.

(2) Unconsolidated structured entities sponsored by the Group in which the Group holds an interest

The types of unconsolidated structured entities sponsored by the Group mainly include non-principal-guaranteed wealth management products. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These structured entities are financed through the issue of notes to investors. Interest held by the Group includes fees charged by providing management services to these structured entities. As at 30 June 2019 and 31 December 2018, the carrying amounts of the management fee receivables being recognized are not material in the statement of financial position.

As at 30 June 2019, the amount of assets held by the unconsolidated non-principal guaranteed wealth management products, which are sponsored by the Group, was RMB 82.161 billion (31 December 2018: RMB 71.534 billion).

(3) Structured entities sponsored and issued by the Group after 1 January but matured before the end of the reporting period in which the Group no longer holds an interest

During the six months ended 30 June 2019, the amount of fee and commission income recognized from the above mentioned structured entities by the Group was RMB 38 million (six months ended 30 June 2018: RMB 29 million).

During the six months ended 30 June 2019, the aggregated amount of the non-principal-guaranteed wealth management products sponsored and issued by the Group after 1 January but matured before 30 June was RMB 30.716 billion (six months ended 30 June 2018: RMB 53.670 billion).

44 ASSET SECURITIZATION

The Group enters into securitization transactions in the normal course of business by which it transfers credit assets to structured entities which issue asset-backed securities to investors, or carries out trust beneficial rights registration and transfer business in China Credit Assets Registry & Exchange Co., Ltd ("Yindeng Center").

In 2015, the Bank transferred a portfolio of customer loans with a book value of RMB 2.543 billion to an unconsolidated securitization vehicle managed by an independent trust company, which issued asset-backed securities to investors. As the consideration received was equivalent to the book value of the financial assets transferred, no gain or loss was recognized.

In 2017, the Group entrusted a portfolio of customer loans with a book value of RMB 2.000 billion to an independent trust company for setting up an unconsolidated securitization vehicle. The Group obtained the trust beneficiary rights, and subsequently transferred all the initial holding trust beneficiary rights via Yindeng Center. As the consideration received was equivalent to the book value of the financial assets transferred, no gain or loss was recognised.

Under the servicing arrangements with the independent trust company, the Group collects the cash flows of the transferred assets on behalf of the unconsolidated securitization vehicle. In return, the Group receives a fee that is expected to compensate the Group for service related to asset management and disposal.

45 FIDUCIARY ACTIVITIES

The Group commonly acts as a trustee, or in other fiduciary capacities, that result in its holding or managing assets on behalf of individuals, trusts and other institutions. These assets and any gains or losses arising thereon are not included in the statements of financial position as they are not the Group's assets.

As at 30 June 2019, the entrusted loans balance of the Group was RMB 3.393 billion (31 December 2018: RMB 4.163 billion).

46 SUBSEQUENT EVENTS

Up to the approval date of the report, the Group has no other significant subsequent events for disclosure.

47 COMPARATIVE FIGURES

For financial statements disclosure purpose, the Group made reclassification adjustments to some comparative figures.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(Expressed in thousands of Renminbi, unless otherwise stated)

The information set out below does not form part of the unaudited interim financial report, and is included herein for information purposes only.

In accordance with the Listing Rules and Banking (Disclosure) Rules, the Group discloses the unaudited supplementary Financial Information as follows:

1 LIQUIDITY COVERAGE RATIO, LEVERAGE RATIO AND NET STABLE FUNDING RATIO

Liquidity coverage ratio, leverage ratio and net stable funding ratio are calculated in accordance with the relevant regulations promulgated by the former China Banking Regulatory Commission (the "CBRC") and based on the financial information prepared in accordance with the requirements of the Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People's Republic of China (the "MOF").

(1) Liquidity coverage ratio

	As at 30 June 2019	As at 31 December 2018
Qualified and high-quality current assets	**65,054,000**	52,974,850
Net cash outflows in next 30 days	**36,137,989**	42,058,582
Liquidity coverage ratio (RMB and foreign currency)	**180.02%**	125.95%

Pursuant to the Administrative Measures for Liquidity Risk Management of Commercial Banks, the liquidity coverage ratio of commercial banks shall reach 100% by the end of 2018.

(2) Leverage ratio

	As at 30 June 2019	As at 31 December 2018
Leverage ratio	**7.98%**	7.92%

Pursuant to the Leverage Ratio Management of Commercial Banks (Amended) issued by the CBRC and was effective since 1 April 2015, a minimum leverage ratio 4% is required.

(3) Net stable funding ratio

	As at 30 June 2019	As at 31 March 2019	As at 31 December 2018
Available stable funding	**188,183,992**	183,312,473	178,819,503
Required stable funding	**184,434,976**	183,106,383	173,945,290
Net stable funding ratio	**102.03%**	100.11%	102.80%

Pursuant to the Administrative Measures for Liquidity Risk Management of Commercial Banks, a minimum net stable funding ratio of commercial banks 100% is required.

2 CURRENCY CONCENTRATIONS

	30 June 2019			
	US Dollars *(RMB equivalent)*	**HK Dollars** *(RMB equivalent)*	**Others** *(RMB equivalent)*	**Total**
Spot assets	**11,804,063**	**25,452**	**16,123**	**11,845,638**
Spot liabilities	**(2,987,158)**	**(18,583)**	**(11,935)**	**(3,017,676)**
Net long position	**8,816,905**	**6,869**	**4,188**	**8,827,962**

	31 December 2018			
	US Dollars *(RMB equivalent)*	HK Dollars *(RMB equivalent)*	Others *(RMB equivalent)*	Total
Spot assets	10,216,425	25,396	5,350	10,247,171
Spot liabilities	(1,624,901)	(18,547)	(39,869)	(1,683,317)
Net long position	8,591,524	6,849	(34,519)	8,563,854

The Group has no structural position at the reporting periods.

3 INTERNATIONAL CLAIMS

The Group regards all claims on third parties outside Mainland China and claims dominated in foreign currency on third parties in Mainland China as international claims.

International claims include loans and advances to customers, deposits with central bank, deposits and placements with banks and other financial institutions and financial investments.

A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk transfers are only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose Head Office is located in another country.

	30 June 2019			
	Public sector entities	**Banks and other financial institutions**	**Non-bank private sector**	**Total**
– Asia Pacific	**56,535**	**5,382,686**	**6,088,010**	**11,527,231**
– of which attributed to Hong Kong	**–**	**3,098,874**	**–**	**3,098,874**
– North and South America	**–**	**282,176**	**–**	**282,176**
– Europe	**–**	**14,416**	**–**	**14,416**
	56,535	**5,679,278**	**6,088,010**	**11,823,823**

	31 December 2018			
	Public sector entities	Banks and other financial institutions	Non-bank private sector	Total
– Asia Pacific	26,023	4,834,807	5,100,075	9,960,905
– of which attributed to Hong Kong	–	3,133,618	–	3,133,618
– North and South America	–	271,312	–	271,312
– Europe	–	1,257	–	1,257
	26,023	5,107,376	5,100,075	10,233,474

4 GROSS AMOUNT OF OVERDUE LOANS AND ADVANCES TO CUSTOMERS

	30 June 2019	31 December 2018
Gross loans and advances which have been overdue with respect to either principal or interest for periods of		
– between 3 and 6 months (inclusive)	**411,127**	422,827
– between 6 months and 1 year (inclusive)	**722,362**	806,413
– over 1 year	**799,145**	852,792
Total	**1,932,634**	2,082,032
As a percentage of total gross loans and advances (excluding accrued interest)		
– between 3 and 6 months (inclusive)	**0.28%**	0.33%
– between 6 months and 1 year (inclusive)	**0.49%**	0.64%
– over 1 year	**0.55%**	0.67%
Total	**1.32%**	1.64%

7. RELEASE OF INTERIM RESULTS ANNOUNCEMENT AND 2019 INTERIM REPORT ON THE WEBSITES OF THE HONG KONG STOCK EXCHANGE AND THE BANK

This results announcement will be published on the website of The Stock Exchange of Hong Kong Limited ("**Hong Kong Stock Exchange**") (http://www.hkexnews.hk/) and the website of the Bank (http://www.qdccb.com/). The 2019 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

Qingdao, Shandong Province, PRC, 23 August 2019

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.*