



BQD  
青島銀行

## 2020 Interim Report

**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)

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## SECTION I IMPORTANT NOTICE, CONTENTS AND DEFINITIONS

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1. The Board of Directors, Board of Supervisors, Directors, Supervisors and senior management of the Bank assure that the information in this report contains no false records, misleading statements or material omissions, and severally and jointly take full responsibility for the authenticity, accuracy and completeness of the information in this report.
2. The proposal on the 2020 Interim Report of Bank of Qingdao Co., Ltd. and its summary was considered and approved at the 37th meeting of the seventh session of the Board of Directors of the Bank held on 28 August 2020. There were 14 Directors eligible for attending the meeting, and 14 Directors actually attended the meeting.
3. The Bank's chairman Mr. GUO Shaoquan, president Mr. WANG Lin and head of planning and finance department Mr. MENG Dageng assure the authenticity, accuracy and completeness of the financial reports in this report.
4. The financial statements of the Company for the six months ended 30 June 2020 prepared in accordance with Accounting Standards for Business Enterprises have been reviewed by KPMG Huazhen LLP; the interim financial reports of the Company for the six months ended 30 June 2020 prepared in accordance with International Accounting Standards have been reviewed by KPMG.
5. No cash dividend distribution of ordinary shares, no distribution of bonus shares and no increase in share capital with provident fund were planned by the Bank in 2020 during the interim period.
6. Unless otherwise specified, the currency of the amounts mentioned in this report is RMB.
7. This report contains certain forward-looking statements about the financial conditions, operating results and business development of the Company. The report uses the words "will", "may", "strive", "plan", "hope", "endeavor", "expect", "aim" and similar wording to express forward-looking statements. These statements are made based on current plans, estimates and projections, and although the Company believes that the expectations reflected in these forward-looking statements are reasonable, the Company cannot assure that these expectations will be attained or confirmed to be correct and therefore they do not constitute substantive undertakings of the Company. Investors and relevant individuals should cultivate the adequate risk awareness in this regard, understand the differences between plans, forecasts and commitments, and not unduly rely on such statements, and should be aware of investment risks. Please note that these forward-looking statements are related to future events or future financial, business or other performance of the Company, and are subject to certain uncertainties which may cause the actual results to differ substantially.
8. The Company invites investors to read the full text of this report carefully. The Company has described in detail the major risks and countermeasures in this report. For details, please refer to the content related to risk management set out in "Section IV Management Discussion and Analysis".

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## DEFINITIONS

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Term	Definition
Company	Bank of Qingdao Co., Ltd. and its subsidiaries and branches
Bank	Bank of Qingdao Co., Ltd. and its branches
A Share(s)	shares issued in China, listed on the domestic stock exchanges and subscribed for and traded in RMB
H Share(s)	shares issued outside the mainland area of China, listed on the Hong Kong Stock Exchange and subscribed for and traded in foreign currency
CBIRC	China Banking and Insurance Regulatory Commission
CSRC	China Securities Regulatory Commission
Hong Kong Stock Exchange	The Stock Exchange of Hong Kong Limited
SZSE	the Shenzhen Stock Exchange
Hong Kong Listing Rules	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
Articles of Association	Articles of Association of the Bank of Qingdao Co., Ltd.
SFO	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
Reporting Period	from 1 January 2020 to 30 June 2020 (both days inclusive)
RMB or Renminbi	the lawful currency of the PRC
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Hong Kong Listing Rules
Director(s)	director(s) of the Bank
Supervisor(s)	supervisor(s) of the Bank

Board of Directors or Board	the board of Directors of the Bank
Board of Supervisors	the board of Supervisors of the Bank
Hong Kong	The Hong Kong Special Administrative Region of the PRC
Green Credit	the Bank commenced energy saving and environmental protection project and service loans as well as loans that comply with Catalog of Projects Backed by Green Bonds (2015 version) issued by the Green Finance Professional Committee of the China Society for Finance and Banking (中國金融學會綠色金融專業委員會). “Energy saving and environmental protection project and service loans” refers to the Notice on Submitting Statistical Table of Situations of Green Credit issued by China Banking Regulatory Commission (Yin Jian Ban Fa [2013] No. 185)
Small and Micro Enterprises	including small and micro enterprises, individual business owners, and the owners of small and micro enterprises

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## SECTION II CORPORATE INFORMATION AND KEY FINANCIAL HIGHLIGHTS

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### I. CORPORATE INFORMATION

<b>Stock abbreviation (A Shares)</b>	BQD	<b>Stock code (A Shares)</b>	002948
<b>Listing stock exchange of A Shares</b>	SZSE		
<b>Stock abbreviation (H Shares)</b>	BQD	<b>Stock code (H Shares)</b>	3866
<b>Listing stock exchange of H Shares</b>	Hong Kong Stock Exchange		
<b>Stock abbreviation (offshore preference shares)</b>	BQD 17USDPREF	<b>Stock code (offshore preference shares)</b>	4611
<b>Listing stock exchange of offshore preference shares</b>	Hong Kong Stock Exchange		
<b>Company name in Chinese</b>	青島銀行股份有限公司		
<b>Abbreviation in Chinese</b>	青島銀行		
<b>Company name in English</b>	BANK OF QINGDAO CO., LTD.		
<b>Abbreviation in English</b>	BANK OF QINGDAO		
<b>Legal representative</b>	GUO Shaoquan		
<b>Authorized representatives</b>	GUO Shaoquan, LU Lan		
<b>Joint company secretaries</b>	LU Lan, YU Wing Sze		
<b>Registered address</b>	Building 3, No. 6 Qinling Road, Laoshan District, Qingdao, Shandong Province, the PRC		
<b>Postal code of registered address</b>	266061		
<b>Office address</b>	No. 6 Qinling Road, Laoshan District, Qingdao, Shandong Province, the PRC		
<b>Postal code of office address</b>	266061		
<b>Registered office address in Hong Kong</b>	31st Floor, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong		
<b>Company website</b>	<a href="http://www.qdccb.com/">http://www.qdccb.com/</a>		
<b>Email</b>	ir@qdbankchina.com		

## SECTION II CORPORATE INFORMATION AND KEY FINANCIAL HIGHLIGHTS

### II. CONTACT PERSONS AND CONTACT INFORMATION

Item	Secretary to the Board	Securities Affairs Representative
<b>Name</b>	LU Lan	LU Zhenzhen
<b>Address</b>	No. 6 Qinling Road, Laoshan District, Qingdao, Shandong Province, the PRC	No. 6 Qinling Road, Laoshan District, Qingdao, Shandong Province, the PRC
<b>Tel</b>	+86 40066 96588 ext. 6	+86 40066 96588 ext. 6
<b>Fax</b>	+86 (532) 85783866	+86 (532) 85783866
<b>Email</b>	ir@qdbankchina.com	ir@qdbankchina.com

### III. OTHER INFORMATION

#### (I) Contact information of the Bank

The registered address, office address and the corresponding postal code, our website and email address have not changed during the Reporting Period. Please refer to 2019 Annual Report for details.

#### (II) Information disclosure and place of inspection

The newspapers designated by the Bank for information disclosure, the websites designated by the CSRC that publish the interim report, and the place of inspection for interim report of the Bank remain unchanged during the Reporting Period. Please refer to 2019 Annual Report for details.

#### (III) Other relevant information

During the Reporting Period, there were no changes in other relevant information of the Bank.

### IV. KEY ACCOUNTING DATA AND FINANCIAL INDICATORS

Item	January to June 2020	January to June 2019	Year-on-year change
<b>Business performance (RMB'000)</b>			<b>Change (%)</b>
Net interest income	<b>3,916,476</b>	3,144,543	24.55
Net non-interest income	<b>2,187,663</b>	1,390,025	57.38
Operating income	<b>6,104,139</b>	4,534,568	34.61
Operating expenses	<b>(1,456,874)</b>	(1,266,489)	15.03
Credit impairment losses	<b>(2,787,723)</b>	(1,428,195)	95.19
Profit before taxation	<b>1,859,542</b>	1,839,884	1.07
Net profit	<b>1,564,491</b>	1,466,129	6.71
Net profit attributable to shareholders of the Bank	<b>1,530,517</b>	1,438,462	6.40
<b>Per share (RMB)</b>			<b>Change (%)</b>
Basic earnings per share <sup>(1)</sup>	<b>0.34</b>	0.32	6.25
Diluted earnings per share <sup>(1)</sup>	<b>0.34</b>	0.32	6.25

## SECTION II CORPORATE INFORMATION AND KEY FINANCIAL HIGHLIGHTS

Item	30 June 2020	31 December 2019	Change from the end of last year
<b>Scale indicators (RMB'000)</b>			<b>Change (%)</b>
Total assets <sup>(2)</sup>	<b>440,522,009</b>	373,622,150	17.91
Loans and advances to customers:			
Total loans to customers <sup>(2)</sup>	<b>202,801,470</b>	172,795,443	17.37
Add: Accrued interest	<b>819,081</b>	772,480	6.03
Less: Provision for impairment on loans and advances to customers measured at amortized cost	<b>(5,367,861)</b>	(4,409,632)	21.73
Loans and advances to customers	<b>198,252,690</b>	169,158,291	17.20
Provision for loan impairment	<b>(5,382,793)</b>	(4,422,549)	21.71
Of which: Impairment provision for loans and advances to customers at fair value through other comprehensive income	<b>(14,932)</b>	(12,917)	15.60
Total liabilities <sup>(2)</sup>	<b>409,596,859</b>	343,144,232	19.37
Deposits from customers:			
Total deposits from customers <sup>(2)</sup>	<b>263,770,974</b>	212,790,909	23.96
Add: Accrued interest	<b>3,000,389</b>	2,634,494	13.89
Deposits from customers	<b>266,771,363</b>	215,425,403	23.83
Share capital	<b>4,509,690</b>	4,509,690	–
Equity attributable to shareholders of the Bank	<b>30,328,718</b>	29,915,460	1.38
Equity attributable to shareholders	<b>30,925,150</b>	30,477,918	1.47
Net capital base	<b>38,182,206</b>	39,252,505	(2.73)
Of which: Net core tier-one capital	<b>22,682,116</b>	22,224,697	2.06
Other tier-one capital	<b>7,911,814</b>	7,901,623	0.13
Tier-two capital	<b>7,588,276</b>	9,126,185	(16.85)
Total risk-weighted assets	<b>279,038,666</b>	265,908,365	4.94
<b>Per share (RMB/share)</b>			<b>Change (%)</b>
Net assets per share attributable to shareholders of the Bank <sup>(3)</sup>	<b>4.98</b>	4.89	1.84



## SECTION II CORPORATE INFORMATION AND KEY FINANCIAL HIGHLIGHTS

Item	January to June 2020	January to June 2019	Year-on-year change
<b>Profitability indicators (%)</b>			
Return on average total asset <sup>(4)</sup> (annualized)	<b>0.77</b>	0.88	(0.11)
Weighted average return on net assets <sup>(1)</sup> (annualized)	<b>13.56</b>	13.49	0.07
Net interest spread <sup>(5)</sup> (annualized)	<b>2.08</b>	2.03	0.05
Net interest margin <sup>(6)</sup> (annualized)	<b>2.12</b>	2.06	0.06
Net fee and commission income to operating income	<b>18.33</b>	12.81	5.52
Cost-to-income ratio <sup>(7)</sup>	<b>22.72</b>	26.84	(4.12)

Item	30 June 2020	31 December 2019	Change from the end of last year
<b>Asset quality indicators (%)</b>			
Non-performing loan ratio	<b>1.63</b>	1.65	(0.02)
Provision coverage ratio	<b>163.00</b>	155.09	7.91
Loan provision ratio	<b>2.65</b>	2.56	0.09
<b>Indicators of capital adequacy ratio (%)</b>			
Core tier-one capital adequacy ratio <sup>(8)</sup>	<b>8.13</b>	8.36	(0.23)
Tier-one capital adequacy ratio <sup>(8)</sup>	<b>10.96</b>	11.33	(0.37)
Capital adequacy ratio <sup>(8)</sup>	<b>13.68</b>	14.76	(1.08)
Total equity to total assets ratio	<b>7.02</b>	8.16	(1.14)
<b>Other indicators (%)</b>			
Liquidity coverage ratio	<b>160.02</b>	142.27	17.75
Liquidity ratio	<b>76.83</b>	68.84	7.99

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## SECTION II CORPORATE INFORMATION AND KEY FINANCIAL HIGHLIGHTS

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*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) (《公開發行證券的公司信息披露編報規則第9號—淨資產收益率和每股收益的計算及披露》(2010年修訂)). The Bank issued offshore preference shares in September 2017. Therefore, in calculating weighted average return on net assets, the effect from preference shares has been deducted from the “weighted average net assets”.
- (2) For details of the structure of total assets, total liabilities, total loans to customers and total deposits from customers, please refer to “4. Analysis of Major Items of the Statement of Financial Position in Section IV Management Discussion and Analysis” of this report.
- (3) Net assets per share attributable to ordinary shareholders of the Bank = (equity attributable to shareholders of the Bank - other equity instruments)/the number of ordinary shares as at the end of the period.
- (4) Return on average total assets = net profit/average balance of total assets at the beginning and at the end of the period, of which total assets at the beginning of 2019 is the balance after the adoption of International Financial Reporting Standard 16 Leases.
- (5) Net interest spread = average yield of interest-earning assets - average cost rate of interest-bearing liabilities.
- (6) Net interest margin = net interest income/average interest-earning assets.
- (7) Cost-to-income ratio = (operating expenses - tax and surcharges)/operating income.
- (8) The relevant indicators of capital adequacy ratio 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.

## SECTION II CORPORATE INFORMATION AND KEY FINANCIAL HIGHLIGHTS

### V. ACCOUNTING DATA DIFFERENCE UNDER DOMESTIC AND FOREIGN ACCOUNTING STANDARDS

The net profits during the Reporting Period and the equity attributable to shareholders as at the end of the Reporting Period as disclosed in the financial statements of the Company prepared in accordance with Accounting Standards for Business Enterprises are consistent with those disclosed in the interim financial report of the Company prepared in accordance with International Accounting Standards.

### VI. SUPPLEMENTARY INDICATORS

	Regulatory standard	30 June 2020	31 December 2019	31 December 2018
<b>Customer loan ratio (%)</b>				
Single largest customer loan ratio	≤10	<b>6.29</b>	5.86	4.16
Ten largest customers loan ratio	≤50	<b>47.81</b>	38.26	29.06

		30 June 2020	31 December 2019	31 December 2018
<b>Migration rate (%)</b>				
Normal loan migration rate		<b>0.91</b>	1.29	3.06
Special mention loan migration rate		<b>50.24</b>	52.47	44.53
Substandard loan migration rate		<b>4.61</b>	88.01	36.28
Doubtful loan migration rate		<b>10.08</b>	10.91	21.41

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## SECTION III BUSINESS OVERVIEW

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### I. PRINCIPAL BUSINESS

The Bank, formerly known as Qingdao City Cooperative Bank and Qingdao City Commercial Bank, was established in November 1996 and is headquartered in Qingdao, Shandong Province. Having experienced several years of development, the Bank has constantly improved in terms of corporate governance, risk management and control and IT construction, and has developed distinctive features of “sound governance, attentive service, solid risk control and prominent technology”. In December 2015, the Bank’s H Shares were listed on the Hong Kong Stock Exchange; in January 2019, the Bank’s A Shares were listed on the SZSE.

The Bank mainly offers several services and products such as corporate and personal deposits, loans, payment and settlement to its customers, and its development is driven by three major business segments including retail banking, corporate banking and financial markets, which have formed a stronger customer base and shaped new financial business model of distinctive and high-quality development. The Bank’s business is based in Qingdao with a footprint extending to other regions of Shandong Province. As at the end of the Reporting Period, there were 14 branches in major cities of Shandong Province such as Jinan, Yantai and Weihai. The total number of business outlets reached 143. In February 2017, the Bank initiated the establishment of BQD Financial Leasing Company Limited. In February 2020, the Bank was approved to establish Qingyin Wealth Management Company Limited (“**Qingyin Wealth Management**”), which is proposed to be established solely by the Bank. As at the end of the Reporting Period, the Bank had more than 4,000 employees.

As at the end of the Reporting Period, total assets of the Company amounted to RMB440.522 billion, total liabilities amounted to RMB409.597 billion, capital adequacy ratio was 13.68%, and non-performing loan ratio was 1.63%, down by 0.02 percentage point as compared with that at the end of the previous year. During the Reporting Period, the accumulated net profit was RMB1.564 billion, representing an increase of 6.71% over the same period of last year.

### II. ANALYSIS OF THE CORE COMPETITIVENESS

Centering on the development vision of “Innovative Finance, Brilliant Banking”, the Bank is firmly committed to the strategic goal of “being a technology-driven bank that offers new quality financial products with lean management and outstanding features”, and its sustainable development capacity is constantly enhanced. The Bank’s core competitiveness is mainly reflected in:

#### 1. **The high-quality and diversified shareholder structure and market-oriented management team have laid a solid foundation for corporate governance and business development.**

After years of careful layout, the Bank has gradually formed a diversified shareholding structure covering private enterprises, overseas investors, professional institutional investors, state-owned legal entities and public shareholders, which is a typical representative of mixed ownership. The Bank’s major shareholders have a balanced shareholding ratio and are all stable long-term investors who can act in a scientific and reasonable manner in accordance with the laws to support the Bank’s long-term development. The senior management team of the Bank is hired through market-oriented recruitment and has a strong industry knowledge and market-oriented management philosophy.

- 2. By keeping its distinctive development features of “attentive service”, the Bank optimizes customer journey and increases its value.** The Bank’s service strategy with a focus on high-quality services forms its core competitiveness, and the Bank continues to carry out experience-based service management centering the concepts of “customer-centric” and “market-oriented”. The Bank focuses on designing a “warm and valuable” customer journey, builds new business halls that prioritize “operation, connection and experience”, provides new model of digital service experience with its “smart lobby” system, and highlights “technology” and “care” in the service to reshape the service process. The Bank started its innovations from the idea of smart customer service through the deployment and application of smart service robots, so as to improve online customer interaction and experience, expand the breadth and depth of online services, and create a new “care-centered customer service” model. The Bank takes users’ feedback well and understands their needs and concerns. It established a management mechanism that integrates product experience and “The Voice of Customers”, which has formed a closed loop of user journey optimization of “diagnosis-optimization-monitoring-upgrade”. The Bank continues to improve its service experience and create new advantages of business operations in attracting customers and expanding our customer base.
- 3. The Bank takes various measures to prevent and control risks and has established a sound risk management and control system.** With the “prudent and steady” risk appetite, the Bank has built a “three-in-one” risk management system of “prevention, management and control” as well as a comprehensive, professional, vertical and independent risk management organizational structure. The Bank innovates the risk management mechanism, improves the management mechanism of risk appetite, and enhances the efficiency of risk management as well as quality and efficiency of serving the real economy through mechanism innovation. Leveraging on the utilization of financial technology, the Bank continues to exert efforts to extend the application of risk technology and promotes the building of risk management techniques and tools. With proactive risk management thinking and professional risk management model, the Bank has ensured a stable and sound asset quality. The non-performing loan ratio continues to be lower than the average levels of the PRC and Shandong Province, and the risk resilience is in good condition.
- 4. The Bank utilizes financial technology and continuously enhanced its technology-empowered capability.** The Bank implements the strategy of “prominent technology” at level of the whole Bank, continues to invest in the construction of information technology systems and the cultivation of technological talents based on the new financial concept of “Finance + Technology + Scenarios”, actively explores the practical application of new technologies. The Bank focused on advancing the in-depth integration of new technologies and businesses such as 5G, big data and biometrics, with the construction in key projects including mobile internet, big data, cloud computing and other fields, and the strategic support capability of technology for business development as well as risk prevention and control has been significantly enhanced.

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## SECTION III BUSINESS OVERVIEW

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- 5. Retail finance accelerates updates with remarkable results regarding the transformation into online retail.** The Bank grasped the current non-cash and online trend in retail business to continue to optimize the virtual channels and innovate the service model for client acquisition integrating online and offline. At the same time, the Bank has carried out strategic cooperation with a number of leading Internet companies to vigorously promote the construction of key projects including wealth management, rural finance and inclusive finance, so as to gradually build a retail banking ecosystem covering all life scenarios.
- 6. The Bank focused on strengthening key areas in the corporate finance and promoted coordinated integration empowerment.** In the field of corporate banking, the Bank adapts to changes in the social financing structure and customer needs, and has deepened its efforts in key areas such as public finance, technology finance, port finance, cultural and creative finance, investment banking, etc. through cross-line collaboration and internal collaboration covering the whole Group. The Bank continuously broadens and deepens its customer base, resulting in a significant improvement in customers' comprehensive operating capabilities.
- 7. Improving quality and efficiency in the financial market and continuously strengthening coordination capability.** The Bank leveraged on advantage of business qualification as a bank corporation to continuously increase the type of bond products and improve its influence on the bond market based on business innovation, thus greatly expanding its bond underwriting business. The Bank continuously increased synergy between product centers and customer centers, effectively improved customer base management and asset organization capabilities, and provided effective support for its business development through fully leveraging on various measures including investment and liability linkage as well as asset securitization.

### 1. OVERVIEW

In the first half of 2020, the novel coronavirus epidemic spread rapidly around the world and caused a severe global economic recession. China has taken stringent and effective prevention and control measures against the epidemic. Domestic industries have resumed operation and production steadily and domestic economic order has gradually recovered. The impact of the epidemic was short-term and has not disrupted the long-term trend of China's economy registering a stable performance with good momentum for growth. Meanwhile, the economy in Shandong Province and Qingdao showed an upward trend. As operation and production fully resume, production and normal life have been restored in Shandong Province and Qingdao and the fundamentals of economic development are strengthening. Shandong Province has facilitated "Stability in Six Areas" and "Six Priorities" and firmly implemented measures to boost consumption, enhance investments and stabilize foreign trade and investments, which have contributed to the gradual improvement of and a rebound in major economic indicators. Qingdao has also shown increasing positive changes, with its production and demand continuing to improve, local industries and service industries showing signs of recovery, the commercial and trade markets recovering, import and export maintaining steady growth, and total positive factors increasing.

### 2. SUMMARY OF OVERALL OPERATIONS

#### 2.1 Status of Key Operational Indicators Achievements

- (1) Total assets amounted to RMB440.522 billion, representing an increase of RMB66.900 billion or 17.91% as compared with that at the end of the previous year, achieving rapid growth;
- (2) Total loans to customers amounted to RMB202.801 billion, representing an increase of RMB30.006 billion or 17.37% as compared with that at the end of the previous year, maintaining rapid growth;
- (3) Total deposits from customers amounted to RMB263.771 billion, representing an increase of RMB50.980 billion or 23.96% as compared with that at the end of the previous year, achieving rapid growth, with the growth rate in the first half of the year hitting a new high since 2015;
- (4) Operating income amounted to RMB6.104 billion, representing a year-on-year increase of RMB1.570 billion or 34.61%, maintaining rapid growth; net profit amounted to RMB1.564 billion, representing a year-on-year increase of RMB98 million or 6.71%;

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## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

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- (5) Non-performing loan ratio was 1.63%, representing a decrease of 0.02 percentage point as compared with that at the end of the previous year, with asset quality remaining basically stable; provision coverage ratio was 163.00%, representing an increase of 7.91 percentage points as compared with that at the end of the previous year, with improved ability to resist risks; capital adequacy ratio was 13.68%, representing a decrease of 1.08 percentage points as compared with that at the end of the previous year, which was mainly attributed to the faster business development of the Company, a considerable increase in risk-weighted assets and the exercise of the redemption option of tier-two capital bonds of RMB2.2 billion;
- (6) Return on average total assets was 0.77%, representing a year-on-year decrease of 0.11 percentage point, which was mainly attributed to the Company's business development and the increase in the size of assets, and the rapid year-on-year growth in average total assets;
- (7) Basic earnings per share was RMB0.34, representing a year-on-year increase of RMB0.02; weighted average return on net assets was 13.56%, representing a year-on-year increase of 0.07 percentage point, mainly due to the increase in net profit attributable to shareholders of the Bank.

### 2.2 Major Tasks of Operation and Management

- (1) Demonstrate responsibility for helping take initiative to fight against the prevention and control of the outbreak of the COVID-19 pandemic. The Bank implemented the requirements of the Party Central Committee on "Stabilization of Six Aspects" and "Six Priorities" and took multiple measures to combat against the coronavirus. The Bank opened a green channel for payment and credit, ensured the efficient remittance of anti-coronavirus funds at all finance levels, and issued Qingdao's first anti-coronavirus loans and loans for resuming work and production. The Bank also launched a variety of inclusive financial products such as the "Shi Yi Loan\* (食宜貸)" loan product and the "Anti-Coronavirus Discount\* (抗疫貼)" discount product, while utilized relending and rediscounting and other low-cost policy funds to benefit enterprises. During the pandemic, the Bank invested a total of RMB8.026 billion special credit funds to support enterprises in fighting against the coronavirus and resuming work and production, cooperating with enterprises to overcome the difficulties. The Bank also made donations to affected areas and first-line medical staffs to demonstrate responsibility and commitment.



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## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

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- (2) Improve in both business and management, supporting deposits for breakthroughs. During the Reporting Period, the Bank activated the “Enhancement Plan 2.0-improvement on both business and management”. With improving operational efficiency as its core task, the Bank carried out various management improvement measures by focusing on development empowered by technology, transformation in business approval and operational management optimization, and achieved high-quality development in the Bank’s business. During the period of the enhancement activity, the Bank leveraged on the national counter-cyclical adjustment policies, grasped the window of development brought by the relatively abundant liquidity, and the balance of deposits broke through and stood firm at the RMB260 billion mark as at the end of the period, amounting to RMB263.771 billion, which increased by RMB50.980 billion within half a year, representing an increase of 23.96%.
- (3) Accelerate update with remarkable results regarding the transformation into online retail. With non-cash and online being the trend in retail business, the number of active users and the transaction volume of the Bank’s mobile banking services increased significantly, mobile banking has become the main area regarding our operations and customer services. The continuous optimization of virtual channels and the “APP + Outlet” interaction facilitated rapid growth in savings deposits. The Bank will continue its plan in new territories of retail development to ensure smooth promotion of agricultural aid businesses and community banking businesses.
- (4) Coordinated by integration empowerment, wholesale business achieved key breakthroughs. During the Reporting Period, the Bank kept close eyes on bond issuance business opportunities by focusing on target clients in public finance and the “Two New and One Major (兩新一重)”, being new infrastructure construction, new urbanization construction, transportation, water conservancy and other major construction projects, and by cross-line collaborations, bank-government-enterprise linkage, online-offline linkage, front-middle-back end linkage, and on balance sheet and off balance sheet linkage, the Bank achieved remarkable results. With various first implementations of business within the country and provinces, significant business qualifications regarding bonds and derivatives were approved. As the “dual-base strategy” and “network construction” progressed smoothly, the Company officially launched its line CRM system, corporate mobile banking, “Qing E-Payment (青E繳)” and others, continuously enhancing its wholesale business capability.

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## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

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- (5) The approval of Qingyin Wealth Management led to significant increase in the intermediary income from wealth management. During the Reporting Period, the Bank was approved to establish Qingyin Wealth Management, which is proposed to be established solely by the Bank. Qingyin Wealth Management is the first wealth management subsidiary of a city commercial bank approved in the north of the Yangtze River area and the sixth in the PRC. During the Reporting Period, based on the consolidation of the size of RMB100 billion, the balance of the Bank's wealth management business continued to grow steadily, the scale of wealth management assets surpassed RMB120 billion, and the intermediary income from wealth management business doubled year-on-year, showing remarkable effect on net-worth transformation.
- (6) Utilizing financial technology to open up new vistas for smart banking. The first "5G + Ecosystem" smart bank in Shandong Province, being the Bank's flagship sub-branch entered its trial operation, which created good customer experiences and received positive feedback, establishing a promising start for the intelligent lobby transformation. 108 outlets of the Bank have opened up the smart outlet service model, effectively relieving pressure of counters and enhancing service quality and efficiency. The Bank focused on advancing the in-depth integration of new technologies and businesses such as 5G, big data and biometrics, and completed the construction of projects such as face recognition offline payment, and identity authentication system in mobile channels based on voiceprint recognition, to promote the Bank's smart banking services transformation.

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

### 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 taxation amounted to RMB1.860 billion, representing a year-on-year increase of RMB20 million or 1.07%; net profit amounted to RMB1.564 billion, representing a year-on-year increase of RMB98 million or 6.71%; and effective income tax rate was 15.87%, representing a year-on-year decrease of 4.45 percentage points, which was mainly due to the increase in tax-free income from the Company's central government bonds, local government bonds and funds. The following table sets forth the changes in the Company's major profit items during the periods indicated.

*Unit: RMB'000*

Item	January to June 2020	January to June 2019	Change in amount	Change (%)
Net interest income	3,916,476	3,144,543	771,933	24.55
Net fee and commission income	1,118,788	580,810	537,978	92.63
Net trading gains, net gains arising from investments and other operating income, net	1,068,875	809,215	259,660	32.09
Operating expenses	(1,456,874)	(1,266,489)	(190,385)	15.03
Credit impairment losses	(2,787,723)	(1,428,195)	(1,359,528)	95.19
Profit before taxation	1,859,542	1,839,884	19,658	1.07
Income tax	(295,051)	(373,755)	78,704	(21.06)
<b>Net profit</b>	<b>1,564,491</b>	1,466,129	98,362	6.71
Of which: Net profit attributable to shareholders of the Bank	1,530,517	1,438,462	92,055	6.40
Net profit attributable to non-controlling interests	33,974	27,667	6,307	22.80

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

### 3.2 Operating Income

During the Reporting Period, the Company's operating income amounted to RMB6.104 billion, representing a year-on-year increase of RMB1.570 billion or 34.61%, mainly due to the increase in the scale of the Company and the optimization of structure, maintaining a rapid increase in net interest income; wealth management and credit card businesses developed rapidly, resulting in the rapid growth in net fee and commission income. Among the operating income, net interest income accounted for 64.16%, representing a year-on-year decrease of 5.19 percentage points, and net fee and commission income accounted for 18.33%, representing a year-on-year increase of 5.52 percentage points. The following table sets forth the principal components of the Company's operating income and the changes during the periods indicated.

Unit: RMB'000

Item	January to June 2020		January to June 2019		Percentage changes (percentage point)
	Amount	Percentage (%)	Amount	Percentage (%)	
Net interest income	3,916,476	64.16	3,144,543	69.35	(5.19)
Interest income	8,220,426	134.67	6,825,818	150.53	(15.86)
Among which: Loans and advances to customers	4,915,647	80.53	3,441,917	75.90	4.63
Financial investments	2,636,940	43.20	2,685,687	59.23	(16.03)
Deposits with banks and other financial institutions	3,733	0.06	8,670	0.19	(0.13)
Placements with banks and other financial institutions	74,377	1.22	142,484	3.14	(1.92)
Deposits with central bank	173,372	2.84	168,832	3.72	(0.88)
Financial assets held under resale agreements	105,924	1.74	133,225	2.94	(1.20)
Long-term receivables	310,433	5.09	245,003	5.40	(0.31)
Interest expense	(4,303,950)	(70.51)	(3,681,275)	(81.18)	10.67
Net non-interest income	2,187,663	35.84	1,390,025	30.65	5.19
Among which: Net fee and commission income	1,118,788	18.33	580,810	12.81	5.52
Other net non-interest income	1,068,875	17.51	809,215	17.85	(0.34)
Operating income	6,104,139	100.00	4,534,568	100.00	-

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

### 3.3 Net Interest Income

During the Reporting Period, the Company's net interest income amounted to RMB3.916 billion, representing a year-on-year increase of RMB772 million or 24.55%, mainly due to increase in the scale of the Company, the optimization of structure, the decrease in the cost rate of interbank and bond liabilities and the increase in net interest margin. 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*

Item	January to June 2020			January to June 2019		
	Average balance	Interest income/expense	Average yield/cost rate	Average balance	Interest income/expense	Average yield/cost rate
<b>Interest-earning assets</b>						
Loans and advances to customers	190,112,744	4,915,647	5.20%	137,694,343	3,441,917	5.04%
Financial investment	125,590,006	2,636,940	4.22%	117,755,709	2,685,687	4.60%
Deposits and placements with banks and other financial institutions <sup>(1)</sup>	20,736,264	184,034	1.78%	21,055,983	284,379	2.72%
Deposits with central bank	24,063,776	173,372	1.45%	22,209,675	168,832	1.53%
Long-term receivables	10,789,667	310,433	5.79%	8,590,242	245,003	5.75%
<b>Total</b>	<b>371,292,457</b>	<b>8,220,426</b>	<b>4.45%</b>	<b>307,305,952</b>	<b>6,825,818</b>	<b>4.48%</b>
<b>Interest-bearing liabilities</b>						
Borrowings from central bank	6,374,878	92,296	2.91%	11,081,843	172,514	3.14%
Deposits from customers	227,844,871	2,290,323	2.02%	176,323,940	1,591,835	1.82%
Deposits and placements from banks and other financial institutions <sup>(2)</sup>	49,013,154	571,345	2.34%	46,107,855	659,773	2.89%
Debt securities issued	82,268,328	1,349,986	3.30%	69,715,302	1,257,153	3.64%
<b>Total</b>	<b>365,501,231</b>	<b>4,303,950</b>	<b>2.37%</b>	<b>303,228,940</b>	<b>3,681,275</b>	<b>2.45%</b>
<b>Net interest income</b>	/	<b>3,916,476</b>	/	/	<b>3,144,543</b>	/
<b>Net interest spread</b>	/	/	<b>2.08%</b>	/	/	<b>2.03%</b>
<b>Net interest margin</b>	/	/	<b>2.12%</b>	/	/	<b>2.06%</b>

*Notes:*

- Deposits and placements with banks and other financial institutions include financial assets held under resale agreements.
- Deposits and placements from banks and other financial institutions include financial assets sold under repurchase agreements.

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

During the Reporting Period, the average balance of interest-earning assets was RMB371.292 billion, representing a year-on-year increase of RMB63.987 billion or 20.82%, mainly due to the Company's business development and the increase in loan size. Net interest spread was 2.08%, representing a year-on-year increase of 0.05 percentage point. Net interest margin was 2.12%, representing a year-on-year increase of 0.06 percentage point, mainly due to the continued promotion of the Company's structural adjustment and loans maintaining rapid growth. Finance costs of interbank and bond issuance decreased while the scale of liabilities increased.

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

Item	January to June 2020 vs. January to June 2019		
	Due to volume	Due to rate	Net increase (decrease)
<b>Assets</b>			
Loans and advances to customers	1,364,176	109,554	1,473,730
Financial investment	173,766	(222,513)	(48,747)
Deposits and placements with banks and other financial institutions	(1,923)	(98,422)	(100,345)
Deposits with central bank	13,375	(8,835)	4,540
Long-term receivables	63,721	1,709	65,430
<b>Interest income changes</b>	<b>1,613,115</b>	<b>(218,507)</b>	<b>1,394,608</b>
<b>Liabilities</b>			
Borrowings from central bank	(67,544)	(12,674)	(80,218)
Deposits from customers	523,128	175,360	698,488
Deposits and placements from banks and other financial institutions	37,676	(126,104)	(88,428)
Debt securities issued	210,701	(117,868)	92,833
<b>Interest expense changes</b>	<b>703,961</b>	<b>(81,286)</b>	<b>622,675</b>
<b>Net interest income changes</b>	<b>909,154</b>	<b>(137,221)</b>	<b>771,933</b>

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

### 3.4 Interest Income

During the Reporting Period, the Company's interest income was RMB8.220 billion, representing a year-on-year increase of RMB1.395 billion or 20.43%, mainly due to the increase in the Company's loan size. The interest income from loans and advances to customers and from financial investments constituted major components 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 RMB4.916 billion, representing a year-on-year increase of RMB1.474 billion or 42.82%, mainly due to the continuous expansion of the scale of credit supply by the Company under controllable risks. 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*

Item	January to June 2020			January to June 2019		
	Average balance	Interest income	Average yield	Average balance	Interest income	Average yield
Corporate loans	124,338,086	3,317,073	5.36%	83,599,410	2,127,391	5.13%
Personal loans	57,726,866	1,470,654	5.12%	43,305,566	1,102,518	5.13%
Discounted bills	8,047,792	127,920	3.20%	10,789,367	212,008	3.96%
<b>Total</b>	<b>190,112,744</b>	<b>4,915,647</b>	<b>5.20%</b>	<b>137,694,343</b>	<b>3,441,917</b>	<b>5.04%</b>

#### ***Interest income from financial investments***

During the Reporting Period, the Company's interest income from financial investments was RMB2.637 billion, representing a year-on-year decrease of RMB49 million or 1.82%, mainly due to the fact that in the face of the lenient monetary policies in the first half of the year and the downward trend of the rate of return on investment, the Company moderately adjusted the investment scale to keep interest income from investments basically stable.

#### ***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 RMB184 million, representing a year-on-year decrease of RMB100 million or 35.29%, mainly attributable to the decline in interbank market interest rates and the Company's adjustment of capital allocation to reduce the scale of placements with banks and other financial institutions.

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

### 3.5 Interest Expense

During the Reporting Period, the Company's interest expenses amounted to RMB4.304 billion, representing a year-on-year increase of RMB623 million or 16.91%, mainly due to the satisfactory development of the Company's deposit business and the rapid growth of interest expenses on deposits. Interest expenses on deposits from customers and debt securities issued were major components of the 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 RMB2.290 billion, representing a year-on-year increase of RMB698 million or 43.88%, mainly due to the expansion of the scale of the Company's deposit business and the rapid increase in interest expenses on deposits. 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

Item	January to June 2020			January to June 2019		
	Average balance	Interest expense	Average cost rate	Average balance	Interest expense	Average cost rate
<b>Corporate deposits</b>						
Demand	82,887,495	340,811	0.83%	68,776,120	257,471	0.75%
Time	72,403,656	1,024,929	2.85%	48,880,541	643,916	2.66%
Sub-total	155,291,151	1,365,740	1.77%	117,656,661	901,387	1.54%
<b>Personal deposits</b>						
Demand	20,790,952	31,373	0.30%	18,282,267	27,430	0.30%
Time	51,762,768	893,210	3.47%	40,385,012	663,018	3.31%
Sub-total	72,553,720	924,583	2.56%	58,667,279	690,448	2.37%
<b>Total</b>	<b>227,844,871</b>	<b>2,290,323</b>	<b>2.02%</b>	<b>176,323,940</b>	<b>1,591,835</b>	<b>1.82%</b>

#### *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 RMB571 million, representing a year-on-year decrease of RMB88 million or 13.40%, mainly due to the decline in interbank market interest rates and the decrease in cost rate of deposits and placements from banks and other financial institutions.



## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

### ***Interest expense on debt securities issued***

During the Reporting Period, the Company's interest expense on debt securities issued amounted to RMB1.350 billion, representing a year-on-year increase of RMB93 million or 7.38%, mainly due to the fact that the Company actively grasped the interest rate downward trend in bond markets and appropriately increased the issuance of bonds, resulting in a lower increase in interest expense on debt securities issued.

### **3.6 Net Non-interest Income**

During the Reporting Period, the Company's net non-interest income was RMB2.188 billion, representing a year-on-year increase of RMB798 million or 57.38%, mainly due to an increase in net fee and commission income as a result of the rapid development of the Company's wealth management and credit card businesses. The following table sets forth the main components of the Company's net non-interest income for the periods indicated.

*Unit: RMB'000*

<b>Item</b>	<b>January to June 2020</b>	January to June 2019
Fee and commission income	<b>1,182,905</b>	614,082
Less: Fee and commission expense	<b>(64,117)</b>	(33,272)
Net fee and commission income	<b>1,118,788</b>	580,810
Net trading gains, net gains arising from investments and other operating income, net	<b>1,068,875</b>	809,215
<b>Total net non-interest income</b>	<b>2,187,663</b>	1,390,025

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

### 3.7 Net Fee and Commission Income

During the Reporting Period, the Company's net fee and commission income amounted to RMB1.119 billion, representing a year-on-year increase of RMB538 million or 92.63%, mainly due to an increase in fee and commission income as a result of the rapid development of the Company's wealth management and credit card businesses. The following table sets forth the main components of the Company's net fee and commission income for the periods indicated.

*Unit: RMB'000*

Item	January to June 2020	January to June 2019
<b>Fee and commission income</b>	<b>1,182,905</b>	614,082
Of which: Wealth management service fees	<b>672,692</b>	318,278
Agency service fees	<b>227,747</b>	155,930
Custody and bank card service fees	<b>154,074</b>	37,535
Financial leasing fees	<b>92,729</b>	71,688
Settlement fees	<b>19,636</b>	17,798
Others	<b>16,027</b>	12,853
Less: Fee and commission expense	<b>(64,117)</b>	(33,272)
<b>Net fee and commission income</b>	<b>1,118,788</b>	580,810

During the Reporting Period, the Company's wealth management service fees amounted to RMB673 million, representing a year-on-year increase of RMB354 million or 111.35%, mainly due to the greater contribution to income from intermediary business resulting from increase in the Company's wealth management product scale; agency service fees amounted to RMB228 million, representing a year-on-year increase of RMB72 million or 46.06%, mainly due to an increase in commission fee from the sales agency business for trust products; custody and bank card service fees amounted to RMB154 million, representing a year-on-year increase of RMB117 million or 310.48%, mainly due to a continuous increase in relevant service fees income as a result of the rapid development of the credit card business.

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

### 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 RMB1.069 billion, representing a year-on-year increase of RMB260 million or 32.09%, mainly due to the fact that the Company appropriately adjusted the investment scale by grasping the bond market trend, and income from financial investments at fair value through other comprehensive income increased and the impact of exchange rate fluctuations. The following table sets forth the main 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*

<b>Item</b>	<b>January to June 2020</b>	January to June 2019
Net trading gains	<b>130,994</b>	15,362
Net gains arising from investments	<b>909,014</b>	785,541
Other operating income, net	<b>28,867</b>	8,312
<b>Total</b>	<b>1,068,875</b>	809,215

### 3.9 Operating Expenses

During the Reporting Period, the Company's operating expenses amounted to RMB1.457 billion, representing a year-on-year increase of RMB190 million or 15.03%. In particular, staff costs increased by RMB113 million or 16.23% on a year-on-year basis, mainly due to business development and the increase in personnel. The following table sets forth the main components of the Company's operating expenses for the periods indicated.

*Unit: RMB'000*

<b>Item</b>	<b>January to June 2020</b>	January to June 2019
Staff costs	<b>809,949</b>	696,838
Property and equipment expenses	<b>270,774</b>	283,311
Tax and surcharges	<b>69,765</b>	49,349
Other general and administrative expenses	<b>306,386</b>	236,991
<b>Total operating expenses</b>	<b>1,456,874</b>	1,266,489

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

### 3.10 Credit Impairment Losses

During the Reporting Period, the Company's credit impairment losses amounted to RMB2.788 billion, representing a year-on-year increase of RMB1.36 billion or 95.19%. Credit impairment losses from loans and advances to customers constituted the largest component of the credit impairment losses. The following table sets forth the main components of the Company's credit impairment losses for the periods indicated.

*Unit: RMB'000*

<b>Item</b>	<b>January to June 2020</b>	January to June 2019
Deposits with banks and other financial institutions	210	51
Placements with banks and other financial institutions	(10,126)	(4,029)
Financial assets held under resale agreements	7,456	(122)
Loans and advances to customers	1,944,777	1,382,222
Financial investments measured at amortized cost	735,614	(75,701)
Financial investments at fair value through other comprehensive income	(28,239)	63,809
Long-term receivables	134,237	58,718
Credit commitments	(2,015)	(3,905)
Others	5,809	7,152
<b>Total credit impairment losses</b>	<b>2,787,723</b>	1,428,195

During the Reporting Period, credit impairment losses from loans and advances to customers amounted to RMB1.945 billion, representing a year-on-year increase of RMB563 million or 40.70%, mainly due to the fact that the Company appropriately increased provision for impairment in response to faster growth in loans and taking into consideration the increased uncertainty of the economic outlook due to the novel coronavirus epidemic, etc.

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

### 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 RMB440.522 billion, representing an increase of RMB66.9 billion or 17.91% 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 2020		31 December 2019		Change from the end of last year		31 December 2018	
	Amount	% of total	Amount	% of total	Change in amount (%)	Change in % of total	Amount	% of total
Loans and advances to customers	198,252,690	45.00	169,158,291	45.28	17.20	(0.28)	123,366,891	38.84
Financial investments measured at amortized cost	81,461,246	18.49	64,491,058	17.26	26.31	1.23	70,032,056	22.05
Financial investments measured at fair value through other comprehensive income	60,428,947	13.72	54,973,781	14.71	9.92	(0.99)	53,002,751	16.69
Financial investments measured at fair value through profit or loss	29,846,944	6.78	22,912,561	6.13	30.26	0.65	22,361,816	7.04
Cash and deposits with central bank	34,997,001	7.94	39,704,840	10.63	(11.86)	(2.69)	29,554,430	9.30
Deposits with banks and other financial institutions	2,142,587	0.49	1,312,468	0.35	63.25	0.14	1,542,437	0.49
Placements with banks and other financial institutions	1,139,412	0.26	3,313,603	0.89	(65.61)	(0.63)	4,110,464	1.29
Derivative financial assets	311,283	0.07	12,436	-	2,403.08	0.07	-	-
Financial assets held under resale agreements	13,608,775	3.09	2,325,771	0.62	485.13	2.47	300,262	0.09
Long-term receivables	11,003,918	2.50	9,037,819	2.42	21.75	0.08	7,766,698	2.44
Property and equipment	2,991,381	0.68	3,048,813	0.82	(1.88)	(0.14)	3,124,355	0.98
Right-of-use assets	822,081	0.19	818,928	0.22	0.39	(0.03)	N/A	N/A
Deferred tax assets	2,294,408	0.52	1,581,905	0.42	45.04	0.10	1,152,778	0.36
Other assets	1,221,336	0.27	929,876	0.25	31.34	0.02	1,343,564	0.43
<b>Total assets</b>	<b>440,522,009</b>	<b>100.00</b>	<b>373,622,150</b>	<b>100.00</b>	<b>17.91</b>	<b>-</b>	<b>317,658,502</b>	<b>100.00</b>

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

### 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 RMB198.253 billion, representing an increase of RMB29.094 billion or 17.20% as compared with that at the end of last year. During the Reporting Period, the Company implemented the national and local monetary policy guidelines, increased the financial support for the real economy and the support for funds needed for epidemic prevention and control, production and circulation, with loans maintaining rapid growth. 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

Item	30 June 2020		31 December 2019		Change from the end of last year		31 December 2018	
	Amount	% of total	Amount	% of total	Change in amount (%)	Change in % of total	Amount	% of total
Corporate loans	131,984,603	65.08	112,036,804	64.83	17.80	0.25	78,264,271	61.92
Personal loans	61,452,694	30.30	54,508,817	31.55	12.74	(1.25)	41,349,974	32.72
Discounted bills	9,364,173	4.62	6,249,822	3.62	49.83	1.00	6,772,625	5.36
<b>Total customer loans</b>	<b>202,801,470</b>	<b>100.00</b>	<b>172,795,443</b>	<b>100.00</b>	<b>17.37</b>	<b>-</b>	<b>126,386,870</b>	<b>100.00</b>
Add: Accrued interest	819,081	/	772,480	/	6.03	/	521,250	/
Less: Provision for impairment on loans and advances to customers measured at amortized cost	(5,367,861)	/	(4,409,632)	/	21.73	/	(3,541,229)	/
<b>Loans and advances to customers</b>	<b>198,252,690</b>	<b>/</b>	<b>169,158,291</b>	<b>/</b>	<b>17.20</b>	<b>/</b>	<b>123,366,891</b>	<b>/</b>

#### Corporate loans

As of the end of the Reporting Period, the Company's corporate loans amounted to RMB131.985 billion, representing an increase of RMB19.948 billion or 17.80% as compared with that at the end of last year, and accounted for 65.08% of the total loans and advances to customers (excluding accrued interest, the same hereinafter). During the Reporting Period, the Company continued to strengthen the support for the real economy and promptly adjust credit policies to exercise all efforts in credit support for prevention and control of the pandemic and enterprise's resumption of work and production.

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

### *Personal loans*

As at the end of the Reporting Period, the Company's personal loans amounted to RMB61.453 billion, representing an increase of RMB6.944 billion or 12.74% as compared with that at the end of last year, and accounted for 30.30% of the total loans and advances to customers. During the Reporting Period, the Company actively supported the needs of individual businesses and Small and Micro Enterprises for funds to resume operation and production, and personal business loans grew rapidly. Meanwhile, the credit card business developed rapidly, with a rapid increase in the overdraft balance.

### *Discounted bills*

As at the end of the Reporting Period, the Company's discounted bills amounted to RMB9.364 billion, representing an increase of RMB3.114 billion or 49.83% as compared with that at the end of last year, and accounted for 4.62% of the total loans and advances to customers. During the Reporting Period, the Company promptly launched the "Anti-Coronavirus Discount (抗疫贴)" bill product that focused on supporting anti-epidemic enterprises and supporting enterprises to resume operation and production, and responded to the policy of the People's Bank of China to develop the rediscount business, thereby promoting discounted bills for small and micro private enterprises to benefit corporate entities.

### **4.1.2 Financial investments**

As at the end of the Reporting Period, the Company's carrying value of financial investments amounted to RMB171.737 billion, representing an increase of RMB29.360 billion or 20.62% as compared with that at the end of last year. The following table sets forth the components of the Company's financial investment portfolio as at the dates indicated.

*Unit: RMB'000*

<b>Item</b>	<b>30 June 2020</b>		31 December 2019	
	<b>Amount</b>	<b>% of total</b>	Amount	% of total
Financial investments measured at fair value through profit or loss	<b>29,846,944</b>	<b>17.38</b>	22,912,561	16.09
Financial investments measured at fair value through other comprehensive income	<b>60,428,947</b>	<b>35.19</b>	54,973,781	38.61
Financial investments measured at amortized cost	<b>81,461,246</b>	<b>47.43</b>	64,491,058	45.30
<b>Financial investments</b>	<b>171,737,137</b>	<b>100.00</b>	142,377,400	100.00

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

### *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 RMB29.847 billion, representing an increase of RMB6.934 billion or 30.26% as compared with that at the end of last year. The increase was mainly due to the Company's increased investment in public bond funds with stronger liquidity. The following table sets forth the components of the Company's financial investments measured at fair value through profit or loss as at the dates indicated.

*Unit: RMB'000*

<b>Item</b>	<b>30 June 2020</b>	31 December 2019
Debt securities issued by banks and other financial institutions	<b>687,126</b>	676,304
Debt securities issued by corporate entities	<b>173,271</b>	124,557
Investment funds	<b>16,067,216</b>	9,008,256
Asset management plans	<b>10,729,142</b>	9,240,047
Trust fund plans	<b>2,190,189</b>	2,829,424
Wealth management products	–	1,033,973
<b>Financial investments measured at fair value through profit or loss</b>	<b>29,846,944</b>	22,912,561



## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

### *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 RMB60.429 billion, representing an increase of RMB5.455 billion or 9.92% as compared with that at the end of last year. The increase was mainly due to the fact that guided by supporting the real economy, the Company adjusted its investment structure and increased investment in non-financial corporate bonds. The following table sets forth the components of the Company's financial investment measured at fair value through other comprehensive income as at the dates indicated.

*Unit: RMB'000*

<b>Item</b>	<b>30 June 2020</b>	31 December 2019
Government bonds	<b>13,834,048</b>	12,412,488
Debt securities issued by policy banks	<b>4,757,291</b>	4,776,962
Debt securities issued by banks and other financial institutions	<b>6,070,346</b>	8,027,292
Debt securities issued by corporate entities	<b>27,146,483</b>	20,848,475
Asset management plans	<b>6,914,230</b>	7,128,140
Other investments	<b>707,810</b>	705,543
Equity investments	<b>23,250</b>	23,250
Add: Accrued interest	<b>975,489</b>	1,051,631
<b>Financial investments measured at fair value through other comprehensive income</b>	<b>60,428,947</b>	54,973,781

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

### *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 RMB81.461 billion, representing an increase of RMB16.970 billion or 26.31% as compared with that at the end of last year. The increase was mainly due to the fact that the Company strengthened market research and judgment, avoided market risks and increased its investment in bonds and certificates of interbank deposit measured at amortized cost under the background of greater fluctuations in the bond market in the first half of the year. The following table sets forth the components of the Company's financial investments measured at amortized cost as at the dates indicated.

*Unit: RMB'000*

<b>Item</b>	<b>30 June 2020</b>	31 December 2019
Debt securities issued by government	<b>25,062,708</b>	11,196,072
Debt securities issued by policy banks	<b>12,392,365</b>	13,143,054
Debt securities issued by banks and other financial institutions	<b>19,730,569</b>	11,288,474
Debt securities issued by corporate entities	<b>2,113,759</b>	2,475,729
Asset management plans	<b>12,695,872</b>	16,285,720
Trust fund plans	<b>2,640,700</b>	5,052,516
Other investments	<b>6,730,000</b>	4,800,000
<b>Total financial investments measured at amortized cost</b>	<b>81,365,973</b>	64,241,565
Add: Accrued interest	<b>1,000,173</b>	1,118,779
Less: Provision for impairment losses	<b>(904,900)</b>	(869,286)
<b>Carrying value of financial investments measured at amortized cost</b>	<b>81,461,246</b>	64,491,058

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

### *Investment in securities*

Set out below is the breakdown of investment in securities of the Company as at the end of the Reporting Period:

*Unit: RMB'000*

<b>Type of securities</b>	<b>Amount of investment in securities</b>	<b>Proportion of investment in securities</b>
Debt securities issued by government	38,896,756	34.73%
Debt securities issued by policy banks	17,149,656	15.32%
Debt securities issued by banks and other financial institutions	26,488,041	23.66%
Debt securities issued by corporate entities	29,433,513	26.29%
<b>Total</b>	<b>111,967,966</b>	<b>100.00%</b>

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

Set out below are the top ten securities 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 securities	Type of securities	Code	Amount held	Initial investment amount	Market value at the end of the period	% of total investment (%)	Interest rate (%)	Maturity date	Provision for impairment
16 Guo Kai 05	Debt securities issued by banks and other financial institutions	160205	4,270,000	4,270,000	4,224,479	2.48%	3.80	2036/1/25	429
20 Fu Xi Guo Zhai 04	Debt securities issued by government	200004	4,170,000	4,170,000	4,093,749	2.40%	3.39	2050/3/16	119
16 Jin Chu 10	Debt securities issued by policy banks	160310	2,740,000	2,740,000	2,698,356	1.58%	3.18	2026/9/5	277
20 Guo Kai 05	Debt securities issued by banks and other financial institutions	200205	2,560,000	2,560,000	2,565,382	1.50%	3.07	2030/3/10	153
20 Shandong Zhai 27	Debt securities issued by government	2005399	2,250,000	2,250,000	2,250,000	1.32%	3.55	2040/5/19	407
19 Fu Xi Guo Zhai 16	Debt securities issued by government	190016	2,230,000	2,230,000	2,271,079	1.33%	3.12	2026/12/5	71
20 Fu Xi Guo Zhai 06	Debt securities issued by government	200006	2,130,000	2,130,000	2,107,675	1.23%	2.68	2030/5/21	12
20 Jin Chu 10	Debt securities issued by policy banks	200310	2,000,000	2,000,000	2,026,032	1.19%	3.23	2030/3/23	204
19 Fu Xi Guo Zhai 15	Debt securities issued by government	190015	1,950,000	1,950,000	1,993,867	1.17%	3.13	2029/11/21	61
19 Fu Xi Guo Zhai 07	Debt securities issued by government	190007IIB	1,740,000	1,740,000	1,786,999	1.05%	3.25	2026/6/6	53

*Notes:* The market value of financial investments measured at fair value through other comprehensive income refers to the fair value at 30 June 2020, and the market value of financial investments measured at amortised cost refers to the amortised cost at 30 June 2020.

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

### 4.2 Liabilities

As at the end of the Reporting Period, the Company's total liabilities amounted to RMB409.597 billion, representing an increase of RMB66.453 billion or 19.37% as compared with that at the end of last year. The increase was mainly due to a rapid increase in the Company's deposits from customers. The following table sets forth the components of the Company's total liabilities as at the dates indicated.

*Unit: RMB'000*

Item	30 June 2020		31 December 2019		Change from the end of last year		31 December 2018	
	Amount	% of total	Amount	% of total	Change in amount (%)	Change in % of total	Amount	% of total
Deposits from customers	266,771,363	65.13	215,425,403	62.78	23.83	2.35	177,911,247	61.31
Deposits from banks and other financial institutions	11,595,733	2.83	16,462,527	4.80	(29.56)	(1.97)	11,632,982	4.01
Borrowings from central bank	8,103,568	1.98	5,536,650	1.61	46.36	0.37	10,878,835	3.75
Placements from banks and other financial institutions	12,458,847	3.04	9,916,257	2.89	25.64	0.15	7,207,066	2.48
Derivative financial liabilities	317,920	0.08	8,805	-	3,510.68	0.08	-	-
Financial assets sold under repurchase agreements	25,812,324	6.30	16,027,082	4.67	61.05	1.63	14,850,333	5.12
Debt securities issued	80,444,367	19.64	76,858,899	22.40	4.67	(2.76)	65,240,507	22.48
Income tax payable	654,609	0.16	187,027	0.05	250.01	0.11	13,174	0.01
Lease liabilities	443,075	0.11	427,429	0.12	3.66	(0.01)	N/A	N/A
Other liabilities	2,995,053	0.73	2,294,153	0.68	30.55	0.05	2,427,634	0.84
<b>Total liabilities</b>	<b>409,596,859</b>	<b>100.00</b>	<b>343,144,232</b>	<b>100.00</b>	<b>19.37</b>	<b>-</b>	<b>290,161,778</b>	<b>100.00</b>

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

### 4.2.1 Deposits from customers

As at the end of the Reporting Period, the Company's deposits from customers amounted to RMB266.771 billion, representing an increase of RMB51.346 billion or 23.83% as compared with that at the end of last year, achieving rapid growth, and the growth rate hit a new high since 2015 in the first half of the year; accounting for 65.13% of the Company's total liabilities, representing an increase of 2.35 percentage points as compared with that at the end of last year. During the Reporting Period, the Company strengthened the evaluation of national monetary policies, sought development opportunities amidst the epidemic, stepped up efforts in expanding the deposit business, and achieved a rapid increase in deposits from customers. The fundamental position of deposits as a source of operating funds was continuously consolidated. The following table sets forth the components of the Company's deposits from customers by product type and customer type as at the dates indicated.

Unit: RMB'000

Item	30 June 2020		31 December 2019		Change from the end of last year		31 December 2018	
	Amount	% of total	Amount	% of total	Change in amount (%)	Change in % of total	Amount	% of total
<b>Corporate deposits</b>	<b>180,577,109</b>	<b>68.46</b>	147,880,817	69.49	22.11	(1.03)	118,644,749	67.54
Demand deposits	100,934,686	38.27	92,593,934	43.51	9.01	(5.24)	72,852,694	41.47
Time deposits	79,642,423	30.19	55,286,883	25.98	44.05	4.21	45,792,055	26.07
<b>Personal deposits</b>	<b>82,988,605</b>	<b>31.46</b>	64,796,343	30.45	28.08	1.01	56,898,658	32.39
Demand deposits	22,729,689	8.62	20,622,060	9.69	10.22	(1.07)	18,313,340	10.43
Time deposits	60,258,916	22.84	44,174,283	20.76	36.41	2.08	38,585,318	21.96
<b>Outward remittance and remittance payables</b>	<b>204,075</b>	<b>0.08</b>	100,697	0.05	102.66	0.03	131,519	0.07
<b>Fiscal deposits to be transferred</b>	<b>1,185</b>	<b>0.00</b>	13,052	0.01	(90.92)	(0.01)	923	0.00
<b>Total customer deposits</b>	<b>263,770,974</b>	<b>100.00</b>	212,790,909	100.00	23.96	-	175,675,849	100.00
Add: Accrued interest	3,000,389	/	2,634,494	/	13.89	/	2,235,398	/
<b>Deposits from customers</b>	<b>266,771,363</b>	<b>/</b>	215,425,403	<b>/</b>	23.83	<b>/</b>	177,911,247	<b>/</b>

As at the end of the Reporting Period, the Company's demand deposits accounted for 46.89% of the total deposits from customers (excluding accrued interest), representing a decrease of 6.31 percentage points as compared with that at the end of last year. Among those deposits, corporate demand deposits accounted for 55.90% of corporate deposits, representing a decrease of 6.71 percentage points as compared with that at the end of last year; and personal demand deposits accounted for 27.39% of personal deposits, representing a decrease of 4.44 percentage points 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 RMB11.596 billion, representing a decrease of RMB4.867 billion or 29.56% as compared with that at the end of last year, mainly due to the Company's strengthened management on active interbank liabilities, optimization and adjustment of the debt structure, and appropriate decrease in scale of deposits from banks while general deposits increased.

### **4.2.3 Borrowings from Central Bank**

As at the end of the Reporting Period, the Company's borrowings from Central Bank amounted to RMB8.104 billion, representing an increase of RMB2.567 billion or 46.36% as compared with that at the end of last year, mainly due to the fact that the Company implemented the Central Bank's policy guidance and actively applied for re-loans for Small and Micro Enterprises and rediscount to increase the source of credit funds for Small and Micro Enterprises.

### **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 RMB25.812 billion, representing an increase of RMB9.785 billion or 61.05% as compared with that at the end of last year, mainly due to the Company's exercising control over the total amount and structural adjustment of interbank liabilities, and appropriately increasing the size of financial assets sold under repurchase agreements to balance the debt structure.

### **4.2.5 Debt securities issued**

As at the end of the Reporting Period, the Company's debt securities issued amounted to RMB80.444 billion, representing an increase of RMB3.585 billion or 4.67% as compared with that at the end of last year, mainly due to the Company's strengthened management on active interbank liabilities, and appropriate increase in the size of inter-bank certificates of deposit in response to the capital market situation and the impact of the epidemic. For details of the bonds, please refer to "Notes to the Unaudited Interim Financial Report – 32 DEBT SECURITIES ISSUED" of this report.

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

### 4.3 Equity Attributable to Shareholders

As at the end of the Reporting Period, the shareholders' equity of the Company amounted to RMB30.925 billion, representing an increase of RMB447 million or 1.47% as compared with that at the end of last year. Equity attributable to the shareholders of the Bank amounted to RMB30.329 billion, representing an increase of RMB413 million or 1.38% as compared with that at the end of last year, mainly due to the increase in retained earnings. The following table sets forth the components of the Company's shareholders' equity as at the dates indicated.

*Unit: RMB'000*

Item	30 June 2020	31 December 2019
Share capital	4,509,690	4,509,690
Other equity instruments		
Including: Preference shares	7,853,964	7,853,964
Capital reserve	8,337,869	8,337,869
Other comprehensive income	442,909	658,230
Surplus reserve	1,626,662	1,626,662
General risk reserve	4,400,258	4,400,258
Retained earnings	3,157,366	2,528,787
Total equity attributable to equity shareholders of the Bank	30,328,718	29,915,460
Non-controlling interests	596,432	562,458
<b>Total equity</b>	<b>30,925,150</b>	<b>30,477,918</b>



## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

### 4.4 Assets and Liabilities Measured at Fair Value

*Unit: RMB'000*

Main item	31 December 2019	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 2020
Financial investments measured at fair value through profit or loss	22,912,561	(189,423)	N/A	N/A	<b>29,846,944</b>
Loans and advances to customers measured at fair value through other comprehensive income	6,249,822	N/A	1,955	2,015	<b>9,364,173</b>
Financial investments measured at fair value through other comprehensive income	54,973,781	N/A	499,057	(28,239)	<b>60,428,947</b>
Derivative financial assets	12,436	298,847	N/A	N/A	<b>311,283</b>
Derivative financial liabilities	(8,805)	(309,115)	N/A	N/A	<b>(317,920)</b>

### 4.5 Derivative Financial Instruments

*Unit: RMB'000*

Item	30 June 2020			31 December 2019		
	Nominal amount	Fair value of assets	Fair value of liabilities	Nominal amount	Fair value of assets	Fair value of liabilities
Interest rate swaps and others	<b>111,396,629</b>	<b>311,283</b>	<b>(317,920)</b>	33,896,438	12,436	(8,805)

*Notes:*

- Under the risk preference set by the Board and the Bank's derivatives market risk framework, the Bank actively carried out various derivative transactions in compliance with threshold requirements. As at 30 June 2020, the derivative financial instruments held by the Bank included interest rate swaps, interest rate options and credit risk mitigating instruments.
- The nominal amount of the derivative financial instruments only reflects the transaction volume but not its actual risk exposure. The derivative business conducted by the Bank is mainly based on hedging strategy, which is subject to a smaller actual risk exposure.
- The accounting policies and specific accounting principles for derivatives of the Bank in the Reporting Period did not have material change as compared with those in the last reporting period.

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

### 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 continuously improved and the non-performing loan ratio decreased. As at the end of the Reporting Period, the total amount of loans of the Company (excluding accrued interest) was RMB202.801 billion, total non-performing loans amounted to RMB3.302 billion, non-performing loan ratio was 1.63%. 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*

Item	30 June 2020		31 December 2019	
	Amount	% of total	Amount	% of total
Normal loan	195,136,806	96.22	163,910,475	94.86
Special mention loan	4,362,390	2.15	6,033,401	3.49
Substandard loan	2,273,960	1.12	965,897	0.56
Doubtful loan	866,736	0.43	1,743,364	1.01
Loss loan	161,578	0.08	142,306	0.08
<b>Total loans to customers</b>	<b>202,801,470</b>	<b>100.00</b>	172,795,443	100.00
<b>Total non-performing loans</b>	<b>3,302,274</b>	<b>1.63</b>	2,851,567	1.65

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 non-performing loans decreased by 0.02 percentage point as compared with that at the end of last year to 1.63%, of which the proportion of substandard loan increased by 0.56 percentage point to 1.12%, the proportion of doubtful loan decreased by 0.58 percentage point to 0.43% and loss loan remained flat as compared with that at the end of last year.

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

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

*Unit: RMB'000*

Item	30 June 2020				31 December 2019			
	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 %
<b>Corporate loans</b>	<b>141,348,776</b>	<b>69.70</b>	<b>2,981,623</b>	<b>2.11</b>	118,286,626	68.45	2,600,568	2.20
Working capital loans	73,806,976	36.39	2,881,623	3.90	61,475,942	35.57	2,500,568	4.07
Fixed asset loans	57,025,577	28.12	100,000	0.18	49,681,134	28.75	100,000	0.20
Import and export bills transactions	1,152,050	0.57	-	-	879,728	0.51	-	-
Discounted bills	9,364,173	4.62	-	-	6,249,822	3.62	-	-
<b>Retail loans</b>	<b>61,452,694</b>	<b>30.30</b>	<b>320,651</b>	<b>0.52</b>	54,508,817	31.55	250,999	0.46
Personal housing loans	40,277,677	19.86	58,097	0.14	36,762,232	21.28	38,882	0.11
Personal consumption loans	10,670,793	5.26	54,818	0.51	9,470,211	5.48	19,387	0.20
Personal business loans	10,504,224	5.18	207,736	1.98	8,276,374	4.79	192,730	2.33
<b>Total loans to customers</b>	<b>202,801,470</b>	<b>100.00</b>	<b>3,302,274</b>	<b>1.63</b>	172,795,443	100.00	2,851,567	1.65

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

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

Unit: RMB'000

Item	30 June 2020				31 December 2019			
	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 %
<b>Corporate loans</b>	<b>141,348,776</b>	<b>69.70</b>	<b>2,981,623</b>	<b>2.11</b>	118,286,626	68.45	2,600,568	2.20
Manufacturing	24,689,408	12.17	2,389,977	9.68	23,033,775	13.32	2,029,615	8.81
Construction	24,608,663	12.13	80,547	0.33	19,902,351	11.52	65,677	0.33
Real estate	23,746,897	11.71	102,600	0.43	19,673,198	11.39	102,600	0.52
Renting and business services	17,720,163	8.74	4,850	0.03	11,228,367	6.50	9,850	0.09
Water conservancy, environment and public utility management	16,925,572	8.35	-	-	12,287,741	7.11	39,000	0.32
Wholesale and retail trade	11,761,143	5.80	294,892	2.51	11,628,689	6.73	288,677	2.48
Financial services	5,713,581	2.82	-	-	6,677,300	3.86	-	-
Transportation, storage and postal services	5,170,433	2.55	25,000	0.48	3,247,547	1.88	-	-
Production and supply of electric and heating power, gas and water	4,016,004	1.98	39,000	0.97	4,443,352	2.57	-	-
Others	6,996,912	3.45	44,757	0.64	6,164,306	3.57	65,149	1.06
<b>Retail loans</b>	<b>61,452,694</b>	<b>30.30</b>	<b>320,651</b>	<b>0.52</b>	54,508,817	31.55	250,999	0.46
<b>Total loans to customers</b>	<b>202,801,470</b>	<b>100.00</b>	<b>3,302,274</b>	<b>1.63</b>	172,795,443	100.00	2,851,567	1.65

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

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

*Unit: RMB'000*

Region	30 June 2020				31 December 2019			
	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 %
Shandong Province	202,801,470	100.00	3,302,274	1.63	172,795,443	100.00	2,851,567	1.65
Of which: Qingdao City	108,900,823	53.70	531,654	0.49	92,363,443	53.46	739,064	0.80

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

*Unit: RMB'000*

Item	30 June 2020				31 December 2019			
	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	37,169,845	18.33	172,512	0.46	27,881,658	16.14	34,345	0.12
Guaranteed loans	50,021,755	24.66	2,782,518	5.56	46,794,567	27.08	2,415,504	5.16
Mortgage loans	85,274,614	42.05	347,244	0.41	75,145,703	43.48	401,718	0.53
Pledged loans	30,335,256	14.96	–	–	22,973,515	13.30	–	–
<b>Total loans to customers</b>	<b>202,801,470</b>	<b>100.00</b>	<b>3,302,274</b>	<b>1.63</b>	<b>172,795,443</b>	<b>100.00</b>	<b>2,851,567</b>	<b>1.65</b>

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

### 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	Manufacturing	2,400,000	6.29	1.18
B	Renting and business services	2,250,000	5.89	1.11
C	Renting and business services	2,000,000	5.24	0.99
D	Renting and business services	2,000,000	5.24	0.99
E	Water conservancy, environment and public utility management	1,755,000	4.60	0.87
F	Renting and business services	1,730,000	4.53	0.85
G	Transportation, storage and postal services	1,654,000	4.33	0.82
H	Real estate	1,600,000	4.19	0.79
I	Water conservancy, environment and public utility management	1,454,610	3.81	0.72
J	Construction	1,409,900	3.69	0.68
<b>Total</b>		<b>18,253,510</b>	<b>47.81</b>	<b>9.00</b>

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

### 5.7 Distribution of Loans by Overdue Period

*Unit: RMB'000*

<b>Overdue period</b>	<b>30 June 2020</b>		<b>31 December 2019</b>	
	<b>Amount of loans</b>	<b>% of total</b>	Amount of loans	% of total
Overdue for 3 months (inclusive) or less	<b>692,512</b>	<b>0.34</b>	711,091	0.41
Overdue for over 3 months to 1 year (inclusive)	<b>1,480,962</b>	<b>0.73</b>	1,061,050	0.61
Overdue for over 1 year to 3 years (inclusive)	<b>627,810</b>	<b>0.31</b>	563,866	0.33
Overdue for over 3 years	<b>161,561</b>	<b>0.08</b>	159,443	0.09
<b>Total overdue loans</b>	<b>2,962,845</b>	<b>1.46</b>	2,495,450	1.44
<b>Total loans to customers</b>	<b>202,801,470</b>	<b>100.00</b>	172,795,443	100.00

As at the end of the Reporting Period, the overdue loans of the Company amounted to RMB2.963 billion, the overdue loans accounted for 1.46% of the total loans of the Company, representing an increase of 0.02 percentage point as compared with that at the beginning of the year. The Company had adopted a relatively strict classification standard as to overdue loans, according to which loans overdue for more than 60 days were classified as overdue loans.

### 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 RMB100 million with no provision for impairment, and the net amount of repossessed assets was RMB100 million.

### 5.9 Changes in Provision for Impairment of Loans

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 as at the end of the Reporting Period 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.

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

The Company re-measures expected credit losses on each end of the reporting period. 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*

<b>Item</b>	<b>January to June 2020</b>	<b>2019</b>
<b>Balance at the beginning of the period/year</b>	<b>4,422,549</b>	3,557,806
Charge for the period/year	<b>1,944,777</b>	3,026,604
Write-offs for the period/year	<b>(1,046,395)</b>	(2,251,771)
Recovery of write-offs for the period/year	<b>84,322</b>	146,481
Other changes	<b>(22,460)</b>	(56,571)
<b>Balance at the end of the period/year</b>	<b>5,382,793</b>	4,422,549

The Company maintained a strong and prudent provision policy. As at the end of the Reporting Period, the Company's provision for impairment of loans (including discounted bills) amounted to RMB5.383 billion, representing an increase of RMB960 million or 21.71% as compared with that at the end of last year. The provision coverage ratio reached 163.00%; the provision rate of loans stood at 2.65%, both provision indicators satisfying regulatory requirements.

### 5.10 Countermeasures Taken against Non-performing Assets

During the Reporting Period, the Company continued to strengthen the management and disposal of non-performing loans, accelerated the disposal of existing assets and strictly controlled new additions. The Company continued to carry out risk screening, formulate response plans and disposal plans by classification; comprehensively use various means such as self-collection, judicial disposal, asset write-off, debt transfer, reorganization and transformation, and accelerate the disposal of risky assets to ensure the quality and effectiveness of work; emphasize the anticipation and response to potential risks, strengthen target assessment and constraints, strictly control the rebound of non-performing loans; improve the asset preservation management mechanism, optimize the assessment and incentive mechanism; continue to strengthen the follow-up collection of written-off non-performing assets, and tap the potential for non-performing disposal; strengthen coordination with government departments, judicial organs, debt committee agencies, and external cooperative agencies to improve the quality and efficiency of non-performing asset disposal.



## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

### 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. First, it further strengthened the internal risk information sharing mechanism, with continuous improvement on the management of corporate family trees of group customers. It consolidated and analyzed various credit risk information of group customers with the core enterprises that are engaged in the principal businesses of their group considered as the financing entities. The Company reviewed the solvency, business characteristics, and actual demand of each member. In the principle of priority to leading industries, advantageous industries and quality enterprises, and based on the extent of credit risk and risk tolerance, the overall credit limit of group customers and subline limit of each member were verified, and a unified credit extension proposal for group customers was formulated and executed. Second, it enhanced centralized management of group customers for preventing the risk of large-sum credit extension, it 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 credit extension business that meets the standards of large-sum credit extension bank-wide. Third, it further improved the pre-warning mechanism of group customer risk, setting risk warning thresholds for group customers in pre-loan and approval process based on the industry where the group customers operate and their operating capability, which was a key reference for post-loan inspection, to proactively monitor and prevent risks, so that the control of overall credit extension risk of group customers was ensured.

### 5.12 Rescheduled Loans

*Unit: RMB'000*

Item	30 June 2020		31 December 2019	
	Amount of loans	% of total	Amount of loans	% of total
Rescheduled loans	428,027	0.21	426,588	0.25
Total loans and advances to customers	202,801,470	100.00	172,795,443	100.00

The Company implemented strict management and control on rescheduled loans. As at the end of the Reporting Period, the proportion of rescheduled loans of the Company was 0.21%, representing a decrease of 0.04 percentage point as compared with that at the end of the previous year.

### 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 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 13.68%, representing a decrease of 1.08 percentage points as compared with that at the end of last year; the core tier-one capital adequacy ratio was 8.13%, representing a decrease of 0.23 percentage point as compared with that at the end of last year. During the Reporting Period, the Company's business developed rapidly, and risk-weighted assets increased. It exercised redemption options for RMB2.2 billion of tier-two capital bonds.

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

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

*Unit: RMB'000*

<b>The Company</b>	<b>30 June 2020</b>	31 December 2019
<b>Total core tier-one capital</b>	<b>22,908,627</b>	22,418,940
Of which : Share capital	<b>4,509,690</b>	4,509,690
Qualifying portion of capital reserve	<b>8,337,869</b>	8,337,869
Other comprehensive income	<b>442,909</b>	658,230
Surplus reserve	<b>1,626,662</b>	1,626,662
General reserve	<b>4,400,258</b>	4,400,258
Retained earnings	<b>3,157,366</b>	2,528,787
Qualifying portion of non-controlling interests	<b>433,873</b>	357,444
<b>Deductions from core tier-one capital</b>	<b>(226,511)</b>	(194,243)
<b>Net core tier-one capital</b>	<b>22,682,116</b>	22,224,697
<b>Other tier-one capital</b>	<b>7,911,814</b>	7,901,623
<b>Net tier-one capital</b>	<b>30,593,930</b>	30,126,320
<b>Tier-two capital</b>	<b>7,588,276</b>	9,126,185
<b>Net capital base</b>	<b>38,182,206</b>	39,252,505
<b>Total risk-weighted assets</b>	<b>279,038,666</b>	265,908,365
Of which: Total credit risk-weighted assets	<b>236,029,641</b>	218,075,573
Total market risk-weighted assets	<b>28,899,466</b>	33,723,233
Total operational risk-weighted assets	<b>14,109,559</b>	14,109,559
<b>Core tier-one capital adequacy ratio</b>	<b>8.13%</b>	8.36%
<b>Tier-one capital adequacy ratio</b>	<b>10.96%</b>	11.33%
<b>Capital adequacy ratio</b>	<b>13.68%</b>	14.76%

As at the end of the Reporting Period, at the level of the Bank, the capital adequacy ratio was 13.67%, representing a decrease of 1.10 percentage points as compared with that at the end of last year; the core tier-one capital adequacy ratio stood at 8.08%, representing a decrease of 0.21 percentage point as compared with that at the end of last year.

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

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 2020	31 December 2019
<b>Total core tier-one capital</b>	<b>22,363,975</b>	21,984,910
Of which: Share capital	4,509,690	4,509,690
Qualifying portion of capital reserve	8,337,869	8,337,869
Other comprehensive income	442,909	658,230
Surplus reserve	1,626,662	1,626,662
General reserve	4,400,258	4,400,258
Retained earnings	3,046,587	2,452,201
<b>Deductions from core tier-one capital</b>	<b>(740,729)</b>	(701,986)
<b>Net core tier-one capital</b>	<b>21,623,246</b>	21,282,924
<b>Other tier-one capital</b>	<b>7,853,964</b>	7,853,964
<b>Net tier-one capital</b>	<b>29,477,210</b>	29,136,888
<b>Tier-two capital</b>	<b>7,080,519</b>	8,770,981
<b>Net capital base</b>	<b>36,557,729</b>	37,907,869
<b>Total risk-weighted assets</b>	<b>267,458,616</b>	256,725,689
Of which: Total credit risk-weighted assets	224,846,219	209,289,525
Total market risk-weighted assets	28,899,466	33,723,233
Total operational risk-weighted assets	13,712,931	13,712,931
<b>Core tier-one capital adequacy ratio</b>	<b>8.08%</b>	8.29%
<b>Tier-one capital adequacy ratio</b>	<b>11.02%</b>	11.35%
<b>Capital adequacy ratio</b>	<b>13.67%</b>	14.77%

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

### 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 6.38% as calculated according to the “Measures for the Administration of the Leverage Ratio of Commercial Banks (Revision)”, which was above the regulatory requirements of CBIRC, representing a decrease of 1.08 percentage points as compared with that at the end of last year, mainly due to the rapid development of business, increase in the size of the Bank’s assets and the total consolidated assets increased.

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	30 June 2020	31 December 2019
1	Total consolidated assets	<b>440,522,009</b>	373,622,150
2	Consolidated adjustments	–	–
3	Customer assets adjustments	–	–
4	Derivative adjustments	<b>3,272,000</b>	117,777
5	Securities financing transactions adjustments	–	–
6	Off-balance sheet items adjustments	<b>36,327,137</b>	30,479,440
7	Other adjustments	<b>(226,511)</b>	(194,243)
8	Balance of assets on and off balance sheet after adjustments	<b>479,894,635</b>	404,025,124

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

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	30 June 2020	31 December 2019
1	Assets on the balance sheet (excluding derivatives and securities financing transactions)	<b>426,601,951</b>	371,283,943
2	Less: Tier-one capital deductions	<b>(226,511)</b>	(194,243)
3	The balance of assets on the balance sheet after adjustments (excluding derivatives and securities financing transactions)	<b>426,375,440</b>	371,089,700
4	Replacement cost of various types of derivatives (net of qualified margins)	<b>311,283</b>	12,436
5	Potential risk exposure in various types of derivatives	<b>3,272,000</b>	115,239
6	The sum of collaterals deducted from the statement of financial position	–	–
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	–	2,538
10	Less: The balance of sold credit derivatives assets which can be deducted	–	–
11	The balance of derivatives assets	<b>3,583,283</b>	130,213
12	The balance of accounting assets for securities financing transactions	<b>13,608,775</b>	2,325,771
13	Less: The balance of securities financing transactions assets which can be deducted	–	–
14	Counterparty credit risk exposure to securities financing transactions	–	–
15	The balance of securities financing transactions assets formed due to securities financing transactions by proxy	–	–
16	The balance of securities financing transactions assets	<b>13,608,775</b>	2,325,771
17	The balance of items off balance sheet	<b>36,327,137</b>	30,479,440
18	Less: The balance of items off balance sheet reduced due to credit conversion	–	–
19	The balance of items off balance sheet after adjustments	<b>36,327,137</b>	30,479,440
20	Net tier-one capital	<b>30,593,930</b>	30,126,320
21	The balance of assets on and off balance sheet after adjustments	<b>479,894,635</b>	404,025,124
22	Leverage ratio	<b>6.38%</b>	7.46%

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

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 2020	31 March 2020	31 December 2019	30 September 2019
Leverage ratio(%)	<b>6.38</b>	7.31	7.46	7.71
Net tier-one capital	<b>30,593,930</b>	31,099,145	30,126,320	29,818,915
The balance of assets on and off balance sheet after adjustments	<b>479,894,635</b>	425,251,459	404,025,124	386,887,353

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 Company at <http://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	–
<b>Total</b>	<b>23,250</b>	<b>23,250</b>	<b>N/A</b>	<b>–</b>

Notes: The above investments are accounted for as financial investments measured at fair value through other comprehensive income in the statement of financial position.

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## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

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As at the end of the Reporting Period, for details of other information concerning the Company's investments, please refer to "Section IV Management Discussion and Analysis – 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" of this report.

### **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**

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

### **7.5 Securities Investments**

As at the end of the Reporting Period, for details of the securities investments of the Company, please refer to "Section IV Management Discussion and Analysis – 4. Analysis of Major Items of the Statement of Financial Position – 4.1.2 Financial Investments" of this report.

### **7.6 Derivative Investments**

As at the end of the Reporting Period, for details of the derivative investments of the Company, please refer to "Section IV Management Discussion and Analysis – 4. Analysis of Major Items of the Statement of Financial Position – 4.5 Derivative Financial Instruments" of this report.



## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

### 8. SEGMENT REPORTING

The following segment operating performance is presented by business segment. The Company's main businesses include corporate banking, retail banking and 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*

<b>Item</b>	<b>January to June 2020</b>		January to June 2019	
	<b>Segment operating income</b>	<b>Ratio (%)</b>	Segment operating income	Ratio (%)
Corporate banking	<b>3,088,002</b>	<b>50.59</b>	2,336,421	51.52
Retail banking	<b>1,057,926</b>	<b>17.33</b>	950,593	20.96
Financial market business	<b>1,691,245</b>	<b>27.71</b>	1,079,937	23.82
Un-allocated items and others	<b>266,966</b>	<b>4.37</b>	167,617	3.70
<b>Total</b>	<b>6,104,139</b>	<b>100.00</b>	4,534,568	100.00

*Unit: RMB'000*

<b>Item</b>	<b>January to June 2020</b>		January to June 2019	
	<b>Segment profit before tax</b>	<b>Ratio (%)</b>	Segment profit before tax	Ratio (%)
Corporate banking	<b>590,925</b>	<b>31.78</b>	391,993	21.31
Retail banking	<b>384,085</b>	<b>20.65</b>	526,391	28.61
Financial market business	<b>778,559</b>	<b>41.87</b>	839,695	45.64
Un-allocated items and others	<b>105,973</b>	<b>5.70</b>	81,805	4.44
<b>Total</b>	<b>1,859,542</b>	<b>100.00</b>	1,839,884	100.00

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## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

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### 9. OTHER FINANCIAL INFORMATION

#### 9.1 Analysis of Off-balance Sheet Items

The Company's off-balance sheet items include credit 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 RMB40.007 billion. For details, please refer to "Notes to the Unaudited Interim Financial Report – 44 Commitments and Contingencies" of this report.

#### 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 and borrowings from central bank. For details, please refer to "Notes to the Unaudited Interim Financial Report – 44 Commitments and Contingencies" of this report.

#### 9.4 Analysis of Cash Flow Statement

As at the end of the Reporting Period, net cash flows generated from operating activities of the Company was RMB19.725 billion, representing an increase of RMB26.370 billion as compared with the same period of the previous year, which was mainly due an increase in net increase in deposits from customers of RMB40.786 billion, while the above impact was partially offset by an increase in net change of financial assets held under resale agreements of RMB11.590 billion. Among which, cash outflows generated from operating assets increased by RMB22.926 billion and cash inflows generated from operating liabilities increased by RMB48.013 billion.

Net cash flows generated from investing activities was RMB-27.331 billion, representing a decrease of RMB30.648 billion as compared with the same period of the previous year, which was mainly due to an increase in cash payments on investments of RMB36.604 billion, while the above impact was partially offset by an increase in proceeds from disposal and redemption of investments of RMB5.570 billion.

Net cash flows generated from financing activities was RMB1.522 billion, representing a decrease of RMB9.104 billion as compared with the same period of the previous year, which was mainly due to a decrease in cash received by the Company for issuance of debt securities of RMB12.443 billion.

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

### 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 2020	January to June 2019	Changes (%)	Main reasons
Fee and commission income	<b>1,182,905</b>	614,082	92.63	Significant increase in fee and commission income due to rapid development of wealth management and credit card businesses
Fee and commission expense	<b>(64,117)</b>	(33,272)	92.71	Increase in fee expense due to faster growth of credit card business
Net fee and commission income	<b>1,118,788</b>	580,810	92.63	Significant increase in fee and commission income due to rapid development of wealth management and credit card businesses
Net trading gains	<b>130,994</b>	15,362	752.71	The impact of market-based exchange rate fluctuations
Other operating income, net	<b>28,867</b>	8,312	247.29	Increase in government grants
Credit impairment losses	<b>(2,787,723)</b>	(1,428,195)	95.19	Appropriately increasing provision for impairment by the Company based on the faster growth of loans and taking into account the increasing uncertainties of COVID-19 on the economic outlook
Other comprehensive income, net of tax	<b>(215,321)</b>	(25,404)	(747.59)	Changes in fair value of financial investments measured at fair value through other comprehensive income

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

Unit: RMB'000

Item	30 June 2020	31 December 2019	Changes (%)	Main reasons
Deposits with banks and other financial institutions	<b>2,142,587</b>	1,312,468	63.25	Increase in deposits with banks for settlement at the end of the period
Placements with banks and other financial institutions	<b>1,139,412</b>	3,313,603	(65.61)	Decrease in interbank borrowings
Derivative financial assets	<b>311,283</b>	12,436	2,403.08	Increase in changes in fair value of interest rate swaps and other derivative financial instruments
Financial assets held under resale agreements	<b>13,608,775</b>	2,325,771	485.13	Increase in the scale of debt securities held under resale agreements
Financial investments measured at fair value through profit or loss	<b>29,846,944</b>	22,912,561	30.26	Increased investment in public bond funds with higher liquidity
Deferred tax assets	<b>2,294,408</b>	1,581,905	45.04	Increase in deferred tax assets arising from provision for impairment assets
Other assets	<b>1,221,336</b>	929,876	31.34	Increase in prepayment for establishment of wealth management subsidiary
Borrowings from central bank	<b>8,103,568</b>	5,536,650	46.36	Implement the central bank's policy guidance and actively apply for re-loans and re-discounts for small banks to increase sources of credit for Small and Micro Enterprises
Derivative financial liabilities	<b>317,920</b>	8,805	3,510.68	Increase in changes in fair value of interest rate swaps and other derivative financial instruments
Financial assets sold under repurchase agreements	<b>25,812,324</b>	16,027,082	61.05	Increase the scale of business sold under repurchase agreements to balance the structure of liabilities
Income tax payable	<b>654,609</b>	187,027	250.01	Increase in income tax payable
Other liabilities	<b>2,995,053</b>	2,294,153	30.55	Increase in settlement payable and dividend payable
Other comprehensive income	<b>442,909</b>	658,230	(32.71)	Decrease in changes in fair value of financial investments measured at fair value through other comprehensive income

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

### 9.6 Changes in Interest Receivables

*Unit: RMB'000*

<b>Item</b>	31 December 2019	Increase during the period	Decrease during the period	<b>30 June 2020</b>
Loans and advances to customers	16,825	182,179	(189,393)	<b>9,611</b>
Long-term receivables	–	19,461	(15,634)	<b>3,827</b>
<b>Total</b>	16,825	201,640	(205,027)	<b>13,438</b>

*Notes:* In accordance with the “Format of the Financial Statements of the Financial Enterprise for 2018” released by the Ministry of Finance, the item “interest receivables” only reflects the interests overdue but not yet received on the balance sheet date. Since the amount is relatively small, it should be included under “other assets”. The Company has made impairment provision for interest receivables, and the bad debt write-off procedures and policies have been implemented.

### 9.7 Provision for Bad Debts

*Unit: RMB'000*

<b>Item</b>	<b>30 June 2020</b>	31 December 2019	<b>Changes</b>
Other receivables	<b>593,266</b>	131,317	461,949
Interest receivables	<b>18,317</b>	16,825	1,492
Less: Bad debt provision	<b>(6,457)</b>	(1,005)	(5,452)

## 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.

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

### 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	112.63	12.17	2.34	0.71	0.69

#### 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, with a registered capital of RMB1.0 billion, and was registered in Qingdao, and was initiated and established by the Bank. The Bank holds 51% of the share capital of BQD Financial Leasing. Under the guidance of the national industrial policy, BQD Financial Leasing is committed to realizing the original intent of leasing and serving the real economy. BQD Financial Leasing focuses on the financing leasing of large and medium-sized equipment in medical and health care, cultural tourism, public utilities industries as its main lines of business development, and adheres to the business philosophy of “specialization, differentiation and marketization” to satisfy the specific needs of tenants in equipment purchase, sales boosting, assets revitalization, and the improvement of financial structure, etc., and to provide new financial lease services such as financing, asset management and economic consulting.

### 12. OVERVIEW OF BUSINESS DEVELOPMENT

#### 12.1 Retail banking

During the Reporting Period, for retail banking, with customer base construction as the core, the Bank insisted on operating retail business using a wholesale approach and obtained customers in batches through “three agencies and one linkage” (i.e. agencies for payroll, tax payment, relocation compensation and public-private linkage), which focused on finance of rural villages across counties, to create new ways of achieving business growth. The Bank steadily promoted the construction of smart outlet projects, enriched the construction of intelligent marketing system, and continued improving the credit card business. The Bank steadily expanded the scale of retail customer base through attracting young customers via new media such as WeChat to increase customer loyalty. The Bank conducted upgrades on service value based on the core of “customer base” with improved customer experience and concrete actions in customer base management to solidify the foundation of retail business. The Bank would enhance the scale of financial assets of its customers by improving the “quantity” and “quality” of its retail customer base so as to increase the comprehensive customer contribution. During the Reporting Period, the Company recorded the operating income of RMB1.058 billion in respect of retail banking, representing a year-on-year increase of 11.27%, and accounting for 17.39% 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 (including credit cards) customers of the Bank reached 6,067.8 thousand, representing an increase of 506.3 thousand or 9.10% as compared with that at the end of the previous year. Among which, the number of retail customers obtained in the second quarter of 2020 increased by 393.7 thousand, which is 3.5 times of that in the first quarter of the year. The growth trend has recovered to the level before the epidemic outbreak. The assets retained by retail customers in the Bank reached RMB180.148 billion, representing an increase of 10.99% 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 exceeded RMB80 billion to reach RMB82.989 billion, representing an increase of RMB18.193 billion or 28.08% as compared with that at the end of the previous year and accounting for 31.46% of the balance of various deposits (excluding accrued interest). The increased amount of the balance was 9.4 times of that of the corresponding period of last year. In particular, retail demand deposits reached RMB22.730 billion, representing an increase of RMB2.108 billion or 10.22% as compared with that at the end of the previous year while retail time deposits reached RMB60.259 billion, representing an increase of RMB16.085 billion or 36.41% as compared with that at the end of the previous year, accounting for 72.61% of retail deposits. The average cost rate of retail deposits amounted to 2.02%.

The promotion of the smart outlet project is progressing smoothly. During the Reporting Period, the Bank created a new customer experience by preliminarily completing the “three-step transformation” construction targets of its smart outlet projects such as smart queuing, targeted marketing in halls, and linkage marketing by staff in various positions. 119 branches of the Bank have adopted the smart outlet service model, which significantly enhanced outlets’ productivities with the average replacement rate of personal non-cash businesses conducted via smart PAD reached 86% and service efficiency of basic businesses increased by 75%.

The Bank rigorously promoted the development of farmer-benefiting business. The Bank enriched customer base structure and scaled up business scope by actively expanding into the financial market in rural areas. The Bank extended its financial services to rural villages through setting up comprehensive service stations for inclusive finance and agricultural support across Shandong Province. During the Reporting Period, there are 312 new contracted agricultural support service stations. As at the end of the Reporting Period, the Bank has 93 agricultural support service stations in operation. During the Reporting Period, the Bank launched its first bank card, the “Rural Revitalization Card\*(鄉村振興卡)”, which on the basis of basic financial services, extended the payment and settlement services in rural areas from the aspect of daily life to that of production and rural villages’ ecosystems. As at the end of the Reporting Period, the deposit balance of the Bank’s agricultural support service stations amounted to RMB636 million, representing an increase of RMB524 million as compared with that at the end of the previous year. The number of customers reached 33.9 thousand, representing an increase of 17.5 thousand as compared with that at the beginning of the year.

### **2. Retail loans**

As at the end of the Reporting Period, the balance of retail loans (including credit cards) of the Bank amounted to RMB61.453 billion, representing an increase of RMB6.944 billion or 12.74% as compared with that at the end of the previous year. The balance of retail loans accounted for 30.30% of the total balance of various loans. During the Reporting Period, the retail loan business of the Bank focused on increasing service efficiency with an aim to increase market share and ensured the inclusive loan indicators were reached. The Bank overcame the adverse impact of the pandemic with its various businesses all experienced encouraging developments.

The Bank prevented and controlled risks and adhered to the principle of steady development to ensure asset quality. During the Reporting Period, the Bank continued to adopt the standard of “including all loans overdue for more than 60 days in non-performing loans” on retail loans, pursuant to which, the balance of non-performing loans (including credit cards) to retail customers reached RMB321 million while non-performing loan ratio to retail customers was 0.52%. Among the non-performing retail loan, mortgage loans and pledged loans accounted for 34.30%, and loan loss was controllable.



## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

Contribution has been increasing and the proportion of interest income continued to increase. During the Reporting Period, interest income from retail loan business amounted to RMB1.471 billion, representing an increase of RMB368 million or 33.39% year on year, accounting for 29.92% of the interest income from loans of the Bank. The average interest rate of retail loans (excluding credit cards) was 5.35%, representing an increase of 13 basis points over the same period of last year.

The Bank enhanced service efficiency and built quality channels for housing loans. The Bank explored the “headquarter-to-headquarter” cooperation channels through collaborating with top-ranking developers and intermediaries across the country aiming to seize business opportunities from the source. While thoroughly preventing and controlling risks, the Bank obtained customers in batches through constructing quality channels and conducting the housing loan business using a wholesale approach. As at the end of the Reporting Period, the balance of personal housing loans of the Bank reached RMB40.278 billion, representing an increase of RMB3.515 billion or 9.56% as compared with that at the end of the previous year. The number of customers reached 78.9 thousand, representing an increase of 5.4 thousand as compared with that at the end of the previous year.

The Bank promoted inclusive finance and fully supported the development of the real economy. During the Reporting Period, the Bank solidly implemented national policies and regulatory requirements and actively supported the financing needs for the resumption of work and production of individual business owners and owners of Small and Micro Enterprises. The Bank further optimized its services and improved the efficiency of approvals. During the pandemic, the Bank carried out “three non-stops,” which are non-stop handling of business, non-stop review and approval, and non-stop loan provision, ensuring the reviews and approvals of inclusive loans were concluded in two days. As at the end of the Reporting Period, the balance of personal inclusive loans reached RMB9.271 billion, representing an increase of RMB2.377 billion or 34.47% as compared with that at the end of the previous year. For customers acquisition, by adopting a clustered marketing model, exploring a large number of customers and integrating segmented industries with regional characteristics, the Bank has launched innovative products such as “Engineering Machinery Loan\*(工程機械貸)” and “Talent Loan\*(人才貸)” as well as deepened and thoroughly conducted its featured business. As at the end of the Reporting Period, the number of personal inclusive loans reached 38.1 thousand, representing an increase of 25.8 thousand as compared with that at the end of the previous year.

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. During the Reporting Period, the Bank deepened its relationship with existing core corporations and customers and granted credit of RMB1.056 billion to a total of 1,582 distributors with a loan balance of RMB203 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 1,134.1 thousand loans with an amount of RMB11.881 billion. As at the end of the Reporting Period, the balance of loans was RMB12.538 billion, representing an increase of 22.27% as compared with that at the end of the previous year.

### **3. Credit card business**

The operation basis of the Bank's credit card business has been taking shape and the business' effect of scale has been manifesting gradually. As at the end of the Reporting Period, the cumulative number of credit cards (excluding business cards) issued by the Bank reached 1,584.0 thousand, representing an increase of 174.89% year on year with a cumulative transaction amount of RMB16.065 billion during the Reporting Period. Overdraft balance reached RMB4.355 billion, representing an increase of 181.12% year on year.

The Bank explored channels of and increased efficiency for obtaining customers. Firstly, the Bank adhered to the concept of win-win cooperation and explored channels for obtaining customers across sectors from the Internet and traditional companies. Secondly, by effectively leveraging online and offline resources, the Bank further promoted the online and offline issue of cards to merchants. Thirdly, through achieving cross-marketing on retail customers leveraging big data, the Bank sought potential customers at a deep level. Fourthly, the Bank insisted on prioritizing customer experience and continually optimized card application experience to effectively attract more customers.

The Bank leveraged financial technology and realizing the thorough development of our business. In respect of obtaining customers, the Bank profiled regional customers' features adopting artificial intelligence technology to obtain customers under the one-city-one-policy strategy. In respect of activation, the Bank fully leveraged big data in pursuit of the best approach to activate the life cycle of credit cards. In respect of marketing, the Bank accelerated the construction of the marketing system and realizing the marketing effect of "different faces of different customers". In respect of risk control, the Bank further enlarged the application of artificial intelligence technology in customer eligibility's approval and quota management. By closely monitoring the changes and trends of risks in the industry, the Bank continuously optimized risk management policies.

### **4. *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 9,999, representing an increase of 1,114 or 12.54% as compared to the end of last year, and the assets retained in the Bank amounted to RMB42.750 billion, representing an increase of RMB4.628 billion or 12.14% as compared to the end of last year.

During the Reporting Period, the Bank focused on enhancing the capability to serve remote and online customers, thereby businesses increased rather than decreased during the pandemic. Cumulative sales agency amount of trust products reached RMB4.574 billion. Insurance premiums from agency sales amounted to RMB162 million, and agency sales of open-ended funds amounted to RMB1.409 billion. During the Reporting Period, the Bank realized wealth management fee and commission income of RMB109 million, representing a year-on-year increase of 159.52%. The management fee and commission income exceeded the total amount of the year last year, of which fee and commission income from agency sales of trust products amounted to RMB86 million representing a year-on-year increase of 308%.

### **5. Customer service management**

During the Reporting Period, the Bank took a series of actions to enhance its service value with its focus pinned on “customer base”. Firstly, under the guideline of offering a “warm and valuable” service experience, the Bank exploited the opportunities arising from the upgrade of the IT infrastructure of its outlets while increasing its efforts in service exploration and capitalization and promotion of its 5+N services, taking a firm grip on the opportunities for “face-to-face” services, further promoting the exploration of its service value by building new business halls that prioritize “operation, connection and experience” so as to strengthen its outlets’ capability to obtain and vitalize customers. Secondly, the Bank successfully launched the smart customer service chatbot via its official WeChat account following the launch of its online banking services. Based on the deep learning and artificial intelligence technology, the chatbot revolutionized the existing but outdated customer support model which relies merely on telephone and provided a caring and smart online customer service, which further enhanced the online customer experience and strengthened its capability to offer one-stop solutions. Thirdly, the Bank’s “Qingxin Service” highlighted humanistic care during the COVID-19 pandemic outbreak and opened up a new chapter of its caring service. To satisfy the customers’ needs for financial services during the unprecedented period of COVID-19 pandemic prevention and control, the Bank coordinated its online and offline business operations and constantly improved its emergency service mechanism so as to provide customized services for its customers in order to comprehensively satisfy their specific needs. The Bank took concrete actions to improve people’s livelihood and convey love and strength, which turned into over 3,000 touching stories taking place during the COVID-19 pandemic campaign under the theme of “Qingxin service is always there for you, filled with love”.

### **12.2 Corporate banking**

During the Reporting Period, in terms of corporate banking, the Bank focused on strengthening key areas and promoting coordinated business development. It strengthened its foothold in public finance, specialized in finance of listed enterprises and continued to develop inclusive finance. The Bank introduced fine customer categorization and classified management while continuing to expand its customer base, with focus on building superior products to penetrate the market, supported by technology and precision marketing. The Bank also reshaped its product design processes so as to be more customer-oriented. All these measures have contributed to an integrated development landscape with well-coordinated head office-branch operation as well as a synergized network of products, customers and resources, resulting in a steady growth in both scale and efficiency of its corporate banking business. During the Reporting Period, the Company’s corporate banking business recorded operating income of RMB3.088 billion, representing a year-on-year increase of 32.16%, accounting for 50.75% of the Company’s operating income.

### 1. *Corporate deposits*

As at the end of the Reporting Period, the balance of corporate deposits (excluding accrued interest) reached RMB180.577 billion, representing an increase of RMB32.696 billion as compared with that at the end of the previous year. Newly added corporate deposits reached an all-time high, representing an increase of 22.11%, accounting for 68.46% of the balance of various deposits (excluding accrued interest). In particular, corporate demand deposit amounted to RMB100.935 billion, representing an increase of RMB8.341 billion or 9.01% as compared with that at the end of the previous year. Corporate time deposit amounted to RMB79.642 billion, representing an increase of RMB24.356 billion or 44.05% as compared with that at the end of the previous year, accounting for 44.10% of corporate deposits. The significant proportion and increase in time deposits will help identify long-term and stable liabilities. The average cost rate of corporate deposits was 1.77%.

During the Reporting Period, the Bank fully implemented the “Campaign 630 of Enhancement Plan 2.0” to closely monitor the cash flows of public finance, major projects, bond issuance, etc. and strengthen the market competitiveness of its products such as structured deposits. The Bank blended in with the local economy and actively participated in the open tender for projects in relation to fund deposits and key accounts of government agencies and business units. During the Reporting Period, the Bank successfully connected to the provident fund system, and entered into cooperation with the National Healthcare Security Administration, the Bureau of Education, the People’s Court and the Finance Bureau, and opened up a positive situation for deposit marketing in such key areas as healthcare, education and law.

### 2. *Corporate loans*

As at the end of the Reporting Period, the Bank’s balance of corporate loans (including discounted bills) amounted to RMB141.349 billion, representing an increase of RMB23.062 billion as compared with that at the end of the previous year. Newly added corporate loans reached an all-time high, representing an increase of 19.50%, accounting for 69.70% of the balance of various loans (excluding accrued interest). In particular, the balance of the loans for inclusive Small and Micro Enterprises of the Bank was RMB16.679 billion, representing an increase of RMB2.668 billion, or 19.04% as compared with that at the beginning of the year, and the average interest rate of loans to inclusive Small and Micro Enterprises was 5.73%. The balance of the loans of private enterprises reached RMB62.741 billion, representing an increase of RMB9.463 billion, or 17.76% as compared with that at the beginning of the year, accounting for 44.39% of the total corporate loans. The balance of green credit was RMB15.404 billion, representing an increase of RMB3.817 billion, or 32.94% as compared with that at the beginning of the year, accounting for 10.90% of the total corporate loans.

During the Reporting Period, the Bank continued to implement the major decisions and deployments of the Central Committee of the Chinese Communist Party and the State Council aiming to win the battle against the COVID-19 outbreak. The Bank launched innovative services by adjusting its credit policies and opening a green channel for loan approval to support the COVID-19 combating efforts as well as the resumption of work and production. Meanwhile, the Bank implemented the spirit of the Central Economic Work Conference, actively 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, Small and Micro Enterprises and manufacturing businesses and giving priority to the financing of projects in the areas of inclusive finance, green finance, technology finance and the blue economy. 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.

### **3. Corporate customers**

As at the end of the Reporting Period, the number of corporate customers of the Bank reached 183.2 thousand, representing an increase of 10.8 thousand or 6.26% as compared with that at the end of the previous year. The number of corporate customers with a deposit of RMB10 million or more reached 1,703, representing an increase of 211 from the beginning of the year. During the Reporting Period, there were 274 new transaction banking customers, including 42 cash management customers and 227 international business settlement customers. In addition, the Bank promoted precision marketing with marketing guidelines for key customer groups such as inclusive finance and listed finance. During the Reporting Period, the number of customers of the listed enterprises finance increased by 14 to 114, and the number of loans to inclusive Small and Micro Enterprises reached 40.1 thousand, representing an increase of 26.2 thousand as compared with that at the end of the previous year, and featured branches serving Small and Micro Enterprises totaled 13.

The Bank categorized and expanded its customer base under the operation principle of industry professionalism and customer diversification so as to explore the potential of strategic customers. During the Reporting Period, the Bank entered into cooperation with the People's Governments of Zibo, Weifang and Taian, as well as leading enterprises and groups in various fields of Shandong Province, while actively expanding its strategic customer base. During the Reporting Period, the Bank launched its intelligent Customer Relationship Management (CRM) for corporate customers, and established the capability of hierarchical management of customers based on customer structure, contribution, balance of deposits and exploration of the potential of customers.

### 4. *Corporate products*

During the Reporting Period, the Bank kicked off the “network construction” of its corporate banking business so as to serve the market needs and offer superior products with multi-dimensional linkage. The Bank also polished and optimized its existing products and enriched its business scenarios through rebuilding the product design process. Through innovation, comparison, and exploitation of new market needs and products of the peers, and integrating them to create a full range of products comprising assets, liabilities and intermediary business, the Bank has built a comprehensive product system that spans across various industries and different scales of customer groups.

During the Reporting Period, the Bank launched the “anti-coronavirus loan (抗疫貸)” to support Small and Micro Enterprises in resuming work and production and debuted innovative featured products such as “Shi Yi Loan\* (食宜貸)”, “Yi Dai Tong\* (醫貸通)” and “Anti-Coronavirus Discount\* (抗疫貼)”. The Bank also worked with the Bureau of Commerce and Finance of Shandong Province to launch “Lu Mao Loan\* (魯貿貸)”, aiming to relieve the financing pressure of the foreign trade companies. The Bank concluded the first cross-border Kazakhstan Tenge settlement in Shandong, and was the first in Shandong Province to establish direct link with the cross-border financial block chain service platform of State Administration of Foreign Exchange. With the official launch of its mobile corporate banking service, the Bank has further optimized its channels for handling corporate banking business.

### 12.3 Financial Market Business

During the Reporting Period, in terms of financial market business, the Bank continued to optimize structural quality and effectiveness and enhance support for the financial market. The Bank leveraged on advantage as a bank corporation to enhance its underwriting strength and coordination capability. The Bank has also expanded the coverage of bond underwriting business, enlarged and solidified underwriting businesses by encouraging business innovations and improving product lines. Through facilitating the growth in investments and deposits linkages, the Bank optimized asset structure and improved investment quality. The level of the Bank’s technology empowerment further raised by the construction of the information technology system and expanded online service channels. During the Reporting Period, the Company’s financial market business realized operating income of RMB1.691 billion, representing an increase of 56.60% year on year, accounting for 27.80% of the Company’s operating income.

### **1. Proprietary investment**

During the Reporting Period, the Bank continued to improve the investment portfolio, enhancing investment quality and efficiency, and increasing investment gain while reducing specific purpose vehicle investment and risk assets as well as saving capital appropriation. During the Reporting Period, the Bank's total amount of interest income and investment gain on proprietary financial investment amounted to RMB3.717 billion, representing a year-on-year increase of RMB281 million or 8.19%. The increase was mainly attributable to the spread income of the bonds realized through bond transactions in secondary markets. While realizing an increase in assets, the high-risk occupancy in non-standard assets was reduced, and the proportion of allocation in bond accounts was adjusted.

As at the end of the Reporting Period, the Bank's proprietary investment (excluding accrued interest) reached RMB170.666 billion, representing an increase of RMB29.590 billion or 20.97% as compared to the end of the previous year. Among them, the scope of bond investment (excluding accrued interest) reached RMB111.968 billion, representing an increase of RMB26.999 billion or 31.77% as compared with that at the end of last year, which was mainly attributable to the increase in investment in central government bonds as well as local government bonds and corporate entity bonds. The scope of non-standard debt investment (excluding accrued interest) reached RMB58.675 billion, representing an increase of RMB2.592 billion or 4.62% as compared with that at the end of last year, which was mainly attributable to the increased investment in public bond fund products. Except for public funds, other asset management plans and commercial bank wealth management investment showed a significant downward trend.

### **2. Interbank business**

During the Reporting Period, the Bank participated in the nationwide interbank market transactions, increasing the breadth and depth of transactions. The breadth of transactions represents the diversity of transactions, which the Bank participated in "probationary market maker" transactions and derivatives transactions. The depth of transactions represents the increase in volume of transactions. During the Reporting Period, the delivery amount of bonds of the Bank in the interbank market nationwide reached RMB7.46 trillion. In the ranking of delivery amount of bonds issued by China Central Depository & Clearing Co., Ltd., the Bank ranked No. 24 among national financial institutions and No. 6 among city commercial banks. During the Reporting Period, the Bank obtained multiple qualification licenses, including ordinary class derivatives transaction business qualification, interest rate options business qualification, and standard bond forward business qualification, becoming the quotation agency for "Bond Connect", and joined the RMB versus Tenge regional transaction market to enrich its risk management tools and to better provide financial services for customers.



## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

As at the end of the Reporting Period, the balance of interbank deposits (excluding accrued interest) was RMB11.640 billion, representing a decrease of 30.16% as compared with that at the end of the previous year. Interbank deposits accounted for 2.91% of total liabilities. Among them, the interbank demand deposit accounted for 29.39%, down by 2.21 percentage points as compared with that at the end of the previous year. The balance of interbank deposit certificates issued amounted to RMB57.649 billion, representing an increase of 11.42% as compared with that at the end of the previous year. Interbank deposit certificates issued accounted for 14.42% of total liabilities.

### **3. Asset management**

Under the market background of promoting wealth management business net-worth transformation according to regulatory requirements, the balance of the Bank's wealth management products has grown steadily on the basis of a consolidated scale of RMB100 billion, and the income of wealth management business increased significantly.

As at the end of the Reporting Period, wealth management products of the Bank reached 813, with a balance of RMB104.512 billion, and the scale of wealth management increased by 27.20% over the same period of the previous year. During the Reporting Period, wealth management products issued by the Bank reached 946, raising a total amount of RMB251.505 billion, all of which were non-principal-guaranteed wealth management products, representing an increase of 34.21% as compared to the same period of the previous year. During the Reporting Period, the Bank realized service fee revenue from wealth management products of RMB673 million, representing an increase of RMB354 million or 111.35% as compared to the same period of the previous year.

As at the end of the Reporting Period, the balance of the Bank's wealth management investment products amounted to RMB125.758 billion, and asset types directly and indirectly invested mainly include fixed return type, non-standard debt assets type and capital market assets type, etc. Among them, fixed return assets amounted to RMB104.706 billion, accounting for 83.26%. Non-standard debt assets amounted to RMB10.473 billion, accounting for 8.33%. Public funds amounted to RMB6.559 billion, accounting for 5.22%. Capital market assets amounted to RMB4.020 billion, accounting for 3.19%.

The Bank's net-worth wealth management transformation continued to deepen, further consolidating our market position. As at the end of the Reporting Period, the scale of net-worth wealth management products of the Bank was RMB88.364 billion, accounting for 84.55% of the total product scale. During the Reporting Period, the Bank was awarded the "Advanced Institution Award in Asset Management Business for 2019" by China Central Depository Trust & Clearing Co., Ltd. According to the Bank Wealth Management Capabilities Ranking Report (the Year of 2019) published by PY Standard, the Bank ranked 6th in comprehensive capabilities of wealth management business among city commercial banks, and continued to rank first in comprehensive capability of wealth management and in each individual ranking in Shandong Province.

During the Reporting Period, the Bank received the approval on the establishment of Qingyin Wealth Management from CBIRC, Qingyin Wealth Management became the first wealth management subsidiary of a city commercial bank approved in the Northern Yangtze River area and the sixth within the whole country. Qingyin Wealth Management was proposed to be established solely by the Bank. A series of construction work such as the Company's establishment of strategic position, construction of organizational structure, design of risk control plans and planning of IT system have complied with high standard and strict requirements during the period of establishment, steadily progressing its establishment work.

#### **4. *Investment banking***

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

During the Reporting Period, the Bank deeply explored the existing market to increase participation in the bond issuance business, while strengthened cooperation with non-bank financial institutions to expand incremental business opportunities. During the Reporting Period, the Bank underwrote and issued 30 bonds of various types, involving an issue size of RMB16.280 billion, and the Bank's underwriting proportion was RMB11.043 billion. As compared to the same period of the previous year, the number of issuance items increased by 15, which doubled year-on-year. The issue size increased by RMB10.250 billion or 169.98%, and the Bank's underwriting proportion increased by RMB6.336 billion or 134.61%. Under the impact of COVID-19, the Bank's financing amount in the debt capital market projects achieved breakthroughs, contributing to the development of the real economy and the resumption of production and work.

### 12.4 Distribution channels

#### 1. *Physical distribution channels*

The business outlets of the Bank are based in Qingdao with its footprint covering all corners of Shandong Province. As at the end of the Reporting Period, the Bank had 143 business outlets including 14 branches in 14 cities in Shandong Province, including Qingdao, Jinan, Dongying, Weihai, Zibo, Dezhou, Zaozhuang, Yantai, Binzhou, Weifang, Laiwu, Linyi, Jining and Taian. The Bank had its head office, a branch and 80 sub-branches located in the vicinity of Qingdao. BQD Financial Leasing, the Company's holding subsidiary, is based in Qingdao and has set up an office in Shanghai.

#### 2. *Self-service banking channels*

As at the end of the Reporting Period, the Bank had 104 self-service banks and 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 banks 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 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 the rapid update of its products and services.

##### (1) *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 tasks, laying a solid foundation for 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.

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## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

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The mobile banking user size of the Bank maintained rapid growth. As at the end of the Reporting Period, the Bank recorded 2.6246 million mobile banking users, representing an increase of 11.39% as compared with that at the end of the previous year; 30.5383 million transactions, representing a decrease of 2.19% as compared with that in the same period of the previous year; a transaction amount of RMB185.77 billion, representing a decrease of 0.40% 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 RMB16.667 billion. The transaction volume of wealth management products sold via mobile banking accounted for 85.96% of that via various channels, representing an increase of 8.47 percentage points as compared with that at the end of the previous year.

### (2) *Internet banking*

As at the end of the Reporting Period, the Bank had a total of 125.7 thousand online corporate banking customers, representing an increase of 7.16% as compared with that at the end of the previous year. During the Reporting Period, the Bank's accumulated number of transactions totaled 7,761.0 thousand, representing an increase of 18.73% as compared with that at the end of the previous year while the value of total transaction amounted to RMB852.667 billion, representing an increase of 46.23% as compared with that in the same period of the previous year. Number of online retail banking customers totaled 735.3 thousand, representing an increase of 0.33% as compared with that at the end of the previous year. The Bank accumulated a total of 20,935.5 thousand transactions during the Reporting Period, representing a decrease of 59.77% as compared with that in the same period of the previous year. The transaction amount reached RMB125.445 billion, representing a decrease of 34.10% as compared with that in the same period of the previous year.

### 12.5 Information technology

During the Reporting Period, the Bank comprehensively implemented the strategy of scientific and technological innovations, combined with the new financial concept of "Finance + Technology + Scenarios", accelerated the application of emerging technologies such as big data, artificial intelligence, cloud computing, 5G technologies and biometrics, gradually improved the construction of the comprehensive risk management system for "stability," accelerated the application of new technologies for "agility" and accelerated the response to business demand, hence 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 smart banking, inclusive finance and other aspects***

During the Reporting Period, the Bank stepped up its efforts in the construction of technology projects, launched 15 new IT projects, and successfully completed the launch of 13 key projects, including the smart outlets of the Shinan Sub-branch and corporate mobile banking. The Bank made every effort to promote the construction of 33 projects under construction such as 5G technologies, smart marketing and cloud data center and orderly promoted the digital transformation of operation.

The first smart bank of the Bank that incorporates a variety of cutting-edge technologies such as biometrics, artificial intelligence and 5G technologies has commenced business. Through the “5G+smart bank” developed from digital transformation, the smart bank offers a brand new digital experience for customers.

The Bank also strengthened cross-sector cooperation with third-party companies, government organizations and online platforms and actively utilized financial technologies to create new models and formats of inclusive finance. The Bank’s interface banking that integrates with third-party platforms facilitates the provision of credit facilities to upstream and downstream companies of the supply chain, effectively solving the problem of difficult and expensive financing for Small and Micro Enterprises.

The channels and products for corporate customers of the Bank have been constantly expanded. The newly-launched corporate mobile banking offers one-stop online financial services for companies 24 hours a day, 7 days a week. The Bank’s cross-border financial blockchain service platform connects the State Administration of Foreign Exchange, which has made the Bank the first corporate bank directly connected with an online cross-border financial blockchain service platform in Shandong Province and comprehensively improved the quality and efficiency of financing for export companies.

The Bank continued to enhance the intelligent and personalized construction of mobile banking and gradually achieved the comprehensive transformation from “card era” to “App era”. The Bank’s personal mobile banking service offers users a new smart mobile financial experience with multiple scenarios, intelligence, great customer experiences and powerful security features by successively launching new wealth management and remittance modules and introducing voice recognition technology.

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## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

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### **2. *Strengthened information technology risk management and fully safeguarded the security of information systems***

The Bank attached great importance to information security management and control and kept on enhancing the management of IT risks, strengthened active operation and maintenance to enhance system availability and IT service level. The Bank successfully fulfilled its mission to safeguard the information system and security of the Internet during the “Two Sessions” by implementing a variety of initiatives such as “zero-fault launch” to reduce change risks and ensure the reliable, stable, continuous and efficient operation of information systems.

### **3. *Improved IT strategic planning and constructed blueprints for digital transformation***

The Bank established and improved IT strategic plans to enhance its core IT capability and focused on constructing strategic blueprints that supported the overall digital transformation of the Bank.

By constantly optimizing the internal organizational structure of the technology team and increasing efforts in recruiting digitalization talents and nurturing multi-skilled talents, the Bank optimized its technology resource allocation, explored and adopted the appraisal and salary systems required for digital transformation and deepened the integration of technology with business. Through employee empowerment, the Bank enhanced the core capabilities of its IT teams, which in turn facilitated the innovation, transformation and development of the Bank’s businesses.

## **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 “Section IV Management Discussion and Analysis – 12. Overview of Business Development – 12.3 Financial Market Business – 3. Assets management” of this report.

## **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 are mainly derived from loan portfolios, investment portfolios, guarantees and commitments. Several departments including the Credit Management Department, Credit Approval Department, Personal Loan Department and Financial Market Business Unit, etc., are responsible for 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 credit portfolios, including those subject to central approval.

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

The Company is committed to the establishment of a credit risk management system with comprehensive functions, controlled and balanced risks, a streamlined structure and high efficiency as well as well-delegated authority and duties. The risk management procedures and methods are constantly being improved and the policy system is being optimized. The credit approval procedures have been reshaped and optimized while risk screening is conducted to pre-assess risk trends. Asset quality and quantity are further controlled and monitored to heighten the clearing and receiving of risky assets. The Bank continues to build an accurate and efficient risk-monitoring system and a quick-response mechanism through strengthening smart risk control capabilities. During the Reporting Period, the Company focused on the following areas to strengthen its credit risk management:

1. Implemented the Group's credit risk management and control mechanism and unified risk appetite and risk control standards. Based upon its persistent implementation of unified credit extension, the Company had been actively promoting the inclusion of large sum risk exposure management into the work of the comprehensive risk management system. By adopting a top-level design and focusing on improving relevant rules and regulations, the Company moved forward with the construction of a multi-level unified credit extension system covering a full range of customers, assets and the entire institution and the construction of a large sum risk exposure management system, which maintained the stability of the overall credit quality and quantity of the Group.
2. The Bank constantly strengthened the management and control of asset quality and quantity indicators, implemented dynamic refined management, strengthened the pre-assessment and analyses of the trends of risk migrations and changes and enhanced preprocessing capabilities for risk signals. The Bank intensified risk screening on potentially risky customers, actively controlled and monitored the trends of risk changes and stepped up efforts in increasing cash collection and cancellation of non-performing loans. The asset quality and quantity indicators of the Bank had maintained a positive and stable level. The loans that were overdue more than 60 days continued to be managed as non-performing loans.
3. Adjustments to the credit policy had been made in a timely manner and the leading of our credit policy had been enhanced. The Bank increased anti-epidemic enterprises and prioritized the support for industries relating closely to people's basic livelihood, for which the Bank arranged a special limit and established a green credit channel so as to specifically handle such special case with quick approval process and granting of credit. The Bank set up a green channel leading team regarding credit and payment and formulated a credit working plan for the prevention and control of the coronavirus epidemic. The Bank also introduced various measures for enhancing services while actively carrying out on-lending loans business to small and medium-sized enterprises with simplified procedures and fast and favorable services. The Bank actively adopted national bailout policies for enterprises facing temporary difficulties, so the enterprises could overcome the difficulties.

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## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

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4. By comprehensively organizing the process of system modification, the Bank built an intensive credit management system with high-efficiency. The credit business operational process was optimized while credit management work efficiency was enhanced. The Bank had improved the post-loan supervision working method and set up a system of letter of supervising to carry out post-supervision orderly as well as tracking and rectifying the problems found. According to changes in the impact of the epidemic, the Bank would strengthen risk screening. The Bank would also implement differentiated post-loan management measures and consolidate the “before-loan investigation, loan-granting review and after-loan inspection” basis while sticking to the bottom line of risk.
5. The Bank continued to explore the use of advanced mobile Internet technology, imaging technology and risk measurement tools. The Bank introduced channel data to improve the timeliness and accuracy of risk assessment and early warning, realize efficient and intensive credit management in branches, and increase the use of information technology in credit management.

During the Reporting Period, the Company further improved its asset quality and put its credit risks under effective management and control through the above measures.

### 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 pay debts due even if the bank’s solvency remains strong.

The objective of the Company’s liquidity risk management is to ensure that the Company has sufficient cash flows to meet payment obligations and fund business operations on a timely basis. Based on its development strategy, the Company continuously improved its level of liquidity risk management and measures, strengthened its capability of identifying, monitoring, measuring and refining the management and control of liquidity risks, and maintained a reasonable balance between liquidity and profitability. The Company monitors future cash flows according to its liquidity risk 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.



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## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

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The Company measures, monitors, and identifies liquidity risks from the perspectives of short-term provision and structure, 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 risks 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. Constantly strengthening liquidity risk management on a daily basis, optimizing the function of position management and improving the efficiency in position warning;
2. Continuously promoting the growth of its proprietary deposits, strengthening key customer group marketing strategy and other measures, strengthening control at key time points, and adopt multiple strategies to promote steady growth of deposits, and the stability of liabilities was enhanced;
3. Dynamically regulating the release of credit assets, continue to optimize the asset structure, and realize the stable operation of assets and liabilities;
4. Strictly implementing liquidity risk limit management, fulfilling obligations from all business lines, and dynamically monitoring the operation of liquidity risk limit indicators;
5. Increasing investment in qualified and high-quality bonds, maintain adequate liquidity reserves, and further improving liquidity risk buffer capacity.

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

As at the end of the Reporting Period, details of the liquidity coverage ratio and net stable funding ratio of the Company are as follows:

<b>Liquidity coverage ratio item (RMB'000)</b>	<b>30 June 2020</b>	31 December 2019
Qualified and high-quality current assets	<b>75,830,413</b>	78,152,065
Net cash outflows in next 30 days	<b>47,388,291</b>	54,930,790
Liquidity coverage ratio	<b>160.02%</b>	142.27%

*Note:* 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.

<b>Net stable funding ratio (RMB'000)</b>	<b>30 June 2020</b>		31 March 2020	
	<b>The Company</b>	<b>The Bank</b>	The Company	The Bank
Available stable funding	<b>246,428,181</b>	<b>243,844,029</b>	224,115,387	220,948,714
Required stable funding	<b>235,882,448</b>	<b>228,724,512</b>	215,816,615	208,642,719
Net stable funding ratio	<b>104.47%</b>	<b>106.61%</b>	103.85%	105.90%

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

For more details on the Company's liquidity risk management, please refer to "Notes to the Unaudited Interim Financial Report – 42(3) Liquidity Risk" of this report.

### 14.3 Market Risk Management

Market risk refers to the risk of loss of on-balance sheet and off-balance sheet businesses due to adverse changes in market factors (interest rates, exchange rates, commodity prices and stock prices, etc.). 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.

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## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

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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 Banking Financial Institutions Supervision Information 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.

### ***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.

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. 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 Company 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 Company's net interest income and economic value according to various risk sources, and puts forward management recommendations and business adjustment strategies based on the report generated from the analysis results. During the Reporting Period, the Company paid close attention to policy trends and changes in the external interest rate environment to improve the level of refined management on interest rate risk. The Company realized a stable growth in net interest income by proactively adjusting business pricing and structure strategies of its asset and liability, while ensuring that the interest rate risk as a whole was within control.

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

### 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 2020 and 31 December 2019.

Unit: RMB'000

<b>Item</b>	<b>30 June 2020 (Decrease)/ Increase</b>	<b>31 December 2019 (Decrease)/ Increase</b>
Change in annualized net interest income		
Interest rate increase by 100 bps	<b>(713,548)</b>	(438,707)
Interest rate decrease by 100 bps	<b>713,548</b>	438,707

Above sensitivity analysis is based on a static interest rate risk profile of assets and liabilities. The relevant analysis only measures only the changes in the interest rates within one year, reflecting 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 matured within three months and after three months but within one year are repriced or matured at the beginning of the respective periods (i.e. all the assets and liabilities that are repriced or matured within three months are repriced or matured immediately, and all the assets and liabilities that are repriced or mature after three months but within one year are repriced or matured 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 the portfolio of assets and liabilities 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. The 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 based on the above assumptions.

## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

### 14.3.3 Analysis of exchange rate risk

The Company's exchange rate 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 within an acceptable range through strictly managing and 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 2020 and 31 December 2019.

Unit: RMB'000

<b>Item</b>	<b>30 June 2020 Increase/ (Decrease)</b>	<b>31 December 2019 Increase/ (Decrease)</b>
Change in annualized net profit		
Foreign exchange rate increase by 100 bps	<b>9,731</b>	9,511
Foreign exchange rate decrease by 100 bps	<b>(9,731)</b>	(9,511)

Above 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 the management. The 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 based on the above assumptions.

### 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. The Company's operational risk mainly arises from four types of risk factors, including personnel risk, process risk, information system risk and external event risk. The Board considers the operational risk as a major risk faced by the Company and has effectively shouldered the ultimate responsibility for monitoring of operational risk management. The senior management has control of the overall condition of the Company's operational risk management and strictly implemented the operational risk management strategies and policies approved by the Board.

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 Company actively improved the operational risk management system, effectively identified, evaluated, monitored, controlled and mitigated operational risks, vigorously promoted the enhancement of the level of operational risk management in accordance with the relevant policies of the Operational Management Policy of Bank of Qingdao, and its operational risks had been well contained. During the Reporting Period, the Bank focused on enhancing its operational risk management in the following areas:

1. Consistently strengthening case prevention and control to build solid lines of risk prevention. The Bank created a linkage mechanism for conducting risk screening and case warning education activities on a regular basis, put emphasis on staff's behavior management and ideological source governance, so that the Bank could timely discover and deal with potential risks and strictly prevent any crime at its early stage.
2. Proactively conducting inspections on key business areas to enhance risk prevention and mitigation capabilities. Focusing on key businesses and key areas of the Bank, combined with on-site and off-site inspection requirements for external supervision, the Bank conducted self-examinations and inspections in various forms, discovered problems in a timely manner and implemented rectifications, so as to strengthen internal control management measures and enhance risk prevention and mitigation capabilities.

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## SECTION IV MANAGEMENT DISCUSSION AND ANALYSIS

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3. Continuously strengthening information technology application and business continuity management to ensure the normal operation of the system and businesses. The Bank expanded the application of innovative information technology to build various automatic operation and maintenance scenes, to push forward platform establishment and to raise the automatic operation and maintenance level, which scaled down overall man-made and systematic operational risks in data centers. The Bank continued to promote the establishment of the business continuity management system, improved the system construction of emergency plans, organized and conducted business continuity drills, and enhanced the relevant personnel's ability to respond to emergencies and their ability to work collaboratively.
4. Conducting system establishment and employee training in a robust manner to ensure the regulated operation of various businesses. By taking a series of actions including optimizing the system formulation process, reinforcing the implementation of the system and refining management duties, the Bank comprehensively created a system governance environment of "the unity of knowledge and action" from the aspects of the system itself, enforcement and responsibility shouldering and formulated systems that regulate the Bank comprehensively and effectively. The Bank continuously strengthened staff training, paid attention to practical operational guidance training for new staff, and valued on-the-job education and training so as to raise staff's business operation level and increase their awareness of "full compliance", which helped strictly prevent man-made operational risks.

### 15. DEVELOPMENT PLAN IN THE SECOND HALF OF 2020 OF THE COMPANY

#### 15.1 Operating Situation Analysis for the Second Half of the Year

In the second half of 2020, as global major economies gradually resume work and production, the global economic downturn will gradually narrow. Although China's economy is still under great pressure, it is expected to take the lead in recovery. The operating pressure of the banking industry is relatively high, but under the political environment of "proactive fiscal policies for positive outcomes and stable monetary policies for greater flexibility", there will be structural opportunities for city commercial banks with guaranteed capital and management.

### 15.2 Development Guiding Ideology for the Second Half of the Year

In the second half of 2020, under the guidance of the strategic goal of “being a bank that offers new quality financial products with advanced technology, lean management and outstanding features”, the Bank will continue to follow the basic operating guiding principle of “adopting to changing times, strengthening characteristics, overcoming challenges and developing steadily”, while continuing to promote business improvement, we will actively explore effective breakthroughs in management improvement to lay a solid foundation for the transformation into a regional medium-sized bank.

### 15.3 Major Work Measures in the Second Half of the Year

- (1) Political aspect: improve political position and strengthen its implementation;
- (2) Wholesale business: strengthen key areas and coordinate development;
- (3) Retail business: continue to expand customer base and strengthen the foundation;
- (4) Risk management: ensure asset quality, improve management and control;
- (5) Management enhancement: focus on top-level design and to achieve key breakthroughs;
- (6) Outlet construction: implement organizational planning and improve management;
- (7) Technology empowerment: explore new technology applications and accelerate transformation;
- (8) Comprehensive management: strengthen Party building to achieve overall enhancement.



## SECTION V SIGNIFICANT EVENTS

### I. CONVENING OF ANNUAL GENERAL MEETING AND EXTRAORDINARY GENERAL MEETING DURING THE REPORTING PERIOD

#### 1.1 Shareholders' general meeting during the Reporting Period

Session of meeting	Type of meeting	Participation percentage of investors	Date of convening	Date of disclosure	Index of disclosure
2019 annual general meeting	Annual general meeting	49.728896%	7 May 2020	7 May 2020	Announcement of resolutions of the 2019 annual general meeting (Announcement No. 2020-022) published on China Securities Journal, Shanghai Securities News, Securities Times, Securities Daily, the CNINFO website ( <a href="http://www.cninfo.com.cn/">http://www.cninfo.com.cn/</a> ), the website of the Hong Kong Stock Exchange ( <a href="http://www.hkexnews.hk/">http://www.hkexnews.hk/</a> ) and the website of the Bank ( <a href="http://www.qdccb.com/">http://www.qdccb.com/</a> )

#### 1.2 Request for convening of extraordinary general meeting by preference shareholders with recovered voting rights

During the Reporting Period, there was no request for convening of extraordinary general meeting by preference shareholders with recovered voting rights in the Bank.

### II. PROFIT DISTRIBUTION OR CONVERSION OF CAPITAL RESERVES INTO SHARE CAPITAL DURING THE REPORTING PERIOD

No cash dividend distribution of ordinary shares, no distribution of bonus shares and no increase in share capital with provident fund were planned by the Bank during the interim period.

### III. UNDERTAKINGS FULFILLED DURING THE REPORTING PERIOD AND NOT FULFILLED AS AT THE END OF THE REPORTING PERIOD BY THE DE FACTO CONTROLLERS, SHAREHOLDERS, RELATED PARTIES, ACQUIRERS, THE BANK AND OTHER PARTIES INVOLVED IN UNDERTAKING

There was no de facto controllers and acquirers of the Bank. During the Reporting Period, Qingdao Conson Industrial Co., Ltd., six companies under the Haier Group (including Qingdao Haier Mold Co., Ltd., Qingdao Haier Tooling Development Co., Ltd., Qingdao Haier Robot Co., Ltd., Haier Smart Home Co., Ltd., Qingdao Haier Air-Conditioner Co., Ltd. and Qingdao Haier Special Refrigerator Co., Ltd.) and Intesa Sanpaolo S.p.A. have duly fulfilled their undertakings made in June 2014. For details of the undertakings, please refer to "Section VII Significant Events – III. FULFILLMENT OF UNDERTAKINGS" in the 2019 Annual Report of the Bank.

Save as mentioned above, there were no other undertakings fulfilled during the Reporting Period and not fulfilled as at the end of the Reporting Period by the Bank, shareholders, related parties of the Bank or other parties involved in undertaking.

### IV. ENGAGEMENT OR DISMISSAL OF ACCOUNTING FIRMS

The interim financial report of the Company is unaudited. During the Reporting Period, the Bank did not change the accounting firm.

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## SECTION V SIGNIFICANT EVENTS

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### V. MATTERS RELATED TO BANKRUPTCY AND REORGANIZATION

There was no matter related to bankruptcy and reorganization during the Reporting Period.

### VI. LITIGATION

#### 6.1 Material litigation, arbitration and material cases during the Reporting Period

There was no material litigation and arbitration during the Reporting Period.

#### 6.2 Other litigation and arbitration during the Reporting Period

The Bank is involved in several litigations in the daily operation due to loan collection and other reasons. The Bank does not anticipate that these litigations will have a material adverse impact on our financial or business results. As at the end of the Reporting Period, the Bank was the defendant in eight pending litigations with total amount of claims at RMB213,574.9 thousand, which would not have material adverse impact on the financial or operating results of the Bank, and no provision has been made.

### VII. PUNISHMENT AND RECTIFICATION

As far as the Bank is aware, during the Reporting Period, none of the following circumstances happened to the Bank and Directors, Supervisors or senior management of the Bank, including being investigated by competent authorities, imposed coercive measures by a judiciary authority or disciplinary department, transferred to a judicial authority or held criminally liable, investigated or imposed administrative penalties by the CSRC, banned from access to market, identified as an unsuitable person, imposed significant administrative penalties by other administrative authorities such as environmental protection, safety supervision and taxation, or publicly condemned by a stock exchange.

### VIII. CREDIBILITY OF THE COMPANY, ITS CONTROLLING SHAREHOLDERS AND DE FACTO CONTROLLERS

There were no controlling shareholders and de facto controllers of the Bank. During the Reporting Period, the largest shareholder of the Bank and its de facto controller did not have any failure to comply with any effective court judgement or settle any material debts that have fallen due.

### IX. IMPLEMENTATION OF THE EQUITY INCENTIVE PLAN, EMPLOYEE SHAREHOLDING PLAN OR OTHER EMPLOYEE INCENTIVE MEASURE OF THE BANK

There was no implementation of the equity incentive plan, employee shareholding plan or other employee incentive measure of the Bank during the Reporting Period.

## X. RELATED PARTY TRANSACTIONS

## 10.1 Related party transactions during the ordinary course of business

The Bank conducted related party transactions by strictly following the relevant regulations of the regulatory authorities and the Administrative Measures for the Related Party Transactions of Bank of Qingdao Co., Ltd. (《青島銀行股份有限公司關聯交易管理辦法》) and the Implementation Provisions of the Related Party Transactions of Bank of Qingdao Co., Ltd. (《青島銀行股份有限公司關聯交易管理實施細則》) formulated by the Bank.

According to the requirements of the CBIRC, the Bank reviews and approves related party transactions based on commercial principles and on terms no more favorable than similar transactions with non-related parties. The terms of such transactions are fair and reasonable and in the interests of all shareholders and the Bank as a whole, and there is no negative impact on the operating results and financial position of the Bank. Among which, all credit-related related party transactions were conducted in accordance with relevant laws and regulations, credit granting conditions and the review procedures, and the amount of all the loans was recovered normally with no non-performing loans.

According to the requirements of the CBIRC, during the Reporting Period, there was no significant related party transaction that needs to be put forth to the Board's review and approval. As at the end of the Reporting Period, the Bank's balance of credit-related significant related party transactions was RMB1,528 million, the details of which are as follows:

Unit: RMB in 100 million

Name of Related Party	Type of Business	Way of Guarantee	Balance of	Net Credit after	Percentage of the
			Credit related Significant Related Party Transactions		
Haier Group Finance Co., Ltd.	Interbank bill credit	-	0.88	0.88	0.23%
Haier Financial Factoring (Chongqing) Co., Ltd.	Commercial bill financing	Guarantee	2.10	2.10	0.55%
Qingdao Haier Industry and City Innovation Group Co., Ltd.	Factoring and guarantee	Pledged	0.46	0.46	0.12%
Qingdao Haier Home Integration Co., Ltd.	Commercial bill financing	Guarantee	1.53	1.53	0.40%
Qingdao Haichen Real Estate Development Co., Ltd.	Loan	Mortgage	3.91	3.91	1.02%
Qingdao Haiqi Real Estate Development Co., Ltd.	Commercial bill financing	Guarantee	0.51	0.51	0.13%
Qingdao Haizhi Weichuang Real Estate Co., Ltd.	Commercial bill financing	Guarantee	1.88	1.88	0.49%
Qingdao Haitang Real Estate Co., Ltd.	Commercial bill financing	Guarantee	1.01	1.01	0.26%
Haier Consumer Finance Co., Ltd.	Interbank borrowing	Guarantee	3.00	3.00	0.79%

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## SECTION V SIGNIFICANT EVENTS

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According to the provisions of the CSRC and SZSE, the Bank has made a forecast of the daily related party transactions in 2020 and published the Announcement on Estimated Ordinary Related Party Transactions in 2020 (Announcement No.: 2020-008) on CNINFO website dated 16 March 2020. The related party transactions during the Reporting Period have not exceeded the forecast. The details are as follows:

- (1) Haier Group Corporation (海爾集團公司) and its related parties: The balance of credit-related transactions at the end of the Reporting Period was RMB1,528 million;
- (2) Intesa Sanpaolo S.p.A. and its related parties: There is no balance of credit-related transactions at the end of the Reporting Period; the actual amount of non-credit transactions during the Reporting Period was RMB1.5865 million;
- (3) Qingdao Conson Development (Group) Co., Ltd. and its related parties: The balance of credit-related transactions at the end of the Reporting Period was RMB286 million; the actual amount of non-credit transactions during the Reporting Period was RMB31.8410 million;
- (4) AMTD Group Company Limited (尚乘集團有限公司) and its related parties: The actual amount of non-credit transactions during the Reporting Period was RMB12.4103 million;
- (5) BQD Financial Leasing Company Limited: There was no balance of credit-related transactions at the end of the Reporting Period; the actual amount of non-credit transactions during the Reporting Period was RMB0.1274 million;
- (6) Related natural persons: The balance of credit-related transactions at the end of the Reporting Period was RMB218 million and the risk exposure was RMB218 million.

### **10.2 Related party transactions in connection with acquisition or sale of assets or equity interest**

There was no related party transactions of the Bank in connection with acquisition or sale of assets or equity interest during the Reporting Period.

### **10.3 Related party transactions in connection with joint external investment**

There was no related party transactions of the Bank in connection with joint external investment during the Reporting Period.

### **10.4 Related creditors' rights and debts transactions**

There was no non-operating related creditors' rights and debts transactions of the Bank during the Reporting Period.

### **10.5 Other significant related party transactions**

There was no other significant related party transactions of the Bank during the Reporting Period.

### **XI. APPROPRIATION OF THE LISTED COMPANY'S FUNDS BY THE CONTROLLING SHAREHOLDER AND ITS RELATED PARTIES FOR NON-OPERATING PURPOSES**

During the Reporting Period, there was no appropriation of funds of the Bank by the controlling shareholder and its related parties for non-operating purposes.

### **XII. MATERIAL CONTRACTS AND IMPLEMENTATION THEREOF**

#### **12.1 Custody, contracting and leasing**

In the material contracts entered into by the Bank, there was no matter related to custody, contracting, and leasing of assets of other companies by the Bank, or matter related to custody, contracting, and leasing of assets of the Bank by other companies which was occurred during the Reporting Period or which took place in previous periods and carried over onto the Reporting Period.

#### **12.2 Significant guarantees**

The guarantee business is in the ordinary course of the Bank. There was no significant guarantee matter that needed to be disclosed beyond the Bank's normal scope of business during the Reporting Period.

#### **12.3 Entrusted wealth management**

The Bank did not have any entrusted wealth management beyond its normal scope of business during the Reporting Period.

#### **12.4 Other material contracts**

There was no other material contracts of the Bank during the Reporting Period.

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## SECTION V SIGNIFICANT EVENTS

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### XIII. SOCIAL RESPONSIBILITY

#### 13.1 Performance of social responsibility

During the Reporting Period, the Bank resolutely implemented the decisions and deployments made by the CPC Central Committee, the State Council, Shandong Province, Qingdao and regulatory authorities, integrated social responsibility into the prevention and control of the COVID-19 pandemic and assisted enterprises to resume work and production, fully implemented the “Stability in Six Areas” and “Six Priorities” and continued to strengthen its support for small and medium-sized enterprises, so as to win the “two battles” in both pandemic prevention and economic development with its financial support.

In terms of economic responsibility, we adhered to the essence of financial services in the real economy, practiced the concept of inclusive finance, focused on fighting the pandemic to support enterprises in resuming work and production. We have introduced a number of bailout policies for enterprises, and debuted a variety of inclusive financial products such as “anti-coronavirus loan (抗疫貸)”, “Anti-Coronavirus Discount\* (抗疫貼)” and “Shi Yi Loan\* (食宜貸)”. We launched the “Financial Assistance Program for the Catering Industry\* (餐飲業金融援助計劃)”, and reorganized the “Business Benefit Loan (惠營貸)”, “Investment (Insurance) Lending Business\* (投(保)貸業務)”, “Patent Pledging Insurance Loan\* (專利權質押保險貸款)”, “Cloud Chain Financing\* (雲鏈融資)” and online bill discounts, online micro-lending products, and other products suitable for financing business of small, medium and micro-sized enterprises in a timely manner. We provided full support from online to offline to small and micro-sized Enterprises to resume work and production and to achieve productivity and efficiency. At the same time, we continued to develop direct financing business, issued 30 bonds of various types for enterprises, with RMB16.280 billion raised in total. The Bank obtained various business qualifications, such as dealing in ordinary derivatives, Bond Connect, customer-driven RMB-denominated foreign exchange futures, swaps and options business. The Bank strongly supported the work of “stabilizing foreign trade” and “stabilizing foreign investments” in Shandong, and continuously explored new ways of serving the real economy.

In terms of environmental responsibility, we further devoted to green finance and continued to promote green development in the economy and the society. The Bank’s Green Credit focuses on green, recycling, and low-carbon areas. The Bank’s balance of Green Credit was RMB15.404 billion at the end of the Reporting Period, representing an increase of RMB3.817 billion or 32.94% over the beginning of the year. We advocated green operation, implemented the concept of green office, and commenced contactless online financial services. We adopted and promoted green office concepts such as holding morning regular meetings and other meetings online. We employed digital technology to continuously optimize the procedures such as online account opening appointment and mobile phone number payment signing business procedures. We introduced new ways of transfer via fingerprint and face recognition on mobile banking, so as to improve the account opening efficiency and the convenience of payment. We vigorously promoted smart outlet projects, and the flagship sub-branch of “5G + Ecosystem” smart bank commenced operation in early July, establishing a smart service system of “technology application + service function + interactive scenarios + ecological integration”. The Bank continued its commitment to green public service and raised public awareness of the concept of green environmental protection through various initiatives such as online public welfare lectures and “Share your planting stories online to win a succulent\* (線上曬綠植·線下贏多肉)”, so as to build a civilized society focusing on environmental protection.

In terms of social responsibility, amidst the COVID-19 pandemic, the Bank donated RMB1 million to help fight the coronavirus, which was the first such contribution in Qingdao. The Bank also donated RMB2 million to “Fund Caring for Medical Workers Going to Aid Hubei Province\* (援鄂醫務者關愛金)”. In addition, the Bank donated materials and supplies for pandemic prevention purpose through various channels. It continued to serve the community, organized volunteer activities, and provided strong support to the community in the pandemic prevention work. During the Reporting Period, our charitable donations totaled RMB4.5935 million. At the same time, based on the service philosophy of “good service attracts users”, the Bank optimized customer experience and created value to its outlet services, and organized “share a smile-share your love\* (傳遞微笑•傳遞愛)”, a fun service experience activity with regards to facial masks, so as to provide warm and loving bank hall services. The Bank simplified the inheritance and withdrawal procedures of personal deposit accounts with low balances, and provide extended services for special customer groups. The Bank implemented its caring culture and ensured the health and safety of all employees across all its branches and business outlets by guaranteed supply of pandemic-prevention materials.

### 13.2 Significant environmental protection issues

The Bank and its subsidiaries are not key pollutant discharging enterprises as announced by the environmental protection authorities. During the Reporting Period, the Bank and its subsidiaries were not subject to any punishment due to violation of environmental protection laws and regulations. In the monetary and financial service industry, no pollutants specified in the Provisions on the Management of List of Key Sewage Discharging Units (Provisional) (《重點排污單位名錄管理規定(試行)》) are discharged from the Bank’s principal business. The Bank and its subsidiaries will conscientiously implement the Environmental Protection Law of the PRC and other environmental protection laws and regulations in its production and operation activities going forward.

### 13.3 Fulfillment of social responsibility for targeted poverty alleviation

#### (1) Targeted Poverty Alleviation Plan

The Bank actively carried out targeted poverty alleviation in accordance with the national guidance on poverty alleviation loans and the division of labor arrangement within the Bank. We selected those who have the needs for loans, the potential and skills for employment and entrepreneurship, as well as the ability to repay in the economically-disadvantaged towns, provincial poverty-stricken villages, and municipal economically-disadvantaged villages announced by the government as our target customer groups. Based on the principles of targeted positioning and adapting measures to different locations and conditions, the Bank will further develop micro poverty-alleviation loan products by fully leveraging the advantages of the Bank’s existing products, and effectively improve the pertinence and effectiveness of the poverty alleviation development.

#### (2) Summary of interim targeted poverty alleviation

The Bank took the initiative to contact the poverty alleviation management departments of governments at all levels to obtain information on poverty alleviation plans and implementation plans, poverty-stricken towns, villages, and household identification in a timely manner, and strengthened liaison and contact with local agriculture, education, technology, and social security authorities, so as to gain a comprehensive understanding of the information regarding poverty alleviation through education and technology, acquiring and determining target customer groups in a targeted manner. The Bank actively liaised with local poverty alleviation development projects, especially the key projects of poverty alleviation. We strengthened business cooperation with major poverty alleviation and development financial service institutions and financial guarantee institutions funded by the government in the districts and counties under their jurisdiction, developed new cooperation models, and broadened the channels for financial poverty alleviation.

## SECTION V SIGNIFICANT EVENTS

In accordance with the unified arrangements of the municipal Party Committee, the Bank coordinated and facilitated the pandemic prevention and control and the resumption of work and production, coordinated the construction of greenhouses for fruit and vegetable planting, and increased income for the villages through renting out the greenhouses. We coordinated sales channels for fruit and vegetable products, opened up online sales channels to help the village sell strawberries, vegetables and other fruit and vegetable products, bringing an increase in the income of nearly RMB10,000 to the village. In response to the situation requiring minimizing in-person gatherings due to the pandemic, the Bank leveraged on online teaching platforms to provide free trainings for town and village cadres themed on international current affairs, rural revitalization, industrial planning, etc. Such endeavor has provided more insight into how we can coordinate, plan and promote precise rural revitalization and poverty alleviation after the pandemic was brought under control.

### (3) *Effectiveness of targeted poverty alleviation*

<b>Indicator</b>	<b>Unit of measurement</b>	<b>Number/Status</b>
<b>I. Overall situation</b>	–	–
Of which: 1. Capital	RMB'0,000	5.00
2. Cash converted from materials	RMB'0,000	–
3. Number of registered poor people being lifted out of poverty	Person	–
<b>II. Project investment</b>	–	–
<b>Other projects</b>	–	–
Of which: 1. Number of projects	Piece	1
2. Investment amount	RMB'0,000	5.00
3. Number of registered poor people being lifted out of poverty	Person	–

### (4) *Targeted poverty alleviation follow-up programs*

The Bank will continue to enhance the awareness and publicity of financial targeted poverty alleviation services, further strengthen the innovation of financial products and services, and improve the targeted poverty alleviation of financial services. Riding on special national policies enjoyed by specific regions and its own advantages in risk control system, the Bank will, jointly with local governments and professional financing guarantee companies, carry out batch marketing activities targeting at the customers of specific industries and specific groups of small and micro-sized Enterprises. Furthermore, the Bank will vigorously develop innovative financial products, such as online banking, mobile phone banking, and “Jufuma (聚付碼)”, to provide convenient payment and settlement services through such channels for poor households who can pay and transfer funds at home without stepping out of the door.



### XIV. OTHER MATTERS OF SIGNIFICANCE

#### 14.1 Acquisition, merger and disposal of assets during the Reporting Period

During the Reporting Period, the Bank did not engage in any material acquisition, merger or disposal of assets.

#### 14.2 Significant commitment and entrusted asset management

During the Reporting Period, save for commitment and entrusted asset management business within the scope its normal business, the Bank did not have any other significant commitments and entrusted asset management that need to be disclosed. See the notes to the unaudited interim financial report of this report for the specific guarantee and commitments.

#### 14.3 Publishing of interim report

This interim report prepared both in Chinese and English by the Company in accordance with the International Accounting Standards and Hong Kong Listing Rules is available at the HKEXnews website of the Hong Kong Stock Exchange and the website of the Bank. In case of any discrepancy in interpretation between the two versions, the Chinese version shall prevail. This report has been reviewed by the Audit Committee of the Board.

The interim report in Chinese prepared by the Company in accordance with the Accounting Standards for Business Enterprises and the semi-annual report compilation rules is available at the website of SZSE and the website of the Bank.

### XV. MAJOR ISSUES OF THE BANK'S SUBSIDIARIES

On 30 April 2020, BQD Financial Leasing held the 2019 annual general meeting. A total of 6 resolutions were considered and passed at the meeting, including the work report of the board of directors, the work report of the board of supervisors, the financial statement and budget report, comprehensive operational plans, and election of directors and supervisors. During the Reporting Period, BQD Financial Leasing did not have any other major issues that need to be disclosed.

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## SECTION V SIGNIFICANT EVENTS

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### XVI. PROTECTION OF CONSUMER RIGHTS

During the Reporting Period, under the concept of “adapting to changing times, strengthening characteristics, overcoming challenges and developing steadily”, the Bank carried out its consumer rights protection work following the latest regulatory policies, and gave full play to the institutional advantages as a legal entity. Meanwhile, by focusing on product and service design, and highlighting the distinctive advantages of “Qingxin” service and customer right protection brand “Qingcheng”, and new ideas of publicity and education of financial knowledge, the Bank continuously optimized its organizational structure, consolidated its management foundation, increased publicity and educational efforts, implemented the entity responsibility, and promoted the overall improvement of consumer rights protection work.

#### 1. Strengthening the design of top-level systems and improving the mechanism of consumer rights protection

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

#### 2. Taking multiple measures to innovate ways of promotion and education under the lead of the consumer rights protection brand “Qingcheng”

Firstly, adhere to the concept of “Qingcheng Xiaobao, Zhiyuan Zhizhen (青誠消保·致遠致真)” concerning consumer rights protection, exploit the brand value of “Qingcheng” consumer rights protection, strengthen the establishment of an independent, normalized and innovative publicity and education mechanism, and build financial knowledge publicity brands such as an official WeChat of “Micro-classroom of Financial Knowledge (金融知識微課堂)”, “Financial Knowledge Education Corner (金融知識教育專區)” on the official website and “Financial Knowledge into Community (金融知識進社區)”; secondly, actively organize “3.15 Consumer Rights Day (3.15消費者權益日)”, “Universalizing Financial Knowledge (金融知識萬里行)”, “Popularizing Financial Knowledge and Keep Your Money Safe\* (普及金融知識·守住“錢袋子”)” and other publicity activities themed on illegal fund-raising to practice its social responsibility; thirdly, strengthen the assessment and evaluation of publicity and education, and include the developments of publicity and education work of various outlets into the rating assessment of consumer rights protection to ensure the effectiveness of publicity and education.

#### 3. Standardizing operation and sales behavior to further implement the concept of inclusive finance

Firstly, strengthen product and service process management based on the principle of “active participation”, and enhance review on consumer rights protection to achieve pre-risk control; secondly, continue to improve the “double recording” work, carry out self-examination and self-correction in the business process, standardize sales behavior, and enhance customer experience; thirdly, take the initiative to practice the concept of “inclusive finance”, proactively respond to the measures for supporting the development of small and medium-sized enterprises: “Qingdao 18 Measures” and “Spring Breeze Action”, etc. to help enterprises, especially small and medium-sized enterprises, to stabilize their operations and overcome difficulties, solve the practical difficulties during the pandemic, and contribute to serving the real economy and helping local development.

## SECTION VI CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

### I. CHANGES IN SHAREHOLDINGS

#### 1.1 Changes in Shareholdings

Unit: share

Item	31 December 2019		Increase/decrease (+/-)					30 June 2020	
	Number of shares	Percentage	New issue	Bonus issue	Conversion from reserves	Others	Sub-total	Number of shares	Percentage
<b>I. Shares with selling restrictions</b>	2,295,678,269	50.91%	-	-	-	-154,075,475	-154,075,475	2,141,602,794	47.49%
1. State-owned shares	-	-	-	-	-	-	-	-	-
2. Shares held by state-owned legal entities	698,009,963	15.48%	-	-	-	-17,445,816	-17,445,816	680,564,147	15.09%
3. Shares held by other domestic investors	1,597,668,306	35.43%	-	-	-	-136,629,659	-136,629,659	1,461,038,647	32.40%
Of which: Shares held by domestic non-state-owned legal entities	1,547,308,144	34.31%	-	-	-	-109,889,291	-109,889,291	1,437,418,853	31.87%
Shares held by domestic natural individuals	50,360,162	1.12%	-	-	-	-26,740,368	-26,740,368	23,619,794	0.52%
4. Shares held by foreign investors	-	-	-	-	-	-	-	-	-
Of which: Shares held by foreign legal entities	-	-	-	-	-	-	-	-	-
Shares held by foreign natural individuals	-	-	-	-	-	-	-	-	-
<b>II. Shares without selling restrictions</b>	2,214,011,731	49.09%	-	-	-	154,075,475	154,075,475	2,368,087,206	52.51%
1. RMB ordinary shares	450,976,751	10.00%	-	-	-	154,075,475	154,075,475	605,052,226	13.42%
2. Domestic listed foreign shares	-	-	-	-	-	-	-	-	-
3. Overseas listed foreign shares	1,763,034,980	39.09%	-	-	-	-	-	1,763,034,980	39.09%
4. Others	-	-	-	-	-	-	-	-	-
<b>III. Total number of shares</b>	4,509,690,000	100.00%	-	-	-	-	-	4,509,690,000	100.00%

Notes:

- (1) For the reasons for the Bank's change of the total number of shares and the approval of the change of shares during the Reporting Period, please refer to "Changes of Shares with Selling Restrictions" and "Securities Issuance and the Listing" in this sub-section. The above changes in shares do not involve share transfer.

## SECTION VI CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

- (2) The Bank did not conduct share repurchase during the Reporting Period.
- (3) During the Reporting Period, there was no change in the Bank's total number of shares. In January 2019, the Bank completed the initial public offering of 451 million A Shares and raised net proceeds of RMB1.963 billion. In 2019, the basic and diluted earnings per share of the Company amounted to RMB0.39, representing an increase of RMB0.02 as compared with that in 2018; as at the end of 2019, the net assets per share attributable to shareholders of the Bank were RMB4.89, representing an increase of RMB0.18 as compared with that at the end of 2018. In the first half of 2020, the basic and diluted earnings per share of the Company amounted to RMB0.34, representing a year-on-year increase of RMB0.02.

### 1.2 Changes of Shares with Selling Restrictions

Due to reasons including expiration of the lock-up period of shares subject to selling restrictions before initial offering, during the Reporting Period, a total of 154,075,475 shares of the Bank were released from selling restrictions. The details are set out in the following table:

*Unit: share*

Name of shareholders	Number of shares with selling restrictions at the beginning of the period	Number of shares released from selling restrictions during the period	Increase in the number of shares with selling restrictions during the period	Number of shares with selling restrictions at the end of the period	Reasons for selling restrictions	Date of release from selling restrictions
Qingdao Victall Equity Investment Co., Ltd.	30,000,000	30,000,000	-	-	Shares subject to selling restrictions before initial offering	16 January 2020
Qingdao Pengli Investment Co., Ltd.	17,540,000	17,540,000	-	-	Shares subject to selling restrictions before initial offering	16 January 2020
Qingdao Chuangxin Property Development Co., Ltd.	10,000,000	10,000,000	-	-	Shares subject to selling restrictions before initial offering	16 January 2020
Qingdao Biwan Marine Products Co., Ltd.	7,481,316	7,481,316	-	-	Shares subject to selling restrictions before initial offering	16 January 2020

## SECTION VI CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

Name of shareholders	Number of shares with selling restrictions at the beginning of the period	Number of shares released from selling restrictions during the period	Increase in the number of shares with selling restrictions during the period	Number of shares with selling restrictions at the end of the period	Reasons for selling restrictions	Date of release from selling restrictions
BI Changyan (畢常艷)	7,000,000	7,000,000	-	-	Shares subject to selling restrictions before initial offering	16 January 2020
Qingdao Jieneng Steam Turbine Group Co., Ltd.	6,357,449	6,357,449	-	-	Shares subject to selling restrictions before initial offering	16 January 2020
Qingdao Tainuo Investment Group Co., Ltd. (青島泰諾投資集團有限公司)	5,115,146	5,115,146	-	-	Shares subject to selling restrictions before initial offering	16 January 2020
Qingdao Development and Investment Co., Ltd.	4,955,939	4,955,939	-	-	Shares subject to selling restrictions before initial offering	16 January 2020
Zhucheng Weishida Machinery Co., Ltd.	3,869,521	3,869,521	-	-	Shares subject to selling restrictions before initial offering	16 January 2020

## SECTION VI CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

Name of shareholders	Number of shares with selling restrictions at the beginning of the period	Number of shares released from selling restrictions during the period	Increase in the number of shares with selling restrictions during the period	Number of shares with selling restrictions at the end of the period	Reasons for selling restrictions	Date of release from selling restrictions
Qingdao Real Estate Development and Investment Co., Ltd. (青島市房地產開發投資股份有限公司)	3,869,428	3,869,428	-	-	Shares subject to selling restrictions before initial offering	16 January 2020
Total number of other shareholders whose shares have been released from selling restrictions	60,716,846	57,886,676	-	2,830,170	-	-
<b>Total</b>	<b>156,905,645</b>	<b>154,075,475</b>	<b>-</b>	<b>2,830,170</b>	<b>-</b>	<b>-</b>

*Note:* Please refer to the Initial Public Offering Prospectus (A Shares) issued by the Bank dated 18 January 2019 for details of the shares that have not been released from selling restrictions as of the end of the Reporting Period.

### 1.3 Securities Issuance and the Listing

During the Reporting Period, the Bank neither issued new ordinary shares nor publicly issued corporate bonds listed on the stock exchange.

## II. NUMBER OF SHAREHOLDERS AND THEIR SHAREHOLDINGS IN THE BANK

*Unit: share*

Total number of ordinary shareholders at the end of the Reporting Period	80,138	Total number of preference shareholders whose voting rights were resumed at the end of the Reporting Period	-
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## SECTION VI CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

### Shareholdings of ordinary shareholders who hold more than 5% of the shares or shareholdings of the top ten ordinary shareholders

Name of shareholders	Nature of shareholders	Percentage of shareholding	Number of ordinary shares held as at the end of the Reporting Period	Increase or decrease during the Reporting Period	Number of ordinary shares with selling restrictions held	Number of ordinary shares without selling restrictions held	Status of shares	Share pledged or locked-up	Number of shares
Hong Kong Securities Clearing Company Nominees Limited	Overseas legal entity	25.23%	1,137,889,880	14,500	-	1,137,889,880	Unknown	Unknown	
Intesa Sanpaolo S.p.A. (意大利聯合聖保羅銀行)	Overseas legal entity	13.85%	624,753,980	-	-	624,753,980	-	-	
Qingdao Conson Industrial Co., Ltd. (青島國信實業有限公司)	State-owned legal entity	11.17%	503,556,341	-	503,556,341	-	-	-	
Qingdao Haier Investment and Development Co., Ltd. (青島海爾投資發展有限公司)	Domestic non-state-owned legal entity	9.08%	409,693,339	-	409,693,339	-	-	-	
Qingdao Haier Air-Conditioner Electronics Co., Ltd. (青島海爾空調電子有限公司)	Domestic non-state-owned legal entity	4.85%	218,692,010	-	218,692,010	-	-	-	
Shandong Sanliyuan Economics and Trade Co., Ltd. (山東三利源經貿有限公司)	Domestic non-state-owned legal entity	3.37%	152,170,000	-	152,170,000	-	Pledged	151,600,000	
Haier Smart Home Co., Ltd. (海爾智家股份有限公司)	Domestic non-state-owned legal entity	3.22%	145,297,405	-	145,297,405	-	-	-	
Qingdao Hairan Investment Co., Ltd. (青島海仁投資有限責任公司)	Domestic non-state-owned legal entity	2.97%	133,910,000	-	133,910,000	-	-	-	
Qingdao Huatong State-owned Capital Operation (Group) Co., Ltd.	State-owned legal entity	2.11%	94,967,581	-	94,967,581	-	-	-	
Qingdao Jifa Group Co., Ltd. (青島即發集團股份有限公司)	Domestic non-state-owned legal entity	2.02%	90,936,164	-	90,936,164	-	-	-	

Strategic investors or general legal entities becoming one of the top ten ordinary shareholders of the Bank as a result of placing of new shares

No strategic investors or general legal entities become one of the top ten ordinary shareholders of the Bank as a result of placing of new shares.

Description of the related relationships or acting in concert among the above shareholders

Among the abovementioned shareholders, Qingdao Haier Investment and Development Co., Ltd., Qingdao Haier Air-Conditioner Electronics Co., Ltd. and Haier Smart Home Co., Ltd. are all under Haier Group, and Qingdao Haier Investment and Development Co., Ltd. and Qingdao Haier Air-Conditioner Electronics Co., Ltd. have entrusted Haier Smart Home Co., Ltd. to exercise the voting rights of the shareholders corresponding to their shares. The Bank is not aware of any other related relationships among other shareholders or whether they are parties acting in concert.

## SECTION VI CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

### Shareholdings of the top ten ordinary shareholders without selling restrictions

Name of shareholders	Number of ordinary shares held without selling restrictions as at the end of the Reporting Period	Types of shares	
		Types of shares	Number
Hong Kong Securities Clearing Company Nominees Limited	1,137,889,880	Overseas listed foreign shares	1,137,889,880
Intesa Sanpaolo S.p.A.	624,753,980	Overseas listed foreign shares	624,753,980
Qingdao Victall Equity Investment Co., Ltd.	30,000,000	RMB ordinary shares	30,000,000
Qingdao Pengli Investment Co., Ltd.	17,540,000	RMB ordinary shares	17,540,000
ZHONG Renmei (鐘仁美)	14,831,955	RMB ordinary shares	14,831,955
SHEN Yousheng (沈幼生)	10,897,134	RMB ordinary shares	10,897,134
ZHANG Xubin (張旭彬)	9,295,814	RMB ordinary shares	9,295,814
XU Zhidi (許芝弟)	8,337,017	RMB ordinary shares	8,337,017
Qingdao Biwan Marine Products Co., Ltd.	7,481,316	RMB ordinary shares	7,481,316
Agricultural Bank of China Limited – CSI 500 Index Exchange-Traded Fund	5,543,370	RMB ordinary shares	5,543,370

Explanation on the related relationships or acting in concert among the top ten ordinary shareholders without selling restrictions and that between the top ten ordinary shareholders without selling restrictions and the top ten ordinary shareholders

The Bank is not aware of any related relationships among the top ten ordinary shareholders without selling restrictions and that between the top ten ordinary shareholders without selling restrictions and the top ten ordinary shareholders or whether they are parties acting in concert.

Explanation on the margin trading and securities lending by top ten ordinary shareholders

The Bank is not aware of margin trading and securities lending by holder of shares in which Hong Kong Securities Clearing Company Nominees Limited acts as an agent. As at the end of the Reporting Period, top ten ordinary shareholders did not participate in margin trading and securities lending business.



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## SECTION VI CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

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### Notes

1. Among the total number of ordinary shareholders at the end of the Reporting Period, there are 79,981 A Share shareholders and 157 H Share shareholders;
2. Shares held by Hong Kong Securities Clearing Company Nominees Limited are the total shares in the accounts of the Bank's shareholders of H shares which are traded on the trading platform of Hong Kong Securities Clearing Company Nominees Limited on behalf of shareholders;
3. As at the end of the Reporting Period, Intesa Sanpaolo S.p.A., as a H Share registered shareholder of the Bank, held 622,306,980 H Shares, and the remaining 2,447,000 H Shares were agented to and under the name of Hong Kong Securities Clearing Company Nominees Limited. In this table, the agent shares have been deducted from the number of shares held by Hong Kong Securities Clearing Company Nominees Limited;
4. The top 10 ordinary shareholders and the top 10 ordinary shareholders without selling restrictions of the Bank did not conduct any transactions on agreed repurchases during the Reporting Period.

### III. CHANGES IN CONTROLLING SHAREHOLDER AND DE FACTO CONTROLLER

As at the end of the Reporting Period, there was no controlling shareholder or de facto controller of the Bank.

### IV. SUBSTANTIAL SHAREHOLDERS OF THE BANK

#### 4.1 Shareholders holding more than 5% of the shares at ultimate controlling level

##### 1. *Haier Group Corporation*

Haier Group Corporation was established on 24 March 1980 with its legal representative of ZHANG Ruimin and a registered capital of RMB311.18 million. Its scope of business mainly includes technology development, technology consultation, technology transfer, and technology service; data processing; and is engaged in digital technology, intelligent technology, and software technology; research and development, sales and after-sale services of robot and automation equipment products; logistics information services; research, development and sales of smart home products and software technology of solution system; household appliances, electronic products, communications equipment, electronic computers and accessories, general machinery, kitchen utensils, industrial robot manufacturing; economic and technical consultation; research and development and transfer of technological achievements.

Haier Group is a world's leading provider of better life solutions. Adhering to the corporate vision of "creating a new growth engine in the era of IoT with the RenDanHeYi (人單合一) model", it is committed to working with the world's first-class ecological partners to continue building scenario-based brands and ecological brands, building an IoT ecosystem covering clothing, food, housing, transportation, health care, medical and education, etc., and customizing personalized smart life for global users.

As at the end of the Reporting Period, Haier Group Corporation held a total of 812,214,572 A Shares of the Bank via eight companies within the group, which accounted for 18.01% of the total ordinary share capital. These eight companies were persons acting in concert, and their ultimate beneficiary is Haier Group Corporation. Haier Group Corporation has declared to the Bank related parties in accordance with regulatory requirements. As at the end of the Reporting Period, the balance of the Bank's credit-related significant related party transactions<sup>1</sup> with Haier Group Corporation was RMB1,528 million. No non-credit-related significant related party transactions occurred during the Reporting Period.

<sup>1</sup> Note: The data of related party transactions in this section was accounted under the calibre as required by the CBIRC.

### 2. *Intesa Sanpaolo S.p.A.*

Intesa Sanpaolo S.p.A. was established on 5 January 2007 (through merger of Banca Intesa S.p.A. (意大利聯合銀行) and Sanpaolo IMI S.p.A. (意大利聖保羅意米銀行)) with its legal representative of Gian Maria GROS-PIETRO and a registered capital of EUR9,086 million. Intesa Sanpaolo S.p.A. is a multi-national bank headquartered in Milan, Italy. It is one of the most prominent players of the Eurozone's banking industry as well as the industry-leader of Italy's retail banking, corporate banking business and wealth management businesses. Intesa Sanpaolo S.p.A. has a total of approximately 3,700 branches in Italy, providing tens of millions of customers with high-quality service. Tapping into overseas market is of great importance in Intesa Sanpaolo S.p.A.'s development strategy. By acquiring commercial banks in over a dozen countries in the regions of Central and Eastern Europe as well as the Mediterranean, Intesa Sanpaolo S.p.A. owns nearly 1,000 branches and 7.2 million customers in the above regions. In addition, Intesa Sanpaolo S.p.A. has set up branches in 25 countries and regions around the world to support its corporate business customers.

As at the end of the Reporting Period, Intesa Sanpaolo S.p.A. held 624,753,980 H Shares of the Bank, which accounted for 13.85% of the total ordinary share capital. Intesa Sanpaolo S.p.A. has no controlling shareholders, no de facto controllers, no persons acting in concert, and its ultimate beneficiary is itself. Intesa Sanpaolo S.p.A. has declared to the Bank related parties in accordance with regulatory requirements. As at the end of the Reporting Period, there were no significant related party transactions existed between the Bank and Intesa Sanpaolo S.p.A.

### 3. *Qingdao Conson Development (Group) Co., Ltd. (青島國信發展(集團)有限責任公司)*

Qingdao Conson Development (Group) Co., Ltd. was established on 17 July 2008 with its legal representative of WANG Jianhui and a registered capital of RMB3 billion. It is mainly engaged in the investment, construction and operation of major urban and rural infrastructure projects, and major public welfare projects of the government; business services such as real estate, tourism and land development, as well as non-banking financial services.

Qingdao Conson Development (Group) Co., Ltd. is a wholly state-owned company contributed by the State-owned Assets Supervision and Administration Commission of Qingdao Municipal Government on behalf of the Qingdao Municipal People's Government. Since its establishment, the group has been following the urban development strategy, undertaken the responsibility of urban development, played a backbone and leading role, and formed its "3+2" primary business sector integrating finance, urban functionality development, urban operation and services, modern marine industry, and urban information technology industry supported by 9 core first-level subsidiaries. This business sector has made important contributions to the improvement of the financial system, urban functionality and the optimization of the urban service system in Qingdao.

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## SECTION VI CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

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As at the end of the Reporting Period, Qingdao Conson Development (Group) Co., Ltd. held a total of 603,556,841 shares of the Bank via three subsidiaries, including 503,556,841 A Shares and 100,000,000 H Shares, which together accounted for 13.38% of the total ordinary share capital. The controlling shareholder and the de facto controller of Qingdao Conson Development (Group) Co., Ltd. is the State-owned Assets Supervision and Administration Committee of the Qingdao Municipal People's Government. It has no persons acting in concert, and its ultimate beneficiary is itself. Qingdao Conson Development (Group) Co., Ltd. has declared to the Bank related parties in accordance with regulatory requirements. As at the end of the Reporting Period, there were no significant related party transactions existed between the Bank and Qingdao Conson Group.

### 4.2 Other substantial shareholders under the regulatory calibre

#### 1. **AMTD Group Company Limited (尚乘集團有限公司)**

AMTD Group Company Limited was established on 2 January 2003 with its legal representative of WANG Ruiqiang and a registered capital of USD11,744. It is mainly engaged in investment banking business, asset management business, corporate insurance brokerage and risk solutions, and investment strategy consultation, etc.

As at the end of the Reporting Period, AMTD Group Company Limited held a total of 225,033,531 H Shares of the Bank via two subsidiaries, accounting for 4.99% of the total ordinary share capital. Pursuant to the requirements of the CBIRC, AMTD Group Company Limited has assigned directors to the Bank. Therefore, it is a substantial shareholder of the Bank. The controlling shareholder of AMTD Group Company Limited is L.R. Capital Financial Holdings Limited. It has no de facto controllers, no persons acting in concert, and its ultimate beneficiary is itself. AMTD Group Company Limited has declared to the Bank related parties in accordance with regulatory requirements. During the Reporting Period, there were no significant related party transactions between the Bank and AMTD Group.

#### 2. **Qingdao East Steel Tower Stock Co., Ltd. (青島東方鐵塔股份有限公司)**

Qingdao East Steel Tower Stock Co., Ltd. was established on 1 August 1996 with its legal representative of HAN Fangru and a registered capital of RMB1.244 billion. It is a company listed on SZSE (stock code: 002545). It underwent restructuring in 2016 and was transformed into a listed company with dual main businesses in steel structure and potash fertilizer industry.

## SECTION VI CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

As at the end of the Reporting Period, Qingdao East Steel Tower Stock Co., Ltd. held 133,910,000 A Shares of the Bank via its subsidiary, Qingdao Hairen Investment Co., Ltd., accounting for 2.97% of the total ordinary share capital. Pursuant to the requirements of the CBIRC, Qingdao East Steel Tower Co., Ltd. has assigned supervisors to the Bank. Therefore, it is a substantial shareholder of the Bank. The controlling shareholder and de facto controller of Qingdao East Steel Tower Stock Co., Ltd. is HAN Huiru. It has no persons acting in concert, and its ultimate beneficiary is itself. Qingdao East Steel Tower Stock Co., Ltd. has declared to the Bank related parties in accordance with regulatory requirements. During the Reporting Period, there were no significant related party transactions between the Bank and Qingdao East Steel Tower Stock Co., Ltd.

### V. PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

### VI. INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS UNDER HONG KONG REGULATIONS

As at 30 June 2020, in so far as the Directors, Supervisors and chief executives of the Bank are aware, substantial shareholders who had an interest or short position in the issued share capital of the Bank which are required to be recorded in the register to be kept under section 336 of the SFO or held an equity interest or short position of 5% or more in the issued share capital of the Bank which are required to be notified to the Bank are shown as below:

Name of shareholders	Note	Type of shares	Capacity	Number of shares held	Approximate percentage of the total number of shares <sup>(6)</sup>	Approximate percentage of the total number of A Shares <sup>(6)</sup>	Approximate percentage of the total number of H Shares <sup>(6)</sup>	Long position/ Short position
Haier Group Corporation (海爾集團公司)	1	A Shares	Interest of controlled corporation	812,214,572	18.01	29.57	-	Long position
Qingdao Haier Investment and Development Co., Ltd. (青島海爾投資發展有限公司)	2	A Shares	Beneficial owner	409,693,339	9.08	14.92	-	Long position
Haier Smart Home Co., Ltd. (海爾智家股份有限公司)	-	A Shares	Beneficial owner	145,297,405	3.22	5.29	-	Long position
			Other interest	402,521,233	8.93	14.65	-	Long position
			Interest of controlled corporation	244,680,795	5.43	8.91	-	Long position

## SECTION VI CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

Name of shareholders	Note	Type of shares	Capacity	Number of shares held	Approximate percentage of the total number of shares <sup>(6)</sup>	Approximate percentage of the total number of A Shares <sup>(6)</sup>	Approximate percentage of the total number of H Shares <sup>(6)</sup>	Long position/ Short position
Qingdao Haier Air-Conditioner Electronics Co., Ltd. (青島海爾空調電子有限公司)	-	A Shares	Beneficial owner	218,692,010	4.85	7.96	-	Long position
Qingdao Conson Development (Group) Co., Ltd. (青島國信發展(集團)有限公司)	3	A Shares	Interest of controlled corporation	503,556,341	11.17	18.33	-	Long position
Qingdao Conson Industrial Co., Ltd. (青島國信實業有限公司)	3	A Shares	Beneficial owner	503,556,341	11.17	18.33	-	Long position
GE Shoujiao (葛守蛟)	4	A Shares	Interest of controlled corporation	152,170,000	3.37	5.54	-	Long position
LENG Qiyuan (冷啟媛)	4	A Shares	Interest of controlled corporation	152,170,000	3.37	5.54	-	Long position
Shandong Sanliyuan Economics and Trade Co., Ltd. (山東三利源經貿有限公司)	4	A Shares	Beneficial owner	152,170,000	3.37	5.54	-	Long position
Intesa Sanpaolo S.p.A. (意大利聯合聖保羅銀行)	-	H Shares	Beneficial owner	624,753,980	13.85	-	35.44	Long position
L.R. Capital Management Company (Cayman) Limited	5	H Shares	Interest of controlled corporation	225,033,531	4.99	-	12.76	Long position
			Interest of controlled corporation	196,882,000	4.37	-	11.17	Short position
L.R. Capital MNP Limited	5	H Shares	Interest of controlled corporation	225,033,531	4.99	-	12.76	Long position
			Interest of controlled corporation	196,882,000	4.37	-	11.17	Short position

## SECTION VI CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

Name of shareholders	Note	Type of shares	Capacity	Number of shares held	Approximate percentage of the total number of shares <sup>(6)</sup>	Approximate percentage of the total number of A Shares <sup>(6)</sup>	Approximate percentage of the total number of H Shares <sup>(6)</sup>	Long position/ Short position
L.R. Capital Holdings Limited	5	H Shares	Interest of controlled corporation	225,033,531	4.99	–	12.76	Long position
			Interest of controlled corporation	196,882,000	4.37	–	11.17	Short position
L.R. Capital Financial Holdings Limited	5	H Shares	Interest of controlled corporation	225,033,531	4.99	–	12.76	Long position
AMTD Group Company Limited (尚乘集團有限公司)	5	H Shares	Interest of controlled corporation	225,033,531	4.99	–	12.76	Long position
AMTD Strategic Investment Limited	5	H Shares	Beneficial owner	196,882,000	4.37	–	11.17	Long position
AMTD Investment Solutions Group Limited	5	H Shares	Beneficial owner	28,151,531	0.62	–	1.60	Long position
Jinan Binhe New District Constructive Investment Group Co., Ltd. (濟南濱河新區建設投資集團有限公司)	–	H Shares	Beneficial owner	200,000,000	4.43	–	11.34	Long position
Ariana Capital Investment Limited	–	H Shares	Beneficial owner	176,766,469	3.92	–	10.03	Long position
Qingdao Conson Development (Group) Co., Ltd. (青島國信發展(集團)有限公司)	6	H Shares	Interest of controlled corporation	100,000,000	2.22	–	5.67	Long position
Qingdao Conson Financial Holdings Co., Ltd. (青島國信金融控股有限公司)	6	H Shares	Interest of controlled corporation	100,000,000	2.22	–	5.67	Long position
Haitian (HK) Holdings Limited (海天(香港)控股有限公司)	6	H Shares	Beneficial owner	100,000,000	2.22	–	5.67	Long position

## SECTION VI CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

Name of shareholders	Note	Type of shares	Capacity	Number of shares held	Approximate percentage of the total number of shares <sup>(6)</sup>	Approximate percentage of the total number of A Shares <sup>(6)</sup>	Approximate percentage of the total number of H Shares <sup>(6)</sup>	Long position/ Short position
CITIC Securities Co., Ltd. (中信證券股份有限公司)	-	H Shares	Interest of controlled corporation	209,519,624	4.65	-	11.88	Long position
				204,630,506	4.54	-	11.61	Short position
Guangzhou Rural Commercial Bank Co., Ltd. (廣州農村商業銀行股份有限公司)	-	H Shares	Person having a security interest in shares	196,882,000	4.37	-	11.17	Long position
Goncius I Limited	-	H Shares	Beneficial owner	488,911,765	10.84	-	27.73	Long position
				488,911,765	10.84	-	27.73	Short position

*Notes:*

- (1) 812,214,572 shares of the Bank are held by Haier Group Corporation via its directly or indirectly controlled companies.
- (2) These 812,214,572 shares are held as to 409,693,339 shares directly by Qingdao Haier Investment and Development Co., Ltd., as to 402,521,233 shares by its controlled company and its person acting in concert.
- (3) Qingdao Conson Industrial Co., Ltd. is 100% owned by Qingdao Conson Development (Group) Co., Ltd. Therefore, Qingdao Conson Development (Group) Co., Ltd. is deemed to be interested in all our shares held by Qingdao Conson Industrial Co., Ltd.
- (4) GE Shoujiao and LENG Qiyuan hold 55% and 45% equity interest in Shandong Sanliyuan Economics and Trade Co., Ltd. respectively. Therefore, GE Shoujiao and LENG Qiyuan are deemed to be interested in all our shares held by Shandong Sanliyuan Economics and Trade Co., Ltd.
- (5) AMTD Strategic Investment Limited and AMTD Investment Solutions Group Limited hold 196,882,000 shares and 28,151,531 shares of the Bank respectively. AMTD Strategic Investment Limited and AMTD Investment Solutions Group Limited are controlled by AMTD Group Company Limited. Therefore, AMTD Group Company Limited is deemed to be interested in all our shares held by AMTD Strategic Investment Limited and AMTD Investment Solutions Group Limited.



## SECTION VI CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

Pursuant to the disclosure of interests forms submitted by L.R. Capital Financial Holdings Limited, L.R. Capital Holdings Limited, L.R. Capital MNP Limited and L.R. Capital Management Company (Cayman) Limited on 2 July 2020, L.R. Capital Financial Holdings Limited holds 61.57% equity interest in AMTD Group Company Limited, L.R. Capital Holdings Limited holds 92.00% equity interest in L.R. Capital Financial Holdings Limited, L.R. Capital Holdings Limited is 100% owned by L.R. Capital MNP Limited, and L.R. Capital MNP Limited is 100% owned by L.R. Capital Management Company (Cayman) Limited. Accordingly, L.R. Capital Financial Holdings Limited, L.R. Capital Holdings Limited, L.R. Capital MNP Limited and L.R. Capital Management Company (Cayman) Limited are deemed to be interested in all our shares held by AMTD Strategic Investment Limited and AMTD Investment Solutions Group Limited.

Pursuant to the disclosure of interests forms submitted by CM International Capital Limited, CM International Capital Limited (中民國際資本有限公司) and China Minsheng Investment Co., Ltd. (中國民生投資股份有限公司) on 21 September 2017, CM International Capital Limited holds 34.10% equity interest in L.R. Capital Financial Holdings Limited, CM International Capital Limited is 100% owned by CM International Capital Limited (中民國際資本有限公司), and CM International Capital Limited (中民國際資本有限公司) is 100% owned by China Minsheng Investment Co., Ltd. (中國民生投資股份有限公司). Accordingly, CM International Capital Limited, CM International Capital Limited (中民國際資本有限公司) and China Minsheng Investment Co., Ltd. (中國民生投資股份有限公司) are deemed to be interested (as interest of controlled corporations) in all our shares (i.e. 401,800,000 H Shares (long position)) then held by AMTD Strategic Investment Limited and AMTD Investment Solutions Group Limited.

- (6) 100,000,000 shares of the Bank are held by Haitian (HK) Holdings Limited. Haitian (HK) Holdings Limited is wholly-owned by Qingdao Conson Financial Holdings Co., Ltd., which is 90.27% owned by Qingdao Conson Development (Group) Co., Ltd.
- (7) Under Section 336 of the SFO, forms disclosing of interests shall be submitted by shareholders of the Bank upon satisfaction of certain conditions. Changes of shareholders' shareholdings in the Bank are not required to inform the Bank and the Hong Kong Stock Exchange, except for the satisfaction of certain conditions. Therefore, there could be difference between shareholders' latest shareholdings in the Bank and the shareholdings submitted to the Hong Kong Stock Exchange.
- (8) As at 30 June 2020, the number of the Bank's total issued ordinary shares, A Shares and H Shares are 4,509,690,000 shares, 2,746,655,020 shares and 1,763,034,980 shares, respectively.

As at 30 June 2020, save as disclosed above, in so far as the Directors, Supervisors and chief executives of the Bank are aware, there is no person who had an interest or short position in the shares, underlying shares or equity derivatives of the Bank which are required to be recorded in the register to be kept under section 336 of the SFO or held an equity interest or short position of 5% or more in the issued share capital of the Bank which is required to be notified to the Bank.

## SECTION VII PREFERENCE SHARES

### I. ISSUANCE AND LISTING OF PREFERENCE SHARES DURING THE REPORTING PERIOD

During the Reporting Period, the Bank did not issue new preference shares.

### II. NUMBER OF SHAREHOLDERS OF PREFERENCE SHARES AND THEIR SHAREHOLDINGS

*Unit: share*

Total number of shareholder of preference shares as at the end of  
the Reporting Period

1

#### Shareholding of shareholder holdings more than 5% of the preference shares or top ten shareholders of preference shares

Name of shareholder	Nature of shareholder	Percentage of shareholding	Number of shares held as at the end of the Reporting Period	Increase or decrease during the Reporting Period	Number of shares with selling restrictions held	Number of shares without selling restrictions held	Share pledged or locked-up Status of shares	Number of shares
The Bank of New York Depository (Nominees) Limited	Overseas legal entity	100%	60,150,000	-	-	-	Unknown	Unknown

Explanation on the different settings of other provisions other than dividend distribution and residual properties distribution in respect of preference shares held

Shareholders of preference shares of the Bank do not have different settings on other provisions other than dividend distribution and residual properties distribution

Explanation on the related relationships or persons acting in concert among the top 10 shareholders of preference shares and that between the top 10 shareholders of preference shares and the top 10 shareholders of ordinary shares

The Bank is not aware of the related party relationship or acting in concerted relationship between the above shareholders of preference shares and the top 10 shareholders of ordinary shares

### III. REPURCHASE OR CONVERSION OF PREFERENCE SHARES

During the Reporting Period, there was no repurchase or conversion of offshore preference shares.

### IV. RESUMPTION OR EXERCISE OF VOTING RIGHTS OF PREFERENCE SHARES

During the Reporting Period, there was no resumption or exercise of voting rights of offshore preference shares.

### V. ACCOUNTING POLICIES ADOPTED FOR PREFERENCE SHARES AND REASONS

The Company made accounting judgments over the preference shares then issued and outstanding in accordance with the requirements of the relevant accounting principles, including the Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments and Accounting Standards for Business Enterprises No. 37 – Presentation and Reporting of Financial Instruments. As the Company's preference shares issued and outstanding carry no obligation to deliver cash and cash equivalents, nor have they any contractual obligations to deliver a variable number of its own equity instruments for settlement, they were therefore measured as other equity instruments.

## SECTION VIII DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, EMPLOYEES AND INSTITUTIONS

### I. CHANGES IN SHAREHOLDING OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

There has been no changes to the shareholdings of the current Directors, Supervisors and senior management and the Directors, Supervisors and senior management of the Bank who have experienced changes in their position during the Reporting Period.

### II. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Directors of the Bank are nominated by the Board and elected in accordance with the qualifications of Directors and election procedures as specified in the Articles of Association; shareholder Supervisors and external Supervisors are nominated by the Board of Supervisors, employee Supervisors are nominated by the labor union, and all of such Supervisors are elected in accordance with the election procedures as specified in the Articles of Association. Changes in Directors, Supervisors and senior management of the Bank during the Reporting Period are shown in the following table:

Name	Position held	Type of change	Date of change	Reason for change
Tingjie ZHANG	Independent non-executive Director	Newly elected	13 February 2020	-
WONG Tin Yau, Kelvin	Former independent non-executive Director	Resigned	13 February 2020	Work reason
YANG Fengjiang	Former executive Director, former vice president	Resigned	25 March 2020	Work adjustment
	Employee Supervisor	Newly elected	26 March 2020	-
	Chairman of the Board of Supervisors	Newly elected	30 March 2020	-
CHEN Qing	Former chairlady of the Board of Supervisors, former employee Supervisor	Resigned	26 March 2020	Reaching the age of retirement

Save for the above, during the Reporting Period, there were no other changes in the Directors, Supervisors and senior management of the Bank.

As at the date of this report, the Board comprises Mr. GUO Shaoquan, Mr. WANG Lin 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. CHEN Hua, Ms. DAI Shuping, Mr. Simon CHEUNG, Ms. FANG Qiaoling and Mr. Tingjie ZHANG as independent non-executive Directors.

## SECTION VIII DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, EMPLOYEES AND INSTITUTIONS

### III. CHANGES IN INFORMATION OF DIRECTORS AND SUPERVISORS

1. Mr. Rosario STRANO, a non-executive Director, has ceased to be the chief operating officer of Intesa Sanpaolo S.p.A. since 1 January 2020, and has been the head of China development project of Intesa Sanpaolo S.p.A. since 1 January 2020.
2. Mr. CHEN Hua, an independent non-executive Director, has ceased to be an independent non-executive director of Shanda Wit Science and Technology Co., Ltd. since 27 April 2020.
3. Mr. HE Liangjun, a shareholder Supervisor, has ceased to be an executive director of Suzhou World Technology New Energy Technology Co., Ltd. since 17 March 2020.
4. Mr. Tingjie ZHANG, an independent non-executive Director, has been the managing director of Auster Capital Partners Limited since 1 July 2020, and has ceased to be the China co-director and managing director of the Shanghai branch of Rothschild Financial Consulting (Beijing) Co., Ltd. (洛希爾財務諮詢(北京)有限公司) since 1 July 2020.

Save for the above, there were no other changes in the information of Directors and Supervisors of the Bank.

### IV. INTERESTS AND SHORT POSITIONS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES IN SHARES AND UNDERLYING SHARES OF THE BANK

In so far as the Directors, Supervisors and chief executives of the Bank are aware, as at the end of the Reporting Period, the Directors, Supervisors and chief executives who had interests or short positions in the issued share capital, debentures or equity derivatives of the Bank which are required to be recorded in the register referred to in section 352 of the SFO, or interests or short positions which are required to be notified to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code, are as follows:

Name of Director/ Supervisor/ chief executive	Type of shares	Capacity	Number of shares held	Percentage of the total number of ordinary shares <sup>Note</sup>	Percentage of the total number of A Shares <sup>Note</sup>	Long position/ Short position
GUO Shaoquan	A Shares	Beneficial owner	500,000	0.01%	0.02%	Long position
TAN Lixia	A Shares	Beneficial owner	500	0.00001%	0.00002%	Long position
WANG Lin	A Shares	Beneficial owner	500,000	0.01%	0.02%	Long position
YANG Fengjiang	A Shares	Beneficial owner	500,000	0.01%	0.02%	Long position
LU Lan	A Shares	Beneficial owner	380,000	0.01%	0.01%	Long position
MENG Xianzheng	A Shares	Beneficial owner	370,301	0.01%	0.01%	Long position

*Note:* The aforementioned percentages are calculated according to the total number of shares of 4,509,690,000 shares and the total number of A Shares of 2,746,655,020 shares at the end of the Bank's Reporting Period.

Apart from the above, in so far as the Directors, Supervisors and chief executives of the Bank are aware, as at the end of the Reporting Period, no one had any interests or short positions in the shares, debentures or equity derivatives of the Bank which are required to be recorded in the register referred to in section 352 of the SFO, or interests or short positions which are required to be notified to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code.

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## SECTION VIII DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, EMPLOYEES AND INSTITUTIONS

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### V. EMPLOYEES AND HUMAN RESOURCES MANAGEMENT

#### 5.1 Details of Employees

Number of employees on the payroll of the parent company (persons)	4,063
Number of employees on the payroll of the major subsidiaries (persons)	56
Total number of employees on the payroll (persons)	4,119

#### Composition by profession

Composition by profession category	Number of persons of composition by profession (persons)
Management personnel	321
Business personnel	3,119
General administrative personnel	679
Total	4,119

#### Education background

Education background category	Number (persons)
Master's degree or above	731
Bachelor's degree	2,931
College graduates or below	457
Total	4,119

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#### 5.2 Policy on Employee Remuneration

The Bank has established a market-oriented remuneration system that is based on a post-specific salary regime, under which employee remuneration is linked to the responsibilities, requirements and importance of the position and the results of performance appraisal. Under this remuneration system, remuneration is limited to the position and the performance of the employee. The Bank strictly implements the relevant requirements for the supervision of remuneration payment, and implements deferred payment for middle and senior management staff. The formulation and implementation of the annual remuneration scheme of the Bank are determined in strict accordance with the annual salary budget approved by the Board of Directors.

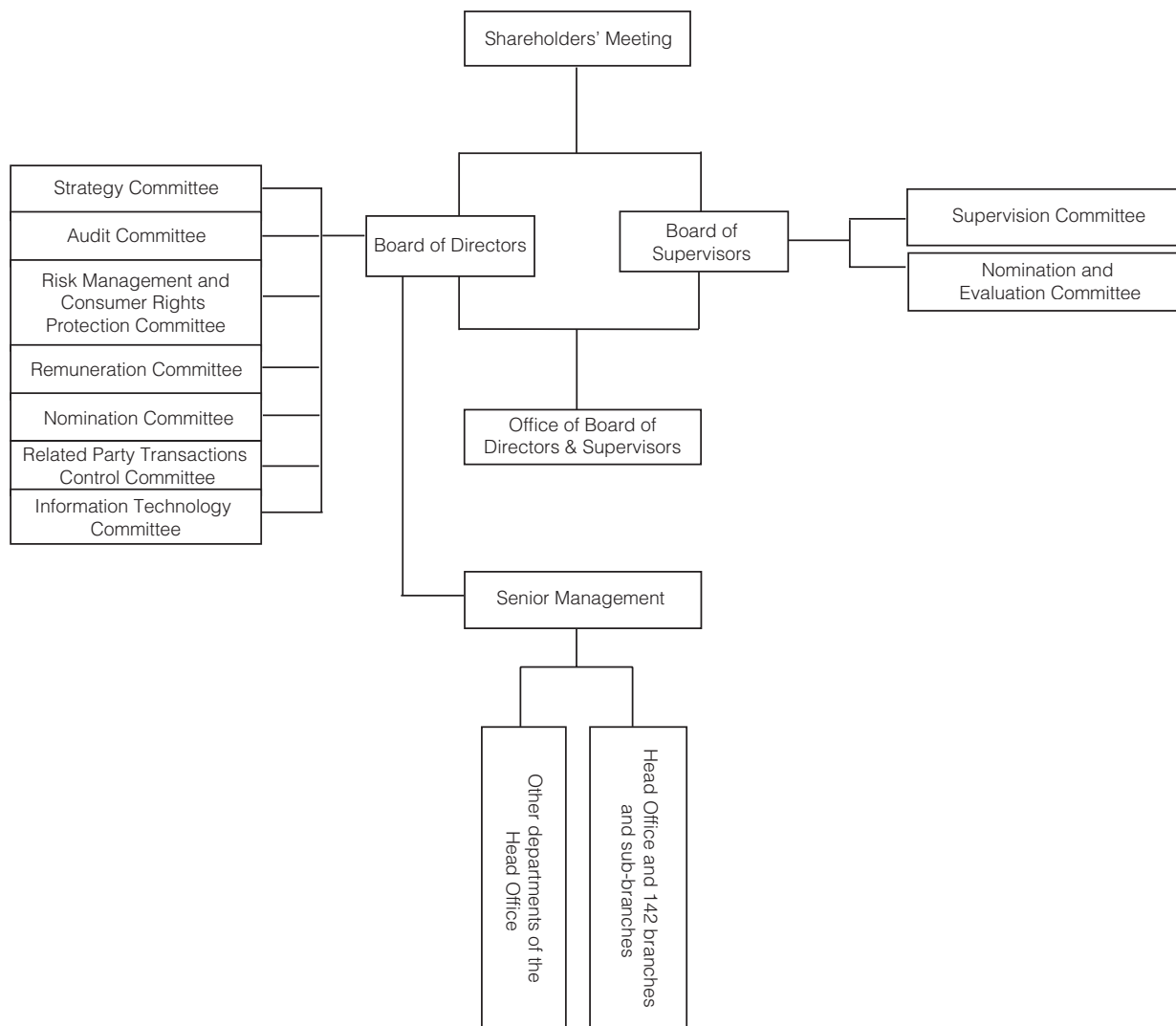
The Bank has formulated scientific evaluation measures, and utilizes such measures as a guideline to optimize resources allocation, actively mobilize employees' initiatives, so as to enhance the Bank's overall efficiency. Employees' performance-based remuneration is decided based on the performance evaluation results of the whole Bank, the institutions or departments they work in and their own.

#### 5.3 Training for Employees

During the Reporting Period, following the annual training plan, the Bank actively carried out training programs for all staff members from middle and senior management, business personnel and new employees. In response to the impact of the pandemic, the Bank focused on promoting online training and learning, and continuously enriched learning resources. Through online learning platforms, online social networking websites, live streaming and other forms, the Bank ensured orderly implementation of various trainings and provided full support to the business development.

# SECTION VIII DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, EMPLOYEES AND INSTITUTIONS

## VI. ORGANIZATIONAL STRUCTURE



## SECTION VIII DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, EMPLOYEES AND INSTITUTIONS

### VII. BRANCHES AND SUB-BRANCHES

No.	Name of branch/ sub-branch	Business address	Institutions under its administration	No. of staff (persons)	Total assets (100 million)
1	In Qingdao	-	1 head office, 1 branch and 80 sub-branches	2,477	3,191.60
2	Jinan Branch	Building 6, Yinfeng Fortune Plaza, No. 1 Longaoxi Road, Lixia District, Jinan	10 sub-branches under it	327	167.15
3	Dongying Branch	No. 72 Fuqian Avenue, Dongying District, Dongying	6 sub-branches under it	158	84.96
4	Weihai Branch	No. 112, No. 3-4 Shichang Avenue, Weihai	8 sub-branches under it	197	206.19
5	Zibo Branch	No. 266 Liantong Road, Zhangdian District, Zibo	3 sub-branches under it	127	88.34
6	Dezhou Branch	No. 717 Dexing Middle Avenue, Decheng District, Dezhou	3 sub-branches under it	98	45.04
7	Zaozhuang Branch	No. 215 Qingtan North Road, Shizhong District, Zaozhuang	5 sub-branches under it	111	50.86
8	Yantai Branch	Hongyuan Business Building, No. 29 Jinshajiang Road, Development Zone, Yantai	4 sub-branches under it	136	141.52
9	Binzhou Branch	No. 471 Huanghe 8th Road, Bincheng District, Binzhou	2 sub-branches under it	61	58.15
10	Weifang Branch	No. 124, Building 7, No. 6636 Fushou East Street, Kuiwen District, Weifang	3 sub-branches under it	129	109.86
11	Laiwu Branch	No. 57, Wanfu North Road, Laicheng District, Laiwu	1 sub-branch under it	54	19.39
12	Linyi Branch	Building 9, Hongxing International Plaza, Intersection of Jinan Road and Xiaohe Road, Beicheng New District, Linyi	1 sub-branch under it	75	45.56
13	Jining Branch	Welfare Lottery Building, No. 24 Hongxing Middle Road, Jining	2 sub-branches under it	67	51.45
14	Tai'an Branch	No. 237 Dongyue Street, Tai'an	-	46	38.94



The Bank will continue to enhance corporate governance with a key guarantee of achieving sustainable and high-quality business development. In accordance with the regulatory requirements of the banking industry and capital market, the Bank adhered to the principles of self-driven and action-consciousness to continue to optimize its corporate governance mechanism, improve the operational efficiency of shareholders' meetings, the meeting of the Board of Directors, the meeting of the Board of Supervisors as well as the work efficiency of the senior management, and strengthen the capacity of its Directors and Supervisors, striving to create a standardized, market-oriented and characteristic corporate governance system. During the Reporting Period, the Bank's shareholders' general meeting, Board of Directors, Board of Supervisors and senior management achieved the independent operation, effective check and balance, cooperation and coordinate operation, and performed decision-making, supervision and execution duties of each corporate governance entity scientifically and efficiently.

### I. CONVENING OF SHAREHOLDERS' GENERAL MEETING

For shareholders' general meeting held during the Reporting Period, please refer to "Section V Significant Events" in this report.

### II. CONVENING OF MEETINGS OF THE BOARD AND SPECIAL COMMITTEES

During the Reporting Period, the Board of Directors convened 4 meetings, of which 1 was on-site meeting and 3 were conference meetings, considering 21 resolutions and receiving 40 reports in total. Special committees of the Board of Directors convened 11 meetings, including 2 meetings of the Strategy Committee, 1 meeting of the Risk Management and Consumer Rights Protection Committee, 2 meetings of the Audit Committee, 2 meetings of the Remuneration Committee, 1 meeting of the Nomination Committee, 2 meetings of the Related Party Transactions Control Committee and 1 meeting of the Information Technology Committee, considering 23 resolutions and receiving 26 reports in total.

### III. CONVENING OF MEETINGS OF THE BOARD OF SUPERVISORS AND SPECIAL COMMITTEES

During the Reporting Period, the Board of Supervisors convened 4 meetings, of which 2 were on-site meetings and 2 were conference meetings, considering 16 resolutions, receiving 36 reports in total. The special committees of the Board of Supervisors convened 4 meetings, including 2 meetings of the supervisory committee and 2 meetings of the nomination and evaluation committee, considering 11 resolutions and receiving 28 reports in total.

### IV. RISK MANAGEMENT AND INTERNAL CONTROL

The Board of Directors of the Bank is responsible for ensuring the establishment and implementation of an adequate and effective internal control system and the Bank's prudential operation under the framework set by laws and policies. The Board of Directors is also responsible for explicitly determining the acceptable risk level, ensuring the senior management to adopt necessary risk control measures, and supervising the senior management on their monitoring and assessment of the adequacy and effectiveness of the risk management and internal control systems.

The Board of Directors of the Bank has established the Audit Committee to be responsible for the supervision of the effective implementation of the Bank's internal control and the self-assessment of risk management and internal control, the coordination of audit on internal control and other relevant matters.

The Board of Supervisors of the Bank is responsible for supervising the Board of Directors and senior management in improving the risk management and internal control systems; supervising the performance of risk management and internal control duties by the Board of Directors, senior management and their members.

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## SECTION IX CORPORATE GOVERNANCE

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The senior management of the Bank is responsible for implementing the decisions of the Board of Directors, formulating systematic systems, procedures and methods based on the acceptable risk control level as determined by the Board of Directors and adopting the corresponding risk control measures, establishing and improving the internal structure and institutions, ensuring the effective implementation of various risk management and internal control functions as well as conducting supervision and assessment of the adequacy and effectiveness of the risk management and internal control systems.

Based on rules and regulations including the Basic Standards for Enterprise Internal Control and its complimentary guidelines and the Guidelines on Internal Control of Commercial Banks, along with relevant requirements of the Hong Kong Stock Exchange, the Bank has formulated the objectives and principles of internal control and established its internal control system. The Bank takes control over the entire process of various operation and management activities, and continuously enhances the completeness, reasonableness and effectiveness of internal control system through practice.

On the basis of continuous improvement of the Bank's user-friendly system that provides excellent customer experience, is highly accessible to employees and comprehensively covers risks, the Bank carried out a system-building initiative known as "Strike of the Sword Action\* (利劍行動)" in the first half of 2020, focusing on comprehensive updates and revisions to the Bank's systems, improving the flexibility of the systems to advance with the times, ensuring that the systems are always followed and constantly updated, and guaranteeing steady development of innovative businesses under the regulation of these systems. The Bank issued Opinions on Solidifying Foundation to Facilitate Comprehensive Compliance (《關於強基固本推進全面合規建設工作的意見》) as "No. 1 document (一號文)" and carried out ten actions at all levels around the theme of "Comprehensive Compliance", so as to continue solidifying the construction of the ten systems for compliance and internal control, and establish a new ecosystem of "Comprehensive Compliance". The Bank conducted regular annual audits, responsibility audits, exit audits and special audits, established a risk assessment and rectification mechanism with sustained effectiveness. Through convening quarterly "internal control assessment meetings", the Bank has enhanced the awareness of risk prevention and control at all levels, ensured that potential risks are identified in early stages and rectified in a timely manner, and edged up the standards of its risk management and control.

The Bank formulated Information Disclosure Management System of Bank of Qingdao Co., Ltd., which specified the definition of inside information, confidentiality measures, handling and issuance procedures and internal control.

During the Reporting Period, no institution or staff of the Bank participated in or was suspected of being involved in any money laundering or terrorism financing activity.

### V. REPRESENTATION ON COMPLIANCE WITH THE HONG KONG LISTING RULES

The Bank has adopted the required standard set by the Model Code as the code of conduct for securities transactions by its Directors and Supervisors. Having made enquiries to all Directors and Supervisors, the Bank confirmed that they had complied with the Model Code during the Reporting Period.

During the Reporting Period, the Bank had strictly complied with the provisions set out in the Corporate Governance Code contained in Appendix 14 to the Hong Kong Listing Rules, and adopted the suggested best practices as set out therein as appropriate.

\* For identification purpose only.

**To the board of directors of Bank of Qingdao Co., Ltd.**

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

**INTRODUCTION**

We have reviewed the interim financial report set out on pages 122 to 219 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 2020 and the related consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the six month period 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 2020 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

28 August 2020

## SECTION XI UNAUDITED INTERIM FINANCIAL REPORT

### UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the six months ended 30 June 2020

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	Six months ended 30 June	
		2020 (unaudited)	2019 (unaudited)
Interest income		8,220,426	6,825,818
Interest expense		(4,303,950)	(3,681,275)
<b>Net interest income</b>	3	<b>3,916,476</b>	3,144,543
Fee and commission income		1,182,905	614,082
Fee and commission expense		(64,117)	(33,272)
<b>Net fee and commission income</b>	4	<b>1,118,788</b>	580,810
Net trading gains	5	130,994	15,362
Net gains arising from investments	6	909,014	785,541
Other operating income	7	28,867	8,312
<b>Operating income</b>		<b>6,104,139</b>	4,534,568
Operating expenses	8	(1,456,874)	(1,266,489)
Credit losses	9	(2,787,723)	(1,428,195)
<b>Profit before taxation</b>		<b>1,859,542</b>	1,839,884
Income tax expense	10	(295,051)	(373,755)
<b>Net profit for the period</b>		<b>1,564,491</b>	1,466,129
<b>Profit attributable to:</b>			
Equity shareholders of the Bank		1,530,517	1,438,462
Non-controlling interests		33,974	27,667
Basic and diluted earnings per share (in RMB)	11	0.34	0.32

The notes on pages 131 to 219 form part of this interim financial report.

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

for the six months ended 30 June 2020  
(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	Six months ended 30 June	
		2020 (unaudited)	2019 (unaudited)
<b>Net profit for the period</b>		<b>1,564,491</b>	1,466,129
<b>Other comprehensive income:</b>			
Item that will not be reclassified to profit or loss			
– Remeasurement of defined benefit liability		<b>(8)</b>	–
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	37(4)	<b>(195,645)</b>	(76,063)
– Credit losses of debt investments measured at fair value through other comprehensive income	37(4)	<b>(19,668)</b>	50,659
<b>Other comprehensive income, net of tax</b>		<b>(215,321)</b>	(25,404)
<b>Total comprehensive income</b>		<b>1,349,170</b>	1,440,725
<b>Total comprehensive income attributable to:</b>			
Equity shareholders of the Bank		<b>1,315,196</b>	1,413,058
Non-controlling interests		<b>33,974</b>	27,667

The notes on pages 131 to 219 form part of this interim financial report.

## UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 June 2020

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	30 June 2020 (unaudited)	31 December 2019 (audited)
<b>Assets</b>			
Cash and deposits with central bank	12	34,997,001	39,704,840
Deposits with banks and other financial institutions	13	2,142,587	1,312,468
Placements with banks and other financial institutions	14	1,139,412	3,313,603
Derivative financial assets	15	311,283	12,436
Financial assets held under resale agreements	16	13,608,775	2,325,771
Loans and advances to customers	17	198,252,690	169,158,291
Financial investments:			
– Financial investments measured at fair value through profit or loss	18	29,846,944	22,912,561
– Financial investments measured at fair value through other comprehensive income	19	60,428,947	54,973,781
– Financial investments measured at amortised cost	20	81,461,246	64,491,058
Long-term receivables	22	11,003,918	9,037,819
Property and equipment	23	2,991,381	3,048,813
Right-of-use assets	24	822,081	818,928
Deferred tax assets	25	2,294,408	1,581,905
Other assets	26	1,221,336	929,876
<b>Total assets</b>		<b>440,522,009</b>	<b>373,622,150</b>
<b>Liabilities</b>			
Borrowings from central bank	27	8,103,568	5,536,650
Deposits from banks and other financial institutions	28	11,595,733	16,462,527
Placements from banks and other financial institutions	29	12,458,847	9,916,257
Derivative financial liabilities	15	317,920	8,805
Financial assets sold under repurchase agreements	30	25,812,324	16,027,082
Deposits from customers	31	266,771,363	215,425,403
Income tax payable		654,609	187,027
Debt securities issued	32	80,444,367	76,858,899
Lease liabilities	33	443,075	427,429
Other liabilities	34	2,995,053	2,294,153
<b>Total liabilities</b>		<b>409,596,859</b>	<b>343,144,232</b>

The notes on pages 131 to 219 form part of this interim financial report.

## UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

as at 30 June 2020

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	30 June 2020 (unaudited)	31 December 2019 (audited)
<b>Equity</b>			
Share capital	35	4,509,690	4,509,690
Other equity instrument			
Including: preference shares	36	7,853,964	7,853,964
Capital reserve	37(1)	8,337,869	8,337,869
Surplus reserve	37(2)	1,626,662	1,626,662
General reserve	37(3)	4,400,258	4,400,258
Other comprehensive income	37(4)	442,909	658,230
Retained earnings	38	3,157,366	2,528,787
<hr/>			
Total equity attributable to equity shareholders of the Bank		30,328,718	29,915,460
Non-controlling interests		596,432	562,458
<hr/>			
<b>Total equity</b>		<b>30,925,150</b>	30,477,918
<hr/>			
<b>Total liabilities and equity</b>		<b>440,522,009</b>	373,622,150

Approved and authorised for issue by the board of directors on 28 August 2020.

\_\_\_\_\_  
**Guo Shaoquan**  
*Legal Representative*  
*(Chairman)*

\_\_\_\_\_  
**Wang Lin**  
*President*

\_\_\_\_\_  
**Meng Dageng**  
*Head of the Planning &*  
*Finance Department*

(Company Stamp)

The notes on pages 131 to 219 form part of this interim financial report.

## UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2020

(Expressed in thousands of Renminbi, unless otherwise stated)

	Attributable to equity shareholders of the Bank							Retained earnings	Total	Non-controlling interests	Total equity
	Note	Share capital	Other equity instrument	Capital reserve <i>Note 37(1)</i>	Surplus reserve <i>Note 37(2)</i>	General reserve <i>Note 37(3)</i>	Other comprehensive income <i>Note 37(4)</i>				
Balance at 1 January 2020		4,509,690	7,853,964	8,337,869	1,626,662	4,400,258	658,230	2,528,787	29,915,460	562,458	30,477,918
Profit for the period		-	-	-	-	-	-	1,530,517	1,530,517	33,974	1,564,491
Other comprehensive income	<i>37(4)</i>	-	-	-	-	-	(215,321)	-	(215,321)	-	(215,321)
Total comprehensive income		-	-	-	-	-	(215,321)	1,530,517	1,315,196	33,974	1,349,170
Appropriation of profit:											
- Dividends	<i>38</i>	-	-	-	-	-	-	(901,938)	(901,938)	-	(901,938)
Balance at 30 June 2020 (unaudited)		4,509,690	7,853,964	8,337,869	1,626,662	4,400,258	442,909	3,157,366	30,328,718	596,432	30,925,150

	Attributable to equity shareholders of the Bank							Retained earnings	Total	Non-controlling interests	Total equity
	Note	Share capital	Other equity instrument	Capital reserve <i>Note 37(1)</i>	Surplus reserve <i>Note 37(2)</i>	General reserve <i>Note 37(3)</i>	Other comprehensive income <i>Note 37(4)</i>				
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	<i>37(4)</i>	-	-	-	-	-	(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	<i>35</i>	450,977	-	1,511,593	-	-	-	-	1,962,570	-	1,962,570
Appropriation of profit:											
- Dividends	<i>38</i>	-	-	-	-	-	-	(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

The notes on pages 131 to 219 form part of this interim financial report.



## UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

for the six months ended 30 June 2020  
(Expressed in thousands of Renminbi, unless otherwise stated)

	Attributable to equity shareholders of the Bank							Retained earnings	Total	Non-controlling interests	Total equity
	Share capital	Other equity instrument	Capital reserve	Surplus reserve	General reserve	Other comprehensive income					
Note			Note 37(1)	Note 37(2)	Note 37(3)	Note 37(4)					
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 year	-	-	-	-	-	-	2,284,815	2,284,815	50,707	2,335,522	
Other comprehensive income	37(4)	-	-	-	-	105,037	-	105,037	-	105,037	
Total comprehensive income	-	-	-	-	-	105,037	2,284,815	2,389,852	50,707	2,440,559	
Ordinary shares insurance	35	450,977	1,511,593	-	-	-	-	1,962,570	-	1,962,570	
Appropriation of profit:											
- Appropriation to surplus reserve	37(2)	-	-	223,087	-	-	(223,087)	-	-	-	
- Appropriation to general reserve	37(3)	-	-	-	430,806	-	(430,806)	-	-	-	
- Dividends	38	-	-	-	-	-	(1,421,935)	(1,421,935)	-	(1,421,935)	
Balance at 31 December 2019 (audited)	4,509,690	7,853,964	8,337,869	1,626,662	4,400,258	658,230	2,528,787	29,915,460	562,458	30,477,918	

The notes on pages 131 to 219 form part of this interim financial report.

## UNAUDITED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2020

(Expressed in thousands of Renminbi, unless otherwise stated)

	Six months ended 30 June	
	2020 (unaudited)	2019 (unaudited)
<b>Cash flows from operating activities</b>		
Profit before taxation	1,859,542	1,839,884
<i>Adjustments for:</i>		
Credit losses	2,787,723	1,428,195
Depreciation and amortisation	208,199	212,737
Unrealised foreign exchange gains	(129,742)	(14,385)
Net losses on disposal of property and equipment, intangible assets and other assets	388	582
Losses/(gains) from changes in fair value	194,103	(31,300)
Net gains arising from investment	(1,098,437)	(754,291)
Interest expense on debt securities issued	1,349,986	1,257,153
Interest income from financial investment	(2,636,940)	(2,685,687)
Others	(22,460)	(27,701)
	<b>2,512,362</b>	1,225,187
<i>Changes in operating assets</i>		
Net (increase)/decrease in deposits with central bank	(1,151,640)	795,841
Net (increase)/decrease in deposits with banks and other financial institutions	(100,000)	200,000
Net decrease in placements with banks and other financial institutions	1,700,000	7,542
Net increase in loans and advances to customers	(31,012,452)	(21,291,600)
Net (increase)/decrease in financial assets held under resale agreements	(11,289,851)	300,000
Net increase in long-term receivables	(2,077,350)	(1,074,973)
Net increase in other operating assets	160,372	(102,093)
	<b>44,091,665</b>	(21,165,283)

The notes on pages 131 to 219 form part of this interim financial report.

## UNAUDITED CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

*for the six months ended 30 June 2020  
(Expressed in thousands of Renminbi, unless otherwise stated)*

	<b>Six months ended 30 June</b>	
	<b>2020</b> <b>(unaudited)</b>	2019 (unaudited)
<i>Changes in operating liabilities</i>		
Net increase/(decrease) in borrowings from central bank	<b>2,591,685</b>	(749,709)
Net (decrease)/increase in deposits from banks and other financial institutions	<b>(4,827,783)</b>	3,270,197
Net increase in placements from banks and other financial institutions	<b>2,516,394</b>	1,533,428
Net increase/(decrease) in financial assets sold under repurchase agreements	<b>9,782,953</b>	(1,194,617)
Net increase in deposits from customers	<b>50,980,065</b>	10,194,128
Net increase in other operating liabilities	<b>729,528</b>	706,149
	<b>61,772,842</b>	13,759,576
Income tax paid	<b>(468,198)</b>	(463,843)
<b>Net cash flows generated/(used in) from operating activities</b>	<b>19,725,341</b>	(6,644,363)
<b>Cash flows from investing activities</b>		
Proceeds from disposal and redemption of investments	<b>40,682,817</b>	35,112,823
Net cash received from investment gains and interest	<b>3,973,515</b>	3,645,625
Proceeds from disposal of property and equipment, intangible assets and other assets	<b>159</b>	301
Payments on acquisition of investments	<b>(71,886,434)</b>	(35,282,062)
Payments on acquisition of property and equipment, intangible assets and other assets	<b>(100,854)</b>	(159,286)
<b>Net cash flows (used in)/generated from investing activities</b>	<b>(27,330,797)</b>	3,317,401
<b>Cash flows from financing activities</b>		
Proceeds from issuance of ordinary shares	–	1,962,570
Net proceeds from debt securities issued	<b>32,155,562</b>	44,598,684
Repayment of debt securities issued	<b>(28,576,432)</b>	(35,530,000)
Interest paid on debt securities issued	<b>(1,343,648)</b>	(405,284)
Dividends paid	<b>(645,216)</b>	(62)
Cash payment for other financing activities	<b>(68,141)</b>	–
<b>Net cash flows generated from financing activities</b>	<b>1,522,125</b>	10,625,908

The notes on pages 131 to 219 form part of this interim financial report.

## UNAUDITED CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

for the six months ended 30 June 2020

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	Six months ended 30 June	
		2020 (unaudited)	2019 (unaudited)
<b>Effect of foreign exchange rate changes on cash and cash equivalents</b>		<b>8,941</b>	7,115
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(6,074,390)</b>	7,306,061
<b>Cash and cash equivalents as at 1 January</b>		<b>22,500,749</b>	10,212,182
<b>Cash and cash equivalents as at 30 June</b>	39	<b>16,426,359</b>	17,518,243
<b>Net cash flows generated from operating activities include:</b>			
Interest received		<b>5,910,187</b>	4,305,389
Interest paid		<b>(2,623,362)</b>	(2,138,247)

The notes on pages 131 to 219 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 formerly China Banking Regulatory Commission (the “CBRC”).

The Bank obtained its financial institution licence No. B0170H237020001 from the Qingdao branch of the former 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 RMB4.510 billion as at 30 June 2020.

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 2020. 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 28 August 2020.

The interim financial reports and notes thereon do not include all of the information required for a 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 2019.

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”).

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

#### (2) Accounting judgements and estimates

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

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 2019.

#### (3) Changes in accounting policies

The IASB has issued several amendments to IFRSs that are first effective for the current accounting period. None of these developments has had a material effect on how the group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

### 3 NET INTEREST INCOME

	Six months ended 30 June	
	2020	2019
<b>Interest income arising from</b>		
Deposits with central bank	173,372	168,832
Deposits with banks and other financial institutions	3,733	8,670
Placements with banks and other financial institutions	74,377	142,484
Loans and advances to customers		
– Corporate loans and advances	3,317,073	2,127,391
– Personal loans and advances	1,470,654	1,102,518
– Discounted bills	127,920	212,008
Financial assets held under resale agreements	105,924	133,225
Financial investments	2,636,940	2,685,687
Long-term receivables	310,433	245,003
Sub-total	<b>8,220,426</b>	6,825,818
<b>Interest expense arising from</b>		
Borrowings from central bank	(92,296)	(172,514)
Deposits from banks and other financial institutions	(172,453)	(190,952)
Placements from banks and other financial institutions	(204,397)	(207,222)
Deposits from customers	(2,290,323)	(1,591,835)
Financial assets sold under repurchase agreements	(194,495)	(261,599)
Debt securities issued	(1,349,986)	(1,257,153)
Sub-total	<b>(4,303,950)</b>	(3,681,275)
<b>Net interest income</b>	<b>3,916,476</b>	3,144,543

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 4 NET FEE AND COMMISSION INCOME

	Six months ended 30 June	
	2020	2019
<b>Fee and commission income</b>		
Wealth management service fees	672,692	318,278
Agency service fees	227,747	155,930
Custody and bank card service fees	154,074	37,535
Financial leasing service fees	92,729	71,688
Settlement fees	19,636	17,798
Others	16,027	12,853
Sub-total	<b>1,182,905</b>	614,082
<b>Fee and commission expense</b>	<b>(64,117)</b>	(33,272)
<b>Net fee and commission income</b>	<b>1,118,788</b>	580,810

### 5 NET TRADING GAINS

	Note	Six months ended 30 June	
		2020	2019
Net gains of foreign exchange and foreign exchange rate derivative financial instruments	(i)	140,203	16,918
Net gains/(losses) from debt securities and others	(ii)	1,002	(1,606)
Net (losses)/gains from non-exchange derivative financial instruments		(10,211)	50
Total		<b>130,994</b>	15,362

Notes:

- (i) Net gains/(losses) of foreign exchange and foreign exchange rate derivative financial instruments 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.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 6 NET GAINS ARISING FROM INVESTMENTS

	Six months ended 30 June	
	2020	2019
Net gains on disposal of financial assets measured at fair value through other comprehensive income	567,635	272,715
Net gains on financial investments measured at fair value through profit or loss	341,379	512,826
Total	909,014	785,541

### 7 OTHER OPERATING INCOME

	Six months ended 30 June	
	2020	2019
Government grants	27,768	4,173
Rental income	277	1,033
Net losses on disposal of property and equipment and other assets	(388)	(582)
Others	1,210	3,688
Total	28,867	8,312



## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 8 OPERATING EXPENSES

	Six months ended 30 June	
	2020	2019
Staff costs		
– Salaries, bonuses and allowances	<b>618,315</b>	492,444
– Social insurance and housing allowances	<b>52,160</b>	50,382
– Staff welfare expenses	<b>50,183</b>	34,804
– Staff education expenses	<b>15,574</b>	12,420
– Labor union expenses	<b>12,459</b>	15,136
– Post-employment benefits		
– Defined contribution plans	<b>55,458</b>	87,932
– Supplementary retirement benefits	<b>5,800</b>	3,720
Sub-total	<b>809,949</b>	696,838
Property and equipment expenses		
– Depreciation and amortisation	<b>208,199</b>	212,737
– Electronic equipment operating expenses	<b>28,218</b>	35,349
– Maintenance	<b>34,357</b>	35,225
Sub-total	<b>270,774</b>	283,311
Tax and surcharges	<b>69,765</b>	49,349
Other general and administrative expenses	<b>306,386</b>	236,991
Total	<b>1,456,874</b>	1,266,489

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 9 CREDIT LOSSES

	Six months ended 30 June	
	2020	2019
Loans and advances to customers	1,944,777	1,382,222
Deposits with banks and other financial institutions	210	51
Placements with banks and other financial institutions	(10,126)	(4,029)
Financial assets held under resale agreements	7,456	(122)
Financial investments measured at amortised cost	735,614	(75,701)
Financial investments measured at FVOCI		
– Debt instruments	(28,239)	63,809
Long-term receivables	134,237	58,718
Credit commitments	(2,015)	(3,905)
Others	5,809	7,152
<b>Total</b>	<b>2,787,723</b>	<b>1,428,195</b>

### 10 INCOME TAX EXPENSE

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

	Note	Six months ended 30 June	
		2020	2019
Current tax		935,781	543,962
Deferred tax	25(2)	(640,730)	(170,207)
<b>Total</b>		<b>295,051</b>	<b>373,755</b>

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

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

### 10 INCOME TAX EXPENSE (continued)

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

	Six months ended 30 June	
	2020	2019
Profit before taxation	1,859,542	1,839,884
Statutory tax rate	25%	25%
Income tax calculated at statutory tax rate	464,886	459,971
Tax effect of non-deductible expenses for tax purpose		
– Annuity	1,782	2,136
– Entertainment expenses	1,102	1,296
– Others	2,808	1,072
Subtotal	5,692	4,504
Tax effect of non-taxable income for tax purpose <i>(Note (i))</i>	(175,527)	(90,720)
Income tax	295,051	373,755

*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.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 11 BASIC AND DILUTED EARNINGS PER SHARE

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

		Six months ended 30 June	
	Note	2020	2019
Weighted average number of ordinary shares (in thousands)	11(1)	4,509,690	4,434,527
Net profit attributable to equity shareholders of the Bank		1,530,517	1,438,462
Less: dividends on preference shares declared		–	–
Net profit attributable to ordinary shareholders of the Bank		1,530,517	1,438,462
Basic and diluted earnings per share (in RMB)		0.34	0.32

Note:

As stated in Note 36, the Bank issued 60,150,000 shares in respect of the USD overseas preference share on 19 September 2017. On 30 June 2020, the carrying amount of the overseas preference share equals to RMB7,854 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 2020, the Bank did not consider the effects of dividends that may be distributed to shareholders of the overseas preference share in September 2020 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 2019 were RMB520 million).

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 11 BASIC AND DILUTED EARNINGS PER SHARE (continued)

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

	Six months ended 30 June	
	2020	2019
Number of ordinary shares as at 1 January	4,509,690	4,058,713
Increase in weighted average number of ordinary shares	–	375,814
<b>Weighted average number of ordinary shares</b>	<b>4,509,690</b>	<b>4,434,527</b>

### 12 CASH AND DEPOSITS WITH CENTRAL BANK

	Note	30 June 2020	31 December 2019
Cash on hand		721,614	520,460
Deposits with central bank			
– Statutory deposit reserves	12(1)	20,551,870	19,327,597
– Surplus deposit reserves	12(2)	13,663,443	19,723,270
– Fiscal deposits		50,229	122,862
<b>Sub-total</b>		<b>34,265,542</b>	<b>39,173,729</b>
Accrued interest		9,845	10,651
<b>Total</b>		<b>34,997,001</b>	<b>39,704,840</b>

- (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 2020	31 December 2019
Reserve ratio for RMB deposits	8.0%	9.5%
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.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 13 DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 June 2020	31 December 2019
In Mainland China		
– Banks	1,673,554	946,722
– Other financial institutions	42,063	9,079
Outside Mainland China		
– Banks	425,685	355,234
Accrued interest	2,070	2,008
Sub-total	2,143,372	1,313,043
Less: Provision for impairment losses	(785)	(575)
Total	2,142,587	1,312,468

### 14 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 June 2020	31 December 2019
In Mainland China		
– Other financial institutions	1,101,364	3,247,840
Accrued interest	44,490	82,331
Sub-total	1,145,854	3,330,171
Less: Provision for impairment losses	(6,442)	(16,568)
Total	1,139,412	3,313,603

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 15 DERIVATIVE FINANCIAL INSTRUMENTS

	30 June 2020			31 December 2019		
	Nominal amount	Fair value of assets	Fair value of Liabilities	Nominal amount	Fair value of assets	Fair value of Liabilities
Interest rate swap contracts and others	111,396,629	311,283	(317,920)	33,896,438	12,436	(8,805)
<b>Total</b>	<b>111,396,629</b>	<b>311,283</b>	<b>(317,920)</b>	<b>33,896,438</b>	<b>12,436</b>	<b>(8,805)</b>

### 16 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

#### (1) Analysed by type and location of counterparty

	30 June 2020	31 December 2019
In Mainland China – Banks	13,616,451	2,326,600
Accrued interest	722	113
Sub-total	13,617,173	2,326,713
Less: Provision for impairment losses	(8,398)	(942)
<b>Total</b>	<b>13,608,775</b>	<b>2,325,771</b>

#### (2) Analysed by type of security held

	30 June 2020	31 December 2019
Debt securities	13,616,451	2,326,600
Accrued interest	722	113
Sub-total	13,617,173	2,326,713
Less: Provision for impairment losses	(8,398)	(942)
<b>Total</b>	<b>13,608,775</b>	<b>2,325,771</b>

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 17 LOANS AND ADVANCES TO CUSTOMERS

#### (1) Analysed by nature

	30 June 2020	31 December 2019
Measured at amortised cost:		
Corporate loans and advances		
– Corporate loans	<b>131,984,603</b>	112,036,804
	<b>131,984,603</b>	112,036,804
Personal loans and advances		
– Residential mortgage	<b>40,277,677</b>	36,762,232
– Personal consumption loans	<b>10,670,793</b>	9,470,211
– Personal business loans	<b>10,504,224</b>	8,276,374
Sub-total	<b>61,452,694</b>	54,508,817
Accrued interest	<b>819,081</b>	772,480
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost		
– 12-month expected credit loss ("ECL")	<b>(2,417,233)</b>	(1,523,023)
– lifetime ECL		
– not credit-impaired loans	<b>(926,270)</b>	(1,177,375)
– credit-impaired loans	<b>(2,024,358)</b>	(1,709,234)
Total provision for impairment losses	<b>(5,367,861)</b>	(4,409,632)
Measured at FVOCI:		
Corporate loans and advances		
– Discounted bills	<b>9,364,173</b>	6,249,822
Net loans and advances to customers	<b>198,252,690</b>	169,158,291



## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 17 LOANS AND ADVANCES TO CUSTOMERS (continued)

#### (2) Analysed by type of collateral (excluding accrued interest)

	30 June 2020	31 December 2019
Unsecured loans	37,169,845	27,881,658
Guaranteed loans	50,021,755	46,794,567
Loans secured by mortgages	85,274,614	75,145,703
Pledged loans	30,335,256	22,973,515
Gross loans and advances to customers	<b>202,801,470</b>	172,795,443

#### (3) Overdue loans analysed by overdue period (excluding accrued interest)

	30 June 2020				Total
	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	
Unsecured loans	146,656	46,046	11,011	228	203,941
Guaranteed loans	352,845	1,369,452	513,982	19,333	2,255,612
Loans secured by mortgages	193,011	65,464	102,817	142,000	503,292
Total	<b>692,512</b>	<b>1,480,962</b>	<b>627,810</b>	<b>161,561</b>	<b>2,962,845</b>
As a percentage of gross loans and advances to customers	<b>0.34%</b>	<b>0.73%</b>	<b>0.31%</b>	<b>0.08%</b>	<b>1.46%</b>

	31 December 2019				Total
	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	
Unsecured loans	63,393	18,294	1,604	199	83,490
Guaranteed loans	505,564	861,815	505,595	13,305	1,886,279
Loans secured by mortgages	142,134	180,941	56,667	145,939	525,681
Total	711,091	1,061,050	563,866	159,443	2,495,450
As a percentage of gross loans and advances to customers	0.41%	0.61%	0.33%	0.09%	1.44%

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

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 17 LOANS AND ADVANCES TO CUSTOMERS (continued)

#### (4) Loans and advances and provision for impairment losses analysis

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 2020			Total
	12-month ECL	Lifetime ECL – not credit-impaired	Lifetime ECL – credit-impaired (Note (i))	
Gross loans and advances to customers measured at amortised cost (including accrued interest)	186,354,748	4,531,690	3,369,940	194,256,378
Less: Provision for impairment losses	(2,417,233)	(926,270)	(2,024,358)	(5,367,861)
Net loans and advances to customers measured at amortised cost	183,937,515	3,605,420	1,345,582	188,888,517
		31 December 2019		
	12-month ECL	Lifetime ECL – not credit-impaired	Lifetime ECL – credit-impaired (Note (i))	Total
Gross loans and advances to customers measured at amortised cost (including accrued interest)	158,231,731	6,184,059	2,902,311	167,318,101
Less: Provision for impairment losses	(1,523,023)	(1,177,375)	(1,709,234)	(4,409,632)
Net loans and advances to customers measured at amortised cost	156,708,708	5,006,684	1,193,077	162,908,469

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 17 LOANS AND ADVANCES TO CUSTOMERS (continued)

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

	30 June 2020			Total
	12-month ECL	Lifetime ECL – not credit- impaired	Lifetime ECL – credit- impaired (Note (i))	
Gross/net loans and advances to customers at FVOCI (including accrued interest)	9,364,173	–	–	9,364,173
Provision for impairment losses through other comprehensive income	(14,932)	–	–	(14,932)

	31 December 2019			Total
	12-month ECL	Lifetime ECL – not credit- impaired	Lifetime ECL – credit- impaired (Note (i))	
Gross/net loans and advances to customers at FVOCI (including accrued interest)	6,249,822	–	–	6,249,822
Provision for impairment losses through other comprehensive income	(12,917)	–	–	(12,917)

Note:

(i) The definitions of the credit-impaired financial assets are set out in Note 42(1) Credit risk.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 17 LOANS AND ADVANCES TO CUSTOMERS (continued)

#### (5) Movements of provision for impairment losses

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 2020			
	12-month ECL	Lifetime ECL – not credit- impaired	Lifetime ECL – credit- impaired	Total
As at 1 January 2020	1,523,023	1,177,375	1,709,234	4,409,632
Transfer to				
– 12-month ECL	52,960	(44,977)	(7,983)	–
– Lifetime ECL				
– not credit-impaired loans	(19,139)	21,322	(2,183)	–
– credit-impaired loans	(13,192)	(763,254)	776,446	–
Charge for the period	873,581	535,804	533,377	1,942,762
Write-offs and transfer out	–	–	(1,046,395)	(1,046,395)
Recoveries of loans and advances written off	–	–	84,322	84,322
Other changes	–	–	(22,460)	(22,460)
As at 30 June 2020	2,417,233	926,270	2,024,358	5,367,861
	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	18,848	(18,525)	(323)	–
– Lifetime ECL				
– not credit-impaired loans	(29,175)	29,175	–	–
– credit-impaired loans	(5,696)	(1,187,479)	1,193,175	–
Charge for the year	262,673	1,076,534	1,691,057	3,030,264
Write-offs and transfer out	–	–	(2,251,771)	(2,251,771)
Recoveries of loans and advances written off	–	–	146,481	146,481
Other changes	–	–	(56,571)	(56,571)
As at 31 December 2019	1,523,023	1,177,375	1,709,234	4,409,632

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 17 LOANS AND ADVANCES TO CUSTOMERS (continued)

(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 2020			
	12-month ECL	Lifetime ECL – not credit- impaired	Lifetime ECL – credit- impaired	Total
As at 1 January 2020	12,917	–	–	12,917
Charge for the period	2,015	–	–	2,015
As at 30 June 2020	14,932	–	–	14,932
	2019			
	12-month ECL	Lifetime ECL – not credit- impaired	Lifetime ECL – credit- impaired	Total
As at 1 January 2019	16,577	–	–	16,577
Release for the year	(3,660)	–	–	(3,660)
As at 31 December 2019	12,917	–	–	12,917

The Group enters into securitization transactions in the normal course of business. See Note 46 for details.

In addition, in six months ended 30 June 2020 and the year ended 31 December 2019, the Group transferred loans and advances to independent third parties with principal amount of RMB0.100 billion and RMB0.150 billion respectively, and with the transfer price (including overdue interest, penalty interest, etc.) of RMB0.052 billion and RMB0.096 billion respectively.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 18 FINANCIAL INVESTMENTS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	<b>30 June 2020</b>	31 December 2019
Financial investments held for trading	–	–
Financial investments designated as at FVTPL	–	–
Other financial investments measured at FVTPL		
Debt investments issued by the following institutions in Mainland China		
– Banks and other financial institutions	<b>687,126</b>	676,304
– Corporate entities	<b>173,271</b>	124,557
Sub-total	<b>860,397</b>	800,861
Investment funds	<b>16,067,216</b>	9,008,256
Asset management plans	<b>10,729,142</b>	9,240,047
Trust fund plans	<b>2,190,189</b>	2,829,424
Wealth management products	–	1,033,973
Total	<b>29,846,944</b>	22,912,561
Unlisted	<b>29,846,944</b>	22,912,561

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 19 FINANCIAL INVESTMENTS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	<i>Note</i>	<b>30 June 2020</b>	31 December 2019
Debt securities issued by the following institutions in			
Mainland China			
– Government		<b>13,834,048</b>	12,412,488
– Policy banks		<b>4,757,291</b>	4,776,962
– Banks and other financial institutions		<b>6,070,346</b>	8,027,292
– Corporate entities		<b>27,146,483</b>	20,848,475
Sub-total		<b>51,808,168</b>	46,065,217
-----			
Asset management plans		<b>6,914,230</b>	7,128,140
Other investments		<b>707,810</b>	705,543
Equity investments	<i>19(1)</i>	<b>23,250</b>	23,250
Accrued interest		<b>975,489</b>	1,051,631
Total		<b>60,428,947</b>	54,973,781
-----			
Listed	<i>19(2)</i>	<b>20,741,695</b>	11,739,536
Of which: listed outside Hong Kong		<b>20,741,695</b>	11,739,536
Unlisted		<b>39,687,252</b>	43,234,245
Total		<b>60,428,947</b>	54,973,781
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## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 19 FINANCIAL INVESTMENTS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (continued)

- (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:

Investees	Six months ended 30 June 2020					
	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	–
Shandong City Commercial Bank Cooperation Alliance Co., Ltd.	10,000	–	–	10,000	2.15	–
Clearing Center for City Commercial Banks	250	–	–	250	0.81	–
<b>Total</b>	<b>23,250</b>	<b>–</b>	<b>–</b>	<b>23,250</b>		<b>–</b>

Investees	2019					
	Balance at the beginning of the year	Increase during the year	Decrease during the year	Balance at the end of the year	Percentage of shareholding in investees (%)	Cash dividend for the year
China UnionPay Co., Ltd.	13,000	–	–	13,000	0.34	1,500
Shandong City Commercial Bank Cooperation Alliance Co., Ltd.	10,000	–	–	10,000	2.15	–
Clearing Center for City Commercial Banks	250	–	–	250	0.81	–
<b>Total</b>	<b>23,250</b>	<b>–</b>	<b>–</b>	<b>23,250</b>		<b>1,500</b>

For the six months ended 30 June 2020 and the year ended 31 December 2019, 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) Only includes bonds traded on stock exchanges.



## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 19 FINANCIAL INVESTMENTS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (continued)

- (3) Movements of the provision for impairment losses on debt instruments of financial investments measured at FVOCI are as follows:

	Six months ended 30 June 2020			Total
	12-month ECL	Lifetime ECL – not credit-impaired	Lifetime ECL – credit-impaired	
As at 1 January 2020	34,869	56,072	22,030	112,971
Transfer to				
– 12-month ECL	22,115	(22,115)	–	–
– Lifetime ECL				
– credit-impaired	–	(4,984)	4,984	–
Release for the period	(10,219)	(6,958)	(11,062)	(28,239)
As at 30 June 2020	46,765	22,015	15,952	84,732
	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	(1,601)	1,601	–	–
– credit-impaired	–	(1,246)	1,246	–
Charge for the year	3,798	36,595	20,784	61,177
As at 31 December 2019	34,869	56,072	22,030	112,971

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.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 20 FINANCIAL INVESTMENTS MEASURED AT AMORTISED COST

<i>Note</i>	<b>30 June 2020</b>	31 December 2019
Debt securities issued by the following institutions in Mainland China		
– Government	<b>25,062,708</b>	11,196,072
– Policy banks	<b>12,392,365</b>	13,143,054
– Banks and other financial institutions	<b>19,730,569</b>	11,288,474
– Corporate entities	<b>2,113,759</b>	2,475,729
Sub-total	<b>59,299,401</b>	38,103,329
Asset management plans	<b>12,695,872</b>	16,285,720
Trust fund plans	<b>2,640,700</b>	5,052,516
Other investments	<b>6,730,000</b>	4,800,000
Sub total	<b>22,066,572</b>	26,138,236
Accrued interest	<b>1,000,173</b>	1,118,779
Less: Provision for impairment losses	<b>(904,900)</b>	(869,286)
Total	<b>81,461,246</b>	64,491,058
Listed	<b>15,244,856</b>	11,566,752
Of which: listed outside Hong Kong	<b>15,244,856</b>	11,566,752
Unlisted	<b>66,216,390</b>	52,924,306
Total	<b>81,461,246</b>	64,491,058

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 20 FINANCIAL INVESTMENTS MEASURED AT AMORTISED COST (continued)

- (1) Movements of the allowance for impairment losses on financial investments measured at amortised cost are as follows:

	Six months ended 30 June 2020			Total
	12-month ECL	Lifetime ECL – not credit-impaired	Lifetime ECL – credit-impaired	
As at 1 January 2020	481,299	387,987	–	869,286
Transfer to				
– Lifetime ECL				
– not credit-impaired	(76,585)	76,585	–	–
– credit-impaired	(113,339)	(40,599)	153,938	–
(Release)/charge for the period	(34,679)	51,659	718,634	735,614
Others	–	–	(700,000)	(700,000)
<b>As at 30 June 2020</b>	<b>256,696</b>	<b>475,632</b>	<b>172,572</b>	<b>904,900</b>
	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
Transfer to				
– Lifetime ECL				
– not credit-impaired	(15,581)	15,581	–	–
Charge for the year	98,184	303,600	–	401,784
<b>As at 31 December 2019</b>	<b>481,299</b>	<b>387,987</b>	<b>–</b>	<b>869,286</b>

- (2) Only includes bonds traded on stock exchanges.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 21 INVESTMENT IN SUBSIDIARY

	30 June 2020	31 December 2019
BQD Financial Leasing Company Limited	510,000	510,000

As at 30 June 2020 and 31 December 2019, the subsidiary is as follows:

Name	Percentage of equity interest	Voting rights	Paid-in capital <i>(in thousands)</i>	Amount invested by the Bank <i>(in thousands)</i>	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 RMB1.00 billion.

### 22 LONG-TERM RECEIVABLES

	30 June 2020	31 December 2019
Minimum finance lease receivables	12,320,567	10,172,304
Less: Unearned finance lease income	(1,023,461)	(952,548)
Present value of finance lease receivables	11,297,106	9,219,756
Accrued interest	108,715	85,729
Sub-total	11,405,821	9,305,485
Less: Provision for impairment losses		
– 12-month ECL	(302,337)	(175,027)
– Lifetime ECL		
– not credit-impaired	(96,397)	(90,217)
– credit-impaired	(3,169)	(2,422)
Net balance	11,003,918	9,037,819

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 22 LONG-TERM RECEIVABLES (continued)

For the six months ended 30 June 2020 and the year ended 31 December 2019, movements of the provision for impairment losses on long-term receivable are as follows:

	Six months ended 30 June 2020			Total
	12-month ECL	Lifetime ECL – not credit-impaired	Lifetime ECL – credit-impaired	
As at 1 January 2020	175,027	90,217	2,422	267,666
Transfer to				
– Lifetime ECL				
– credit-impaired	–	(471)	471	–
Charge for the period	127,310	6,651	276	134,237
As at 30 June 2020	302,337	96,397	3,169	401,903
	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				
– not credit-impaired	(10,629)	10,629	–	–
– credit-impaired	(224)	–	224	–
Charge for the year	48,513	79,588	2,198	130,299
As at 31 December 2019	175,027	90,217	2,422	267,666

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 22 LONG-TERM RECEIVABLES (continued)

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 2020			31 December 2019		
	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
Repayable on demand	32,892	(1,863)	31,029	51,938	(5,227)	46,711
Less than 1 year (inclusive)	5,583,218	(581,652)	5,001,566	3,950,432	(480,408)	3,470,024
1 year to 2 years (inclusive)	3,976,612	(297,768)	3,678,844	3,243,597	(300,965)	2,942,632
2 years to 3 years (inclusive)	1,999,568	(101,970)	1,897,598	2,048,164	(125,549)	1,922,615
3 years to 5 years (inclusive)	573,835	(23,321)	550,514	865,077	(39,074)	826,003
Indefinite	154,442	(16,887)	137,555	13,096	(1,325)	11,771
<b>Total</b>	<b>12,320,567</b>	<b>(1,023,461)</b>	<b>11,297,106</b>	<b>10,172,304</b>	<b>(952,548)</b>	<b>9,219,756</b>

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 23 PROPERTY AND EQUIPMENT

	Premises	Electronic equipment	Vehicles	Machinery equipment and others	Construction in progress	Total
<b>Cost</b>						
As at 1 January 2019	2,935,512	566,408	62,955	86,132	210,203	3,861,210
Increase	9,741	67,981	5,480	7,022	–	90,224
Decrease	(27,405)	(17,213)	(3,887)	(6,018)	–	(54,523)
As at 31 December 2019	<b>2,917,848</b>	<b>617,176</b>	<b>64,548</b>	<b>87,136</b>	<b>210,203</b>	<b>3,896,911</b>
Increase	<b>8,554</b>	<b>18,819</b>	<b>370</b>	<b>1,646</b>	–	<b>29,389</b>
Decrease	<b>(15,634)</b>	<b>(6,241)</b>	<b>(1,082)</b>	<b>(2,276)</b>	–	<b>(25,233)</b>
As at 30 June 2020	<b>2,910,768</b>	<b>629,754</b>	<b>63,836</b>	<b>86,506</b>	<b>210,203</b>	<b>3,901,067</b>
<b>Accumulated depreciation</b>						
As at 1 January 2019	(297,371)	(336,089)	(46,032)	(57,363)	–	(736,855)
Increase	(60,336)	(62,421)	(5,455)	(8,614)	–	(136,826)
Decrease	–	16,186	3,692	5,705	–	25,583
As at 31 December 2019	<b>(357,707)</b>	<b>(382,324)</b>	<b>(47,795)</b>	<b>(60,272)</b>	–	<b>(848,098)</b>
Increase	<b>(29,655)</b>	<b>(34,421)</b>	<b>(2,550)</b>	<b>(4,015)</b>	–	<b>(70,641)</b>
Decrease	–	<b>5,903</b>	<b>1,026</b>	<b>2,124</b>	–	<b>9,053</b>
As at 30 June 2020	<b>(387,362)</b>	<b>(410,842)</b>	<b>(49,319)</b>	<b>(62,163)</b>	–	<b>(909,686)</b>
<b>Net book value</b>						
As at 30 June 2020	<b>2,523,406</b>	<b>218,912</b>	<b>14,517</b>	<b>24,343</b>	<b>210,203</b>	<b>2,991,381</b>
As at 31 December 2019	2,560,141	234,852	16,753	26,864	210,203	3,048,813

As at 30 June 2020 and 31 December 2019, 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 2020 was RMB12 million (31 December 2019: RMB12 million). Management is in the opinion that the incomplete title deeds would not affect the rights to these assets of the Group.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 23 PROPERTY AND EQUIPMENT (continued)

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 2020	31 December 2019
Held in Mainland China		
– Long-term leases (over 50 years)	16,890	17,086
– Medium-term leases (10 – 50 years)	2,504,132	2,540,578
– Short-term leases (less than 10 years)	2,384	2,477
<b>Total</b>	<b>2,523,406</b>	2,560,141

### 24 RIGHT-OF-USE ASSETS

	Premises	Others	Total
<b>Cost</b>			
As at 1 January 2019	892,651	4,114	896,765
Increase	46,566	–	46,566
Decrease	(213)	–	(213)
As at 31 December 2019	<b>939,004</b>	<b>4,114</b>	<b>943,118</b>
Increase	<b>69,505</b>	–	<b>69,505</b>
Decrease	<b>(4,982)</b>	–	<b>(4,982)</b>
As at 30 June 2020	<b>1,003,527</b>	<b>4,114</b>	<b>1,007,641</b>
<b>Accumulated depreciation</b>			
As at 1 January 2019	–	–	–
Increase	(123,609)	(651)	(124,260)
Decrease	70	–	70
As at 31 December 2019	<b>(123,539)</b>	<b>(651)</b>	<b>(124,190)</b>
Increase	<b>(65,874)</b>	<b>(326)</b>	<b>(66,200)</b>
Decrease	<b>4,830</b>	–	<b>4,830</b>
As at 30 June 2020	<b>(184,583)</b>	<b>(977)</b>	<b>(185,560)</b>
<b>Net book value</b>			
As at 30 June 2020	<b>818,944</b>	<b>3,137</b>	<b>822,081</b>
As at 31 December 2019	815,465	3,463	818,928



## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 25 DEFERRED INCOME TAX ASSETS

#### (1) *Analysed by nature*

	30 June 2020		31 December 2019	
	Deductible/ (taxable) temporary differences	Deferred Income tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred Income tax assets/ (liabilities)
Provision for impairment losses	8,773,404	2,193,351	6,435,256	1,608,814
Deferred interest income from discounted bills	131,668	32,917	85,700	21,425
Change in fair value	(94,056)	(23,514)	(549,020)	(137,255)
Others	366,616	91,654	355,684	88,921
<b>Total</b>	<b>9,177,632</b>	<b>2,294,408</b>	<b>6,327,620</b>	<b>1,581,905</b>

#### (2) *Analysed by movement*

	Provision for Impairment losses	Deferred interest income from discounted bills <i>(Note (i))</i>	Change in fair value	Others <i>(Note (ii))</i>	Total
As at 1 January 2019	1,103,855	35,760	(58,976)	72,139	1,152,778
Recognised in profit or loss	519,338	(14,335)	(57,096)	16,232	464,139
Recognised in other comprehensive income	(14,379)	–	(21,183)	550	(35,012)
As at 31 December 2019	<b>1,608,814</b>	<b>21,425</b>	<b>(137,255)</b>	<b>88,921</b>	<b>1,581,905</b>
Recognised in profit or loss	<b>577,981</b>	<b>11,492</b>	<b>48,526</b>	<b>2,731</b>	<b>640,730</b>
Recognised in other comprehensive income	<b>6,556</b>	<b>–</b>	<b>65,215</b>	<b>2</b>	<b>71,773</b>
As at 30 June 2020	<b>2,193,351</b>	<b>32,917</b>	<b>(23,514)</b>	<b>91,654</b>	<b>2,294,408</b>

#### 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.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 26 OTHER ASSETS

	<i>Note</i>	<b>30 June 2020</b>	31 December 2019
Prepayments and advances		<b>427,242</b>	171,948
Intangible assets	<i>26(1)</i>	<b>202,696</b>	194,243
Long-term deferred expense		<b>174,280</b>	186,590
Precious metals		<b>113,021</b>	113,223
Repossessed assets ( <i>Note (i)</i> )		<b>100,317</b>	111,345
Interest receivable ( <i>Note(ii)</i> )	<i>26(2)</i>	<b>18,317</b>	16,825
Deferred expense		<b>5,883</b>	9,563
Others		<b>186,037</b>	127,144
Sub-total		<b>1,227,793</b>	930,881
Less: Provision for impairment losses		<b>(6,457)</b>	(1,005)
Total		<b>1,221,336</b>	929,876

*Notes:*

- (i) Repossessed assets mainly included premises, etc. As at 30 June 2020 and 31 December 2019, there is no need to recognise provision for impairments losses of repossessed assets.
- (ii) As at 30 June 2020, the book value of the group's interest receivable after deducting the provision for impairment is RMB13.44 million.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 26 OTHER ASSETS (continued)

#### (1) Intangible assets

	Six months ended 30 June 2020	2019
<b>Cost</b>		
As at 1 January	518,914	419,222
Additions	48,078	100,036
Decrease	–	(344)
As at 30 June/31 December	566,992	518,914
<b>Accumulated amortisation</b>		
As at 1 January	(324,671)	(254,069)
Additions	(39,625)	(70,651)
Decrease	–	49
As at 30 June/31 December	(364,296)	(324,671)
<b>Net value</b>		
As at 30 June/31 December	202,696	194,243
As at 1 January	194,243	165,153

Intangible assets of the Group mainly include software.

#### (2) Interests receivable

	30 June 2020	31 December 2019
Interest receivable arising from:		
– Loans and advances to customers	14,490	16,825
– Long-term receivables	3,827	–
Total	18,317	16,825

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 27 BORROWINGS FROM CENTRAL BANK

	30 June 2020	31 December 2019
Borrowings	6,063,830	4,900,000
Re-discounted bills	2,035,309	607,454
Accrued interest	4,429	29,196
Total	8,103,568	5,536,650

### 28 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 June 2020	31 December 2019
In Mainland China		
– Banks	78,775	1,402,959
– Other financial institutions	11,430,234	14,933,833
Accrued interest	86,724	125,735
Total	11,595,733	16,462,527

### 29 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 June 2020	31 December 2019
In Mainland China		
– Banks	12,198,233	9,831,839
– Other financial institutions	150,000	–
Accrued interest	110,614	84,418
Total	12,458,847	9,916,257

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

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

### 30 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

#### (1) *Analysed by type and location of counterparty*

	<b>30 June 2020</b>	31 December 2019
In Mainland China		
– Central Bank	<b>3,840,000</b>	–
– Banks	<b>21,968,455</b>	15,525,502
– Other financial institutions	–	500,000
Accrued interest	<b>3,869</b>	1,580
Total	<b>25,812,324</b>	16,027,082

#### (2) *Analysed by types of collaterals*

	<b>30 June 2020</b>	31 December 2019
Debt securities	<b>19,736,800</b>	14,918,780
Discounted bills	<b>6,071,655</b>	1,106,722
Accrued interest	<b>3,869</b>	1,580
Total	<b>25,812,324</b>	16,027,082

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 31 DEPOSITS FROM CUSTOMERS

	30 June 2020	31 December 2019
Demand deposits		
– Corporate deposits	100,934,686	92,593,934
– Personal deposits	22,729,689	20,622,060
Sub-total	123,664,375	113,215,994
Time deposits		
– Corporate deposits	79,642,423	55,286,883
– Personal deposits	60,258,916	44,174,283
Sub-total	139,901,339	99,461,166
Outward remittance and remittance payables	204,075	100,697
Fiscal deposits to be transferred	1,185	13,052
Accrued interest	3,000,389	2,634,494
Total	266,771,363	215,425,403
Including:		
Pledged deposits	12,283,232	11,768,173

### 32 DEBT SECURITIES ISSUED

	30 June 2020	31 December 2019
Debt securities issued (Note (i))	22,486,539	24,681,106
Certificates of interbank deposit issued (Note (ii))	57,648,782	51,739,653
Accrued interest	309,046	438,140
Total	80,444,367	76,858,899

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 32 DEBT SECURITIES ISSUED (continued)

Notes:

- (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 RMB2.2 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, and has redeemed the debts during the first half year of 2020. As at 31 December 2019, the fair value of the debts was RMB2.310 billion.
  - (b) Five-year Green Bonds were issued with an interest rate of 3.40% per annum and with a nominal amount of RMB0.5 billion in March 2016. The debts will mature on 14 March 2021 with annual interest payments. As at 30 June 2020, the fair value of the debts was RMB0.503 billion (31 December 2019: RMB0.502 billion).
  - (c) Five-year Green Bonds were issued with an interest rate of 3.40% per annum and with a nominal amount of RMB1.0 billion in November 2016. The debts will mature on 24 November 2021 with annual interest payments. As at 30 June 2020, the fair value of the debts was RMB1.008 billion (31 December 2019: RMB1.003 billion).
  - (d) Ten-year tier-two capital bonds were issued with an interest rate of 5.00% per annum and with a nominal amount of RMB3.0 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 2020, the fair value of the debts was RMB3.040 billion (31 December 2019: RMB3.027 billion).
  - (e) Ten-year tier-two capital bonds were issued with an interest rate of 5.00% per annum and with a nominal amount of RMB2.0 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 2020, the fair value of the debts was RMB2.027 billion (31 December 2019: RMB2.018 billion).
  - (f) Three-year Financial Bonds were issued with an interest rate of 3.65% per annum and with a nominal amount of RMB3.0 billion in May 2019. The debts will mature on 22 May 2022 with annual interest payments. As at 30 June 2020, the fair value of the debts was RMB3.039 billion (31 December 2019: RMB3.023 billion).
  - (g) Five-year Financial Bonds were issued with an interest rate of 3.98% per annum and with a nominal amount of RMB1.0 billion in May 2019. The debts will mature on 22 May 2024 with annual interest payments. As at 30 June 2020, the fair value of the debts was RMB1.017 billion (31 December 2019: RMB1.007 billion).
  - (h) Three-year Financial Bonds were issued with an interest rate of 3.70% per annum and with a nominal amount of RMB3.0 billion in May 2019. The debts will mature on 31 May 2022 with annual interest payments. As at 30 June 2020, the fair value of the debts was RMB3.042 billion (31 December 2019: RMB3.026 billion).
  - (i) Five-year Financial Bonds were issued with an interest rate of 3.98% per annum and with a nominal amount of RMB1.0 billion in May 2019. The debts will mature on 31 May 2024 with annual interest payments. As at 30 June 2020, the fair value of the debts was RMB1.016 billion (31 December 2019: RMB1.007 billion).

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 32 DEBT SECURITIES ISSUED (continued)

- (j) Three-year Small and Micro Enterprises Financial Bonds were issued with an interest rate of 3.45% per annum and with a nominal amount of RMB3.0 billion in December 2019. The debts will mature on 5 December 2022 with annual interest payments. As at 30 June 2020, the fair value of the debts was RMB3.025 billion (31 December 2019: RMB3.009 billion).
- (k) Five-year Small and Micro Enterprises Financial Bonds were issued with an interest rate of 3.84% per annum and with a nominal amount of RMB1.0 billion in December 2019. The debts will mature on 5 December 2024 with annual interest payments. As at 30 June 2020, the fair value of the debts was RMB1.008 billion (31 December 2019: RMB1.000 billion).
- (l) Three-year Small and Micro Enterprises Financial Bonds were issued with an interest rate of 3.42% per annum and with a nominal amount of RMB3.0 billion in December 2019. The debts will mature on 16 December 2022 with annual interest payments. As at 30 June 2020, the fair value of the debts was RMB3.023 billion (31 December 2019: RMB3.006 billion).
- (m) Five-year Small and Micro Enterprises Financial Bonds were issued with an interest rate of 3.80% per annum and with a nominal amount of RMB1.0 billion in December 2019. The debts will mature on 16 December 2024 with annual interest payments. As at 30 June 2020, the fair value of the debts was RMB1.006 billion (31 December 2019: RMB0.998 billion).
- (ii) The Group issued a number of certificates of interbank deposit with duration between 1 month and 1 year. As at 30 June 2020 and 31 December 2019, the fair value of outstanding certificates of interbank deposit was RMB57.701 billion and RMB51.789 billion, respectively.

### 33 LEASE LIABILITIES

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

	30 June 2020	31 December 2019
Less than 1 year (inclusive)	117,797	107,526
1 year to 2 years (inclusive)	104,729	93,941
2 years to 3 years (inclusive)	86,298	77,565
3 years to 5 years (inclusive)	117,283	149,731
Over 5 years	62,019	29,917
<b>Total undiscounted cash flows of lease liabilities as at 30 June 2020</b>	<b>488,126</b>	458,680
<b>Lease liabilities on statement of financial position as at 30 June 2020</b>	<b>443,075</b>	427,429



## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 34 OTHER LIABILITIES

	<i>Note</i>	<b>30 June 2020</b>	31 December 2019
Pledged deposits for leasing business		<b>683,782</b>	534,194
Employee benefits payable	<i>34(1)</i>	<b>681,354</b>	827,256
Settlement payable		<b>513,542</b>	117,378
Dividend payable		<b>273,270</b>	16,548
Taxes payable	<i>34(2)</i>	<b>214,525</b>	143,884
ECL on credit commitments	<i>34(3)</i>	<b>97,700</b>	99,715
Payable arising from fiduciary activities		<b>8,791</b>	73,516
Others		<b>522,089</b>	481,662
<b>Total</b>		<b>2,995,053</b>	2,294,153

#### (1) *Employee benefits payable*

	<b>30 June 2020</b>	31 December 2019
Salaries, bonuses and allowances payable	<b>546,758</b>	663,139
Social insurance and housing allowances payable	–	184
Staff welfare expenses	<b>1,821</b>	45,600
Staff education expenses	<b>31,232</b>	16,135
Labor union expenses	<b>19,433</b>	20,834
Post-employment benefits-defined contribution plans	–	164
Supplementary retirement benefits	<b>82,110</b>	81,200
<b>Total</b>	<b>681,354</b>	827,256

*Note:*

- (i) Supplementary retirement benefits include early retirement plan and supplementary retirement plan.

Early retirement plan

The Group provides early retirement benefit payments to employees who voluntarily agreed to retire before the retirement age during the period from the date of early retirement to the statutory retirement date.

Supplementary retirement plan

The Group provides a supplementary retirement plan to its eligible employees.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 34 OTHER LIABILITIES (continued)

#### (2) Taxes payable

	30 June 2020	31 December 2019
Value added tax payable	183,047	124,039
Urban construction tax and surcharges payable	30,884	19,076
Others	594	769
<b>Total</b>	<b>214,525</b>	143,884

#### (3) Expected credit loss on credit commitments

Movements of expected credit loss on credit commitments are as follows:

	Six months ended 30 June 2020			
	12-month ECL	Lifetime ECL – not credit- impaired	Lifetime ECL – credit- impaired	Total
As at 1 January 2020	94,738	4,922	55	99,715
Transfer to				
– 12-month ECL	2,574	(2,574)	–	–
Charge/(release) for the period	280	(2,240)	(55)	(2,015)
<b>As at 30 June 2020</b>	<b>97,592</b>	<b>108</b>	<b>–</b>	<b>97,700</b>
	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	(252)	252	–	–
(Release)/charge for the year	(8,855)	3,569	37	(5,249)
<b>As at 31 December 2019</b>	<b>94,738</b>	<b>4,922</b>	<b>55</b>	<b>99,715</b>

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 35 SHARE CAPITAL

#### Authorised and issued share capital

	30 June 2020	31 December 2019
Number of shares authorised, issued and fully paid at nominal value (in thousands)	4,509,690	4,509,690

In January 2019, the Bank issued 451 million ordinary shares with a nominal value of RMB1 at RMB4.52 per share. After deducting the issuance costs, the premium arising from the issuance of new shares amounting to RMB1.512 billion was recorded in capital reserve. After the above issuance, the balance of the share capital was RMB4.510 billion, and the balance of the capital reserve was RMB8.338 billion.

### 36 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 thousands of shares)	In original currency (in thousands)	In RMB (in thousands)	Maturity	Conversion
Overseas preference shares	19 Sep 2017	Equity	5.5%	20USD/Share	60,150	1,203,000	7,883,259	None	No
Total							7,883,259		
Less: Issue fees							(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.

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## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

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### 36 PREFERENCE SHARES (continued)

(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 regulatory authority 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) regulatory authority 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 regulatory authority 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 regulatory authority 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.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 36 PREFERENCE SHARES (continued)

#### (3) Changes in preference shares outstanding

1 January 2020		Increase during the period		30 June 2020	
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 2019		Increase during the year		31 December 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

#### (4) Interests attribute to equity instruments' holders

Items	30 June 2020	31 December 2019
Total equity attribute to equity holders of the Bank	30,328,718	29,915,460
– Equity attribute to ordinary shareholders of the Bank	22,474,754	22,061,496
– Equity attribute to preference shareholders of the Bank	7,853,964	7,853,964
Total equity attribute to non-controlling interests	596,432	562,458
– Equity attribute to non-controlling interests of ordinary shares	596,432	562,458

### 37 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 Articles of Association of the Bank of Qingdao Co., Ltd., 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.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 37 RESERVES (continued)

#### (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 set aside a general reserve upon approval by the board of directors. The general reserve balance of the Bank as at 31 December 2019 amounted to RMB4.400 billion, which has reached 1.5% of the year ending balance of the Bank’s gross risk-bearing assets.

#### (4) Other comprehensive income

Items	Six months ended 30 June 2020					Balance at the end of the period
	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	
Items that will not be reclassified to profit or loss Including: Remeasurements of defined benefit plan	(7,591)	(10)	–	2	(8)	(7,599)
Items that may be reclassified to profit or loss Including: Changes in fair value from debt investments measured at FVOCI	571,405	306,775	(567,635)	65,215	(195,645)	375,760
Credit losses of debt investments measured at FVOCI	94,416	20,302	(46,526)	6,556	(19,668)	74,748
<b>Total</b>	<b>658,230</b>	<b>327,067</b>	<b>(614,161)</b>	<b>71,773</b>	<b>(215,321)</b>	<b>442,909</b>

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 37 RESERVES (continued)

Items	2019					
	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	(5,941)	(2,200)	–	550	(1,650)	(7,591)
Items that may be reclassified to profit or loss						
Including: Changes in fair value from debt investments measured at FVOCI	507,856	496,813	(412,081)	(21,183)	63,549	571,405
Credit losses of debt investments measured at FVOCI	51,278	95,759	(38,242)	(14,379)	43,138	94,416
<b>Total</b>	<b>553,193</b>	<b>590,372</b>	<b>(450,323)</b>	<b>(35,012)</b>	<b>105,037</b>	<b>658,230</b>

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## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

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

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### 38 PROFIT APPROPRIATION

- (1) At the 2019 annual general meeting held on 7 May 2020, the shareholders approved the following profit appropriation for the year ended 31 December 2019:
- Appropriated RMB223 million to statutory surplus reserve;
  - Appropriated RMB431 million to general reserve;
  - Declared cash dividends to all ordinary shareholders of approximately RMB902 million representing RMB2.00 per 10 shares (including tax).
- (2) At the Bank's board of directors meeting held on 23 August 2019. According to the terms of issuance of the offshore preference shares and related authorization, the chairman, the president and the secretary to the board of directors of the Bank jointly signed the Decision on Full Distribution of Dividends on Offshore Preference Shares of Bank of Qingdao Co., Ltd. Dividend for overseas preference shares to be distributed amounts to USD73.5167 million (including tax), calculated at the initial annual dividend rate of 5.50% (after tax) before the first reset date pursuant to the terms and conditions of overseas preference shares. The dividend payment date is 19 September 2019, and the amount of dividend is equivalent to approximately RMB520 million (including tax).
- (3) 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 RMB200 million to statutory surplus reserve;
  - Declared cash dividends to all ordinary shareholders of approximately RMB902 million representing RMB2.00 per 10 shares (including tax).



## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 39 NOTES TO CONSOLIDATED CASH FLOW STATEMENT

Cash and cash equivalents:

	30 June 2020	30 June 2019
Cash	721,614	504,261
Surplus deposit reserves with central bank	13,663,443	14,045,254
Original maturity within three months:		
– Deposits with banks and other financial institutions	2,041,302	1,319,912
– Placements with banks and other financial institutions	–	653,097
– Certificates of interbank deposit issued	–	995,719
<b>Total</b>	<b>16,426,359</b>	<b>17,518,243</b>

### 40 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 <i>(in thousands)</i>	Proportion of ordinary shares of the Bank held by the Company		Registered location	Business	Legal form	Legal representative
		30 June 2020	31 December 2019				
Intesa Sanpaolo S.p.A. ("ISP")	624,754	13.85%	13.85%	Italy	Commercial banking	Joint stock limited company	Gian Maria GROS-PIETRO
Qingdao Conson Industrial Co., Ltd. ("Qingdao Conson")	503,556	11.17%	11.17%	Qingdao	State-owned assets operation and investment, import and export of goods and technology	Limited liability company	WANG Jianhui
Qingdao Haier Investment and Development Co., Ltd. ("Haier Investment")	409,693	9.08%	9.08%	Qingdao	Outbound investment	Limited liability company	ZHANG Ruimin
AMTD Strategic Investment Limited ("AMTD")	196,882	4.37%	6.69%	Hong Kong	Outbound investment	Limited company	WANG Ruiqiang

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 40 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

Changes in ordinary shares of the Bank held by major shareholders

	ISP		Qingdao Conson		Haier Investment		AMTD	
	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
As at 1 January 2019	624,754	15.39%	503,556	12.41%	409,693	10.09%	301,800	7.44%
Decrease	-	(1.54%)	-	(1.24%)	-	(1.01%)	-	(0.75%)
As at 31 December 2019	624,754	13.85%	503,556	11.17%	409,693	9.08%	301,800	6.69%
Decrease	-	-	-	-	-	-	(104,918)	(2.32%)
As at 30 June 2020	<b>624,754</b>	<b>13.85%</b>	<b>503,556</b>	<b>11.17%</b>	<b>409,693</b>	<b>9.08%</b>	<b>196,882</b>	<b>4.37%</b>

Changes in registered capital of major shareholders as at 30 June 2020

	Currency	30 June 2020	31 December 2019
ISP	EUR	<b>9,086 Million</b>	9,086 Million
Qingdao Conson	RMB	<b>2,000 Million</b>	2,000 Million
Haier Investment	RMB	<b>111 Million</b>	111 Million

(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.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 40 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

#### (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	Other legal person related parties	Other natural person related parties	Total	Proportion to gross amount/ balance of similar transactions
<b>As at 30 June 2020</b>							
On-balance sheet items:							
Loans and advances to customers (Note (i))	-	-	391,658	-	15,217	406,875	0.20%
Financial investments measured at FVTPL	-	-	-	2,561,333	-	2,561,333	8.58%
Deposits with banks and other financial institutions	5,836	-	-	-	-	5,836	0.27%
Placements with banks and other financial institutions	-	-	318,651	-	-	318,651	27.81%
Deposits from customers	156,533	1,671,112	640,108	1,975,196	93,800	4,536,749	1.70%
Deposits from banks and other financial institutions	-	1,258	507	-	-	1,765	0.02%
<b>Six months ended 30 June 2020</b>							
Interest income	-	8,881	42,027	-	347	51,255	0.62%
Interest expense	1,292	16,027	2,366	7,135	885	27,705	0.64%
Fee and commission income	-	-	71	-	30,666	30,737	2.60%
Other operating losses	-	-	-	2,000	-	2,000	6.93%

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 40 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

	ISP and its group	Qingdao Conson and its group	Haier Investment and its group	AMTD and its group	Other legal person related parties	Other natural person related parties	Total	Proportion to gross amount/ balance of similar transactions
As at 31 December 2019								
On-balance sheet items:								
Loans and advances to customers (Note (i))	-	878,451	316,642	-	549,584	15,315	1,759,992	1.01%
Financial investments measured at amortised cost (Note (ii))	-	-	701,045	-	-	-	701,045	1.07%
Financial investments measured at FVOCI	-	-	-	-	213,184	-	213,184	0.39%
Financial investments measured at FVTPL	-	-	-	2,456,323	-	-	2,456,323	10.72%
Deposits with banks and other financial institutions	5,675	-	-	-	-	-	5,675	0.43%
Placements with banks and other financial institutions	-	-	825,856	-	-	-	825,856	24.80%
Deposits from customers	194,167	378,209	445,786	-	521,864	56,259	1,596,285	0.74%
Deposits from banks and other financial institutions	-	259	1,529	-	-	-	1,788	0.01%
Off-balance sheet items:								
Letters of guarantees (Note (iii))	-	-	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%

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

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

### 40 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

Notes:

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

	<b>30 June 2020</b>	31 December 2019
Qingdao Haichen real estate development Co., Ltd.	390,750	315,800
Qingdao Conson Financial Holdings Co., Ltd.	–	875,380
Qingdao Huatong State-owned Capital Operation (Group) Co., Ltd.	–	498,500
Qingdao Huatong Military Industry Investment Co., Ltd.	–	10,000
Qingdao Yangfan Shipbuilding Co., Ltd.	–	10,000
Qingdao Baiyang Pharmaceutical Co., Ltd.	–	28,748
Individuals	15,186	15,283
<b>Total</b>	<b>405,936</b>	1,753,711

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

	<b>30 June 2020</b>	31 December 2019
Qingdao Changyuan Land Co., Ltd.	–	700,000
<b>Total</b>	–	700,000

(iii) Letters of guarantees with related parties

	<b>30 June 2020</b>	31 December 2019
Qingdao Haier Home Integration Co., Ltd.	–	18
<b>Total</b>	–	18

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 40 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

#### (b) Transactions with subsidiary

	30 June 2020	31 December 2019
Balances at the end of the period/year:		
On-balance sheet items:		
Deposits from banks and other financial institutions	130,679	330,113
Placements with banks and other financial institutions	–	202,605
	<b>Six months ended 30 June</b>	
	<b>2020</b>	<b>2019</b>
Transactions during the period:		
Interest income	3,712	–
Interest expense	1,117	613
Fee and commission income	10	–
Other operating income	1,274	1,456

#### (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.

	<b>Six months ended 30 June</b>	
	<b>2020</b>	<b>2019</b>
Remuneration of key management personnel	7,576	7,147

The total compensation package for certain key management personnel for the six months ended 30 June 2020 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 2020.

As at 30 June 2020, the credit card overdraft balance of the Bank to the key management personnel amounted to RMB0.01 million (31 December 2019: RMB0.22 million), which have been included in loans and advances to related parties stated in Note 40(2).

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## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

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### 41 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 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.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 41 SEGMENT REPORTING (continued)

	Six months ended 30 June 2020				
	Corporate banking	Retail banking	Financial market business	Un-allocated items and others	Total
External net interest income	2,362,382	594,050	812,263	147,781	3,916,476
Internal net interest income/(expense)	557,274	156,792	(714,066)	–	–
Net interest income	2,919,656	750,842	98,197	147,781	3,916,476
Net fee and commission income	100,941	278,321	648,804	90,722	1,118,788
Net trading gains	53,873	28,530	48,591	–	130,994
Net gains arising from investments	13,374	–	895,640	–	909,014
Other operating income	158	233	13	28,463	28,867
Operating income	3,088,002	1,057,926	1,691,245	266,966	6,104,139
Operating expenses	(590,261)	(550,714)	(289,143)	(26,756)	(1,456,874)
Credit losses	(1,906,816)	(123,127)	(623,543)	(134,237)	(2,787,723)
Profit before taxation	590,925	384,085	778,559	105,973	1,859,542
Other segment information					
– Depreciation and amortisation	(79,755)	(117,217)	(6,753)	(4,474)	(208,199)
– Capital expenditure	39,442	57,969	3,340	103	100,854
	30 June 2020				
	Corporate banking	Retail banking	Financial market business	Un-allocated items and others	Total
Segment assets	171,598,560	73,480,424	182,116,109	11,032,508	438,227,601
Deferred tax assets					2,294,408
Total assets					440,522,009
Segment liabilities/Total liabilities	197,775,569	86,028,873	115,746,929	10,045,488	409,596,859
Credit commitments	33,073,734	6,933,028	–	–	40,006,762





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## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

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

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### 42 RISK MANAGEMENT

The main risks of the Group are described and analyzed as follows:

The board of directors has the ultimate responsibility for risk management and oversees the Group's risk management functions through the Risk Management and Consumer Right Protection Committee, the Audit Committee and the Related Party Transaction Control Committee, etc.

The President is responsible for overall risk management at the senior management level with the assistance of other key management personnel. In accordance with the risk management strategy determined by the board of directors, the senior management keeps abreast of the level of risk and the management status, enabling the Group to have sufficient resources to develop and implement risk management policies and systems, and to monitor, identify and control risks in various businesses.

Each department within the Group implements risk management policies and procedures in accordance with their respective management functions and is responsible for their own risk management in their respective business areas.

Each branch establishes a branch risk management committee, which is mainly in charge of the management and control of various risks such as credit, market, operation, information technology of the branch, evaluating the risk status of the branch regularly, determining and improving the risk management and internal control measures and methods, etc., under the guidance from the credit management department of the head office. Each branch should report major risk events to the relevant risk management department of the head office, and carry out risk treatments according to the plans or improvements proposed by the head office department.

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 reliable and up-to-date management information systems.

#### **(1) Credit risk**

##### *(a) Definition and scope*

Credit risk represents the 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- and off-balance sheet credit risk exposures.

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

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 42 RISK MANAGEMENT (continued)

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 44(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 44(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.

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## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

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

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### 42 RISK MANAGEMENT (continued)

#### 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.

#### Credit 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.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

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

### 42 RISK MANAGEMENT (continued)

During the six months ended 30 June 2020, 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 consumer price index (CPI), industrial added value (IAV), monetary aggregates (M2) 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.

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## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

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### 42 RISK MANAGEMENT (continued)

Write-off policy

The Group writes off financial assets when it has exhausted practical recovery efforts and has concluded there is no reasonable expectation of recovery. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

(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) *Collaterals 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.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 42 RISK MANAGEMENT (continued)

#### (e) 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:

	<b>30 June 2020</b>	31 December 2019
Deposits with central bank	<b>34,275,387</b>	39,184,380
Deposits with banks and other financial institutions	<b>2,142,587</b>	1,312,468
Placements with banks and other financial institutions	<b>1,139,412</b>	3,313,603
Derivative financial assets	<b>311,283</b>	12,436
Financial assets held under resale agreements	<b>13,608,775</b>	2,325,771
Loans and advances to customers	<b>198,252,690</b>	169,158,291
Financial investments:		
– Financial investments measured at FVTPL	<b>13,779,728</b>	13,904,305
– Financial investments measured at FVOCI	<b>60,405,697</b>	54,950,531
– Financial investments measured at amortised cost	<b>81,461,246</b>	64,491,058
Long-term receivables	<b>11,003,918</b>	9,037,819
Others	<b>442,268</b>	147,137
Subtotal	<b>416,822,991</b>	357,837,799
Off-balance sheet credit commitments	<b>40,006,762</b>	29,658,381
Total maximum credit risk exposure	<b>456,829,753</b>	387,496,180

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 42 RISK MANAGEMENT (continued)

#### (f) Risk concentrations

Credit risk is often greater when counterparties are concentrated in one single industry or have comparable economic features. In addition, different industrial sectors have their unique characteristics in terms of economic development, and could present a different credit risk.

The composition of the Group's gross loans and advances to customers (excluding accrued interest) by industry is analysed as follows:

	30 June 2020		31 December 2019	
	Amount	Percentage	Amount	Percentage
Manufacturing	24,689,408	12.17%	23,033,775	13.32%
Construction	24,608,663	12.13%	19,902,351	11.52%
Real estate	23,746,897	11.71%	19,673,198	11.39%
Renting and business activities	17,720,163	8.74%	11,228,367	6.50%
Water, environment and public utility management	16,925,572	8.35%	12,287,741	7.11%
Wholesale and retail trade	11,761,143	5.80%	11,628,689	6.73%
Financial service	5,713,581	2.82%	6,677,300	3.86%
Transportation, storage and postal services	5,170,433	2.55%	3,247,547	1.88%
Production and supply of electric and heating power, gas and water	4,016,004	1.98%	4,443,352	2.57%
Others	6,996,912	3.45%	6,164,306	3.57%
Subtotal for corporate loans and advances	141,348,776	69.70%	118,286,626	68.45%
Subtotal for personal loans and advances	61,452,694	30.30%	54,508,817	31.55%
Total for loans and advances to customers	202,801,470	100.00%	172,795,443	100.00%



## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 42 RISK MANAGEMENT (continued)

Distribution of debt securities investments (excluding accrued interest) analysed by rating

The Group adopts a credit rating approach to manage the credit risk of the debt securities portfolio held. The ratings are obtained from Wind, Bloomberg Composite, or major rating agencies where the issuers of debt securities are located. The carrying amounts of debt securities investments analysed by rating as at the end of the reporting period are as follows:

	30 June 2020					Total
	Unrated	AAA	AA	A	Below A	
Debt securities (analysed by type of issuers):						
Government	-	38,893,009	-	-	-	38,893,009
Policy banks	-	17,148,322	-	-	-	17,148,322
Banks and other financial institutions	447,655	25,215,864	377,104	109,375	332,767	26,482,765
Corporate entities	1,816,975	10,010,730	14,055,002	73,111	3,475,605	29,431,423
<b>Total</b>	<b>2,264,630</b>	<b>91,267,925</b>	<b>14,432,106</b>	<b>182,486</b>	<b>3,808,372</b>	<b>111,955,519</b>

	31 December 2019					Total
	Unrated	AAA	AA	A	Below A	
Debt securities (analysed by type of issuers):						
Government	-	23,606,665	-	-	-	23,606,665
Policy banks	-	17,918,702	-	-	-	17,918,702
Banks and other financial institutions	-	18,276,243	588,001	500,391	625,750	19,990,385
Corporate entities	250,025	6,777,490	9,385,573	501,151	6,531,987	23,446,226
<b>Total</b>	<b>250,025</b>	<b>66,579,100</b>	<b>9,973,574</b>	<b>1,001,542</b>	<b>7,157,737</b>	<b>84,961,978</b>

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 42 RISK MANAGEMENT (continued)

#### (g) Analysis on the credit quality of financial instruments

As at 30 June 2020, the Group's credit risk stages of financial instruments are as follows:

Financial assets measured at amortised cost	30 June 2020							
	Book balance				Provision for expected credit losses			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Cash and balances with central banks	34,997,001	-	-	34,997,001	-	-	-	-
Deposits with banks and other financial institutions	2,143,372	-	-	2,143,372	(785)	-	-	(785)
Placements with banks and other financial institutions	1,145,854	-	-	1,145,854	(6,442)	-	-	(6,442)
Financial assets held under resale agreements	13,617,173	-	-	13,617,173	(8,398)	-	-	(8,398)
Loans and advances to customers								
– General corporate loans and advances	125,558,978	4,046,706	3,049,289	132,654,973	(2,135,516)	(873,599)	(1,819,616)	(4,828,731)
– Personal loans and advances	60,795,770	484,984	320,651	61,601,405	(281,717)	(52,671)	(204,742)	(539,130)
Financial investments	80,427,689	1,719,221	219,236	82,366,146	(256,696)	(475,632)	(172,572)	(904,900)
Long-term receivables	11,009,235	386,739	9,847	11,405,821	(302,337)	(96,397)	(3,169)	(401,903)
<b>Total</b>	<b>329,695,072</b>	<b>6,637,650</b>	<b>3,599,023</b>	<b>339,931,745</b>	<b>(2,991,891)</b>	<b>(1,498,299)</b>	<b>(2,200,099)</b>	<b>(6,690,289)</b>

Financial assets measured at FVOCI	30 June 2020							
	Book balance				Provision for expected credit losses			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers								
– Discounted bills	9,364,173	-	-	9,364,173	(14,932)	-	-	(14,932)
Financial investments	59,100,916	1,285,177	19,604	60,405,697	(46,765)	(22,015)	(15,952)	(84,732)
<b>Total</b>	<b>68,465,089</b>	<b>1,285,177</b>	<b>19,604</b>	<b>69,769,870</b>	<b>(61,697)</b>	<b>(22,015)</b>	<b>(15,952)</b>	<b>(99,664)</b>
Off-balance sheet credit commitments	39,985,793	20,916	53	40,006,762	(97,592)	(108)	-	(97,700)

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 42 RISK MANAGEMENT (continued)

Financial assets measured at amortised cost	31 December 2019							
	Book balance				Provision for expected credit losses			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Cash and balances with central banks	39,704,840	-	-	39,704,840	-	-	-	-
Deposits with banks and other financial institutions	1,313,043	-	-	1,313,043	(575)	-	-	(575)
Placements with banks and other financial institutions	3,330,171	-	-	3,330,171	(16,568)	-	-	(16,568)
Financial assets held under resale agreements	2,326,713	-	-	2,326,713	(942)	-	-	(942)
Loans and advances to customers								
– General corporate loans and advances	104,427,425	5,597,701	2,651,312	112,676,438	(1,281,247)	(1,135,766)	(1,569,797)	(3,986,810)
– Personal loans and advances	53,804,306	586,358	250,999	54,641,663	(241,776)	(41,609)	(139,437)	(422,822)
Financial investments	63,840,812	1,519,532	-	65,360,344	(481,299)	(387,987)	-	(869,286)
Long-term receivables	8,891,003	406,598	7,884	9,305,485	(175,027)	(90,217)	(2,422)	(267,666)
<b>Total</b>	<b>277,638,313</b>	<b>8,110,189</b>	<b>2,910,195</b>	<b>288,658,697</b>	<b>(2,197,434)</b>	<b>(1,655,579)</b>	<b>(1,711,656)</b>	<b>(5,564,669)</b>

Financial assets measured at FVOCI	31 December 2019							
	Book balance				Provision for expected credit losses			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers								
– Discounted bills	6,249,822	-	-	6,249,822	(12,917)	-	-	(12,917)
Financial investments	52,243,475	2,675,825	31,231	54,950,531	(34,869)	(56,072)	(22,030)	(112,971)
<b>Total</b>	<b>58,493,297</b>	<b>2,675,825</b>	<b>31,231</b>	<b>61,200,353</b>	<b>(47,786)</b>	<b>(56,072)</b>	<b>(22,030)</b>	<b>(125,888)</b>
Off-balance sheet credit commitments	29,575,025	82,987	369	29,658,381	(94,738)	(4,922)	(55)	(99,715)

*Note:*

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

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## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

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

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### 42 RISK MANAGEMENT (continued)

#### (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 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 interest-earning assets and interest-bearing 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.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 42 RISK MANAGEMENT (continued)

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 2020					
	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
<b>Assets</b>						
Cash and deposits with central bank	34,997,001	781,688	34,215,313	-	-	-
Deposits with banks and other financial institutions	2,142,587	2,070	2,140,517	-	-	-
Placements with banks and other financial institutions	1,139,412	44,490	1,094,922	-	-	-
Financial assets held under resale agreements	13,608,775	722	13,608,053	-	-	-
Loans and advances to customers (Note (i))	198,252,690	724,695	48,968,110	119,668,668	27,498,471	1,392,746
Financial investments (Note (ii))	171,737,137	1,978,229	17,852,898	29,599,123	61,365,807	60,941,080
Long-term receivables	11,003,918	108,715	4,571,637	4,066,410	2,257,156	-
Others	7,640,489	7,640,489	-	-	-	-
<b>Total assets</b>	<b>440,522,009</b>	<b>11,281,098</b>	<b>122,451,450</b>	<b>153,334,201</b>	<b>91,121,434</b>	<b>62,333,826</b>
<b>Liabilities</b>						
Borrowings from central bank	8,103,568	4,429	3,396,304	4,702,835	-	-
Deposits from banks and other financial institutions	11,595,733	86,724	5,990,009	5,519,000	-	-
Placements from banks and other financial institutions	12,458,847	110,614	4,466,655	7,813,013	68,565	-
Financial assets sold under repurchase agreements	25,812,324	3,869	25,808,455	-	-	-
Deposits from customers	266,771,363	3,204,464	159,154,667	65,726,128	38,476,303	209,801
Debt securities issued	80,444,367	309,046	14,229,246	43,919,428	16,989,864	4,996,783
Others	4,410,657	3,967,583	-	1,684	175,272	266,118
<b>Total liabilities</b>	<b>409,596,859</b>	<b>7,686,729</b>	<b>213,045,336</b>	<b>127,682,088</b>	<b>55,710,004</b>	<b>5,472,702</b>
<b>Asset-liability gap</b>	<b>30,925,150</b>	<b>3,594,369</b>	<b>(90,593,886)</b>	<b>25,652,113</b>	<b>35,411,430</b>	<b>56,861,124</b>

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 42 RISK MANAGEMENT (continued)

	31 December 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
<b>Assets</b>						
Cash and deposits with central bank	39,704,840	653,973	39,050,867	-	-	-
Deposits with banks and other financial institutions	1,312,468	2,008	1,310,460	-	-	-
Placements with banks and other financial institutions	3,313,603	82,331	944,727	2,286,545	-	-
Financial assets held under resale agreements	2,325,771	113	2,325,658	-	-	-
Loans and advances to customers (Note (i))	169,158,291	772,480	44,674,471	105,982,468	16,079,017	1,649,855
Financial investments (Note (ii))	142,377,400	2,193,661	13,402,331	27,738,081	58,535,322	40,508,005
Long-term receivables	9,037,819	85,729	6,756,565	2,195,525	-	-
Others	6,391,958	6,391,958	-	-	-	-
<b>Total assets</b>	<b>373,622,150</b>	<b>10,182,253</b>	<b>108,465,079</b>	<b>138,202,619</b>	<b>74,614,339</b>	<b>42,157,860</b>
<b>Liabilities</b>						
Borrowings from central bank	5,536,650	29,196	462,688	5,044,766	-	-
Deposits from banks and other financial institutions	16,462,527	125,735	10,186,792	6,150,000	-	-
Placements from banks and other financial institutions	9,916,257	84,418	4,288,217	5,465,633	77,989	-
Financial assets sold under repurchase agreements	16,027,082	1,580	16,025,502	-	-	-
Deposits from customers	215,425,403	2,735,191	142,197,240	37,524,419	32,572,152	396,401
Debt securities issued	76,858,899	438,140	13,477,677	38,261,976	17,489,383	7,191,723
Others	2,917,414	2,489,986	1,338	17,628	181,960	226,502
<b>Total liabilities</b>	<b>343,144,232</b>	<b>5,904,246</b>	<b>186,639,454</b>	<b>92,464,422</b>	<b>50,321,484</b>	<b>7,814,626</b>
<b>Asset-liability gap</b>	<b>30,477,918</b>	<b>4,278,007</b>	<b>(78,174,375)</b>	<b>45,738,197</b>	<b>24,292,855</b>	<b>34,343,234</b>

*Notes:*

- (i) For the Group's loans and advances to customers, the category "Less than three months" as at 30 June 2020 includes overdue loans and advances (net of provision for impairment losses) of RMB1,388 million (31 December 2019: RMB1,269 million).
- (ii) Financial investments include financial investments measured at FVTPL, financial investments measured at FVOCI, financial investments measured at amortised cost.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 42 RISK MANAGEMENT (continued)

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 at the end of the reporting period.

<b>Changes in annualized net interest income</b>	<b>30 June 2020 (Decrease)/ Increase</b>	31 December 2019 (Decrease)/ Increase
Interest rates increase by 100 bps	<b>(713,548)</b>	(438,707)
Interest rates decrease by 100 bps	<b>713,548</b>	438,707

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.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 42 RISK MANAGEMENT (continued)

#### (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 2020			
	RMB	USD (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
<b>Assets</b>				
Cash and deposits with central bank	34,875,093	117,070	4,838	34,997,001
Deposits with banks and other financial institutions	1,461,233	629,781	51,573	2,142,587
Placements with banks and other financial institutions	1,139,412	–	–	1,139,412
Financial assets held under resale agreements	13,608,775	–	–	13,608,775
Loans and advances to customers	196,999,298	1,251,622	1,770	198,252,690
Financial investments (Note (i))	160,199,084	11,538,053	–	171,737,137
Long-term receivables	11,003,918	–	–	11,003,918
Others	7,637,807	–	2,682	7,640,489
<b>Total assets</b>	<b>426,924,620</b>	<b>13,536,526</b>	<b>60,863</b>	<b>440,522,009</b>
<b>Liabilities</b>				
Borrowings from central bank	8,103,568	–	–	8,103,568
Deposits from banks and other financial institutions	11,595,728	5	–	11,595,733
Placements from banks and other financial institutions	10,955,100	1,503,747	–	12,458,847
Financial assets sold under repurchase agreements	25,812,324	–	–	25,812,324
Deposits from customers	264,714,355	2,027,072	29,936	266,771,363
Debt securities issued	80,444,367	–	–	80,444,367
Others	3,559,443	842,826	8,388	4,410,657
<b>Total liabilities</b>	<b>405,184,885</b>	<b>4,373,650</b>	<b>38,324</b>	<b>409,596,859</b>
<b>Net position</b>	<b>21,739,735</b>	<b>9,162,876</b>	<b>22,539</b>	<b>30,925,150</b>
<b>Off-balance sheet credit commitments</b>	<b>39,461,507</b>	<b>413,664</b>	<b>131,591</b>	<b>40,006,762</b>



## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 42 RISK MANAGEMENT (continued)

	31 December 2019			
	RMB	USD (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
<b>Assets</b>				
Cash and deposits with central bank	39,602,889	97,595	4,356	39,704,840
Deposits with banks and other financial institutions	809,420	452,943	50,105	1,312,468
Placements with banks and other financial institutions	2,865,118	448,485	–	3,313,603
Financial assets held under resale agreements	2,325,771	–	–	2,325,771
Loans and advances to customers	168,216,824	938,318	3,149	169,158,291
Financial investments (Note (i))	130,889,596	11,487,804	–	142,377,400
Long-term receivables	9,037,819	–	–	9,037,819
Others	6,389,347	573	2,038	6,391,958
<b>Total assets</b>	<b>360,136,784</b>	<b>13,425,718</b>	<b>59,648</b>	<b>373,622,150</b>
<b>Liabilities</b>				
Borrowings from central bank	5,536,650	–	–	5,536,650
Deposits from banks and other financial institutions	16,392,762	69,765	–	16,462,527
Placements from banks and other financial institutions	7,564,633	2,351,624	–	9,916,257
Financial assets sold under repurchase agreements	16,027,082	–	–	16,027,082
Deposits from customers	213,253,693	2,131,380	40,330	215,425,403
Debt securities issued	76,858,899	–	–	76,858,899
Others	2,872,014	36,589	8,811	2,917,414
<b>Total liabilities</b>	<b>338,505,733</b>	<b>4,589,358</b>	<b>49,141</b>	<b>343,144,232</b>
<b>Net position</b>	<b>21,631,051</b>	<b>8,836,360</b>	<b>10,507</b>	<b>30,477,918</b>
<b>Off-balance sheet credit commitments</b>	<b>29,166,790</b>	<b>374,804</b>	<b>116,787</b>	<b>29,658,381</b>

Note:

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

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 42 RISK MANAGEMENT (continued)

Changes in annualized net profit	30 June 2020 Increase/ (Decrease)	31 December 2019 Increase/ (Decrease)
Foreign exchange rate increase by 100 bps	9,731	9,511
Foreign exchange rate decrease by 100 bps	(9,731)	(9,511)

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 point 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.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 42 RISK MANAGEMENT (continued)

#### (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 2020							Total
	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	
<b>Assets</b>								
Cash and deposits with central bank	20,602,099	14,394,902	-	-	-	-	-	34,997,001
Deposits with banks and other financial institutions	-	2,042,587	-	100,000	-	-	-	2,142,587
Placements with banks and other financial institutions	-	-	417,789	721,623	-	-	-	1,139,412
Financial assets held under resale agreements	-	-	13,608,775	-	-	-	-	13,608,775
Loans and advances to customers	1,390,253	298,743	9,373,797	12,601,213	50,963,582	66,688,882	56,936,220	198,252,690
Financial investments (Note (i))	23,250	-	14,156,504	4,637,510	30,612,677	61,367,658	60,939,538	171,737,137
Long-term receivables	132,181	30,262	527,655	829,711	3,564,782	5,919,327	-	11,003,918
Others	6,505,568	1,559	-	780	49,528	465,931	617,123	7,640,489
<b>Total assets</b>	<b>28,653,351</b>	<b>16,768,053</b>	<b>38,084,520</b>	<b>18,890,837</b>	<b>85,190,569</b>	<b>134,441,798</b>	<b>118,492,881</b>	<b>440,522,009</b>
<b>Liabilities</b>								
Borrowings from central bank	-	-	183,494	3,217,239	4,702,835	-	-	8,103,568
Deposits from banks and other financial institutions	-	3,290,259	506,239	2,255,872	5,543,363	-	-	11,595,733
Placements from banks and other financial institutions	-	-	1,707,597	2,808,618	7,917,438	25,194	-	12,458,847
Financial assets sold under repurchase agreements	-	-	25,203,699	608,625	-	-	-	25,812,324
Deposits from customers	-	124,170,895	15,131,960	20,643,282	67,337,393	39,276,987	210,846	266,771,363
Debt securities issued	-	-	2,564,850	11,664,396	44,228,474	16,989,864	4,996,783	80,444,367
Others	368,991	454,507	566,887	276,420	872,523	1,741,054	130,275	4,410,657
<b>Total liabilities</b>	<b>368,991</b>	<b>127,915,661</b>	<b>45,864,726</b>	<b>41,474,452</b>	<b>130,602,026</b>	<b>58,033,099</b>	<b>5,337,904</b>	<b>409,596,859</b>
<b>Net position</b>	<b>28,284,360</b>	<b>(111,147,608)</b>	<b>(7,780,206)</b>	<b>(22,583,615)</b>	<b>(45,411,457)</b>	<b>76,408,699</b>	<b>113,154,977</b>	<b>30,925,150</b>

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 42 RISK MANAGEMENT (continued)

	31 December 2019							Total
	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	
<b>Assets</b>								
Cash and deposits with central bank	19,450,458	20,254,382	-	-	-	-	-	39,704,840
Deposits with banks and other financial institutions	-	1,312,468	-	-	-	-	-	1,312,468
Placements with banks and other financial institutions	-	-	162,798	806,359	2,344,446	-	-	3,313,603
Financial assets held under resale agreements	-	-	2,325,771	-	-	-	-	2,325,771
Loans and advances to customers	1,201,992	349,749	10,501,076	9,329,210	49,927,301	48,045,398	49,803,565	169,158,291
Financial investments (Note (i))	23,250	-	3,749,714	5,619,933	28,885,764	60,970,135	43,128,604	142,377,400
Long-term receivables	8,877	41,196	305,697	758,246	2,402,866	5,520,937	-	9,037,819
Others	5,552,527	8,066	5,588	283	4,253	194,456	626,785	6,391,958
<b>Total assets</b>	<b>26,237,104</b>	<b>21,965,861</b>	<b>17,050,644</b>	<b>16,514,031</b>	<b>83,564,630</b>	<b>114,730,926</b>	<b>93,558,954</b>	<b>373,622,150</b>
<b>Liabilities</b>								
Borrowings from central bank	-	-	400,375	62,314	5,073,961	-	-	5,536,650
Deposits from banks and other financial institutions	-	4,937,212	3,091,712	2,221,296	6,212,307	-	-	16,462,527
Placements from banks and other financial institutions	-	-	2,954,285	1,364,186	5,519,684	78,102	-	9,916,257
Financial assets sold under repurchase agreements	-	-	16,027,082	-	-	-	-	16,027,082
Deposits from customers	-	113,653,274	15,175,036	14,145,017	38,337,207	33,718,468	396,401	215,425,403
Debt securities issued	-	-	2,171,262	11,329,858	38,676,673	17,489,383	7,191,723	76,858,899
Others	114,271	120,041	539,476	135,578	197,957	1,502,389	307,702	2,917,414
<b>Total liabilities</b>	<b>114,271</b>	<b>118,710,527</b>	<b>40,359,228</b>	<b>29,258,249</b>	<b>94,017,789</b>	<b>52,788,342</b>	<b>7,895,826</b>	<b>343,144,232</b>
<b>Net position</b>	<b>26,122,833</b>	<b>(96,744,666)</b>	<b>(23,308,584)</b>	<b>(12,744,218)</b>	<b>(10,453,159)</b>	<b>61,942,584</b>	<b>85,663,128</b>	<b>30,477,918</b>

#### 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 reported under indefinite period. For loans and advances to customers and long-term receivables, the "indefinite" period amount represents the balance being credit-impaired or not credit-impaired but overdue for more than one month, and the balance not credit-impaired but overdue within one month is included in "repayable on demand".

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 42 RISK MANAGEMENT (continued)

#### (b) Analysis on contractual undiscounted cash flows of non-derivative financial liabilities

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

	30 June 2020								Carrying Amount
	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	
Borrowings from central bank	-	-	183,757	3,256,996	4,760,156	-	-	8,200,909	8,103,568
Deposits from banks and other financial institutions	-	3,290,299	506,991	2,264,616	5,623,694	-	-	11,685,600	11,595,733
Placements from banks and other financial institutions	-	-	1,710,122	2,852,037	8,029,431	25,274	-	12,616,864	12,458,847
Financial assets sold under repurchase agreements	-	-	25,205,791	610,000	-	-	-	25,815,791	25,812,324
Deposits from customers	-	124,170,894	15,165,171	20,782,381	68,895,577	43,485,515	251,551	272,751,089	266,771,363
Debt securities issued	-	-	2,570,274	11,720,000	44,645,363	17,212,491	5,001,644	81,149,772	80,444,367
Others	368,991	454,507	566,814	275,725	820,491	1,506,833	144,429	4,137,790	4,092,737
<b>Total</b>	<b>368,991</b>	<b>127,915,700</b>	<b>45,908,920</b>	<b>41,761,755</b>	<b>132,774,712</b>	<b>62,230,113</b>	<b>5,397,624</b>	<b>416,357,815</b>	<b>409,278,939</b>

	31 December 2019								Carrying Amount
	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	
Borrowings from central bank	-	-	400,599	85,875	5,150,899	-	-	5,637,373	5,536,650
Deposits from banks and other financial institutions	-	4,937,212	3,096,417	2,232,040	6,321,381	-	-	16,587,050	16,462,527
Placements from banks and other financial institutions	-	-	2,956,700	1,387,920	5,659,189	78,102	-	10,081,911	9,916,257
Financial assets sold under repurchase agreements	-	-	16,029,968	-	-	-	-	16,029,968	16,027,082
Deposits from customers	-	113,653,274	15,187,568	14,211,282	39,058,190	36,454,046	478,312	219,042,672	215,425,403
Debt securities issued	-	-	2,150,000	11,529,980	39,896,600	20,520,120	7,200,000	81,296,700	76,858,899
Others	114,271	120,041	557,855	145,680	257,361	1,594,232	150,419	2,939,859	2,908,609
<b>Total</b>	<b>114,271</b>	<b>118,710,527</b>	<b>40,379,107</b>	<b>29,592,777</b>	<b>96,343,620</b>	<b>58,646,500</b>	<b>7,828,731</b>	<b>351,615,533</b>	<b>343,135,427</b>

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

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 42 RISK MANAGEMENT (continued)

#### (c) Analysis on contractual undiscounted cash flows of derivatives

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

	30 June 2020							Contractual undiscounted cash flow
	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	
Derivative cash flows:								
Derivative financial instruments settled on net basis	-	-	(101)	(2,151)	(5,242)	(1,227)	34	(8,687)
	31 December 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
Derivative cash flows:								
Derivative financial instruments settled on net basis	-	-	-	(13)	(2,941)	(2,350)	-	(5,304)
Derivative financial instruments settled on gross basis								
Including: Cash inflow	-	-	270,751	-	-	-	-	270,751
Cash outflow	-	-	(263,534)	-	-	-	-	(263,534)
	-	-	7,217	-	-	-	-	7,217

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## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

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### 42 RISK MANAGEMENT (continued)

#### (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 former 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.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 42 RISK MANAGEMENT (continued)

As at 30 June 2020 and 31 December 2019, the Group calculated the capital adequacy ratios in accordance with the Regulation Governing Capital of Commercial Banks (Provisional) issued by the former CBRC in 2012 and relevant requirements promulgated by the former CBRC as follows:

	30 June 2020	31 December 2019
Total core tier-one capital	<b>22,908,627</b>	22,418,940
– Share capital	<b>4,509,690</b>	4,509,690
– Qualifying portion of capital reserve	<b>8,337,869</b>	8,337,869
– Surplus reserve	<b>1,626,662</b>	1,626,662
– General reserve	<b>4,400,258</b>	4,400,258
– Retained earnings	<b>3,157,366</b>	2,528,787
– Other comprehensive income	<b>442,909</b>	658,230
– Qualifying portion of non-controlling interests	<b>433,873</b>	357,444
Core tier-one capital deductions	<b>(226,511)</b>	(194,243)
Net core tier-one capital	<b>22,682,116</b>	22,224,697
Other tier-one capital	<b>7,911,814</b>	7,901,623
– Additional tier 1 capital instruments and related premium	<b>7,853,964</b>	7,853,964
– Valid portion of minority interests	<b>57,850</b>	47,659
Net tier-one capital	<b>30,593,930</b>	30,126,320
Tier two capital	<b>7,588,276</b>	9,126,185
– Qualifying portions of tier-two capital instruments issued	<b>5,000,000</b>	7,200,000
– Surplus provision for loan impairment	<b>2,472,576</b>	1,830,867
– Qualifying portion of non-controlling interests	<b>115,700</b>	95,318
Net capital base	<b>38,182,206</b>	39,252,505
Total risk weighted assets	<b>279,038,666</b>	265,908,365
Core tier-one capital adequacy ratio	<b>8.13%</b>	8.36%
Tier-one capital adequacy ratio	<b>10.96%</b>	11.33%
Capital adequacy ratio	<b>13.68%</b>	14.76%



## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 43 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.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 43 FAIR VALUE (continued)

#### (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 2020			Total
	Level 1 Note (i)	Level 2 Note (i)	Level 3 Note (i) ~ (ii)	
Financial investments measured at FVTPL				
– Debt securities	–	860,397	–	860,397
– Asset management plans	–	–	10,729,142	10,729,142
– Trust fund plans	–	–	2,190,189	2,190,189
– Investment funds	–	16,016,741	50,475	16,067,216
Derivative financial assets	–	311,283	–	311,283
Financial investments measured at FVOCI				
– Debt securities	–	52,597,092	–	52,597,092
– Asset management plans	–	7,094,554	–	7,094,554
– Other investments	–	–	714,051	714,051
– Equity investments	–	–	23,250	23,250
Loans and advances to customers measured at FVOCI	–	–	9,364,173	9,364,173
<b>Total financial assets</b>	<b>–</b>	<b>76,880,067</b>	<b>23,071,280</b>	<b>99,951,347</b>
Derivative financial liabilities	–	315,138	2,782	317,920
<b>Total financial liabilities</b>	<b>–</b>	<b>315,138</b>	<b>2,782</b>	<b>317,920</b>

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 43 FAIR VALUE (continued)

	31 December 2019			Total
	Level 1 Note (i)	Level 2 Note (i)	Level 3 Note (i) ~ (ii)	
Financial investments measured at FVTPL				
– Debt securities	–	800,861	–	800,861
– Asset management plans	–	–	9,240,047	9,240,047
– Wealth management products	–	–	1,033,973	1,033,973
– Trust fund plans	–	–	2,829,424	2,829,424
– Investment funds	–	8,957,998	50,258	9,008,256
Derivative financial assets	–	6,848	5,588	12,436
Financial investments measured at FVOCI				
– Debt securities	–	46,915,283	–	46,915,283
– Asset management plans	–	7,302,406	–	7,302,406
– Other investments	–	–	732,842	732,842
– Equity investments	–	–	23,250	23,250
Loans and advances to customers measured at FVOCI	–	–	6,249,822	6,249,822
<b>Total financial assets</b>	<b>–</b>	<b>63,983,396</b>	<b>20,165,204</b>	<b>84,148,600</b>
Derivative financial liabilities	–	6,790	2,015	8,805
<b>Total financial liabilities</b>	<b>–</b>	<b>6,790</b>	<b>2,015</b>	<b>8,805</b>

Notes:

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

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 43 FAIR VALUE (continued)

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

	As at 1 January 2020	Transfer into level 3	Transfer out of level 3	Total gains or losses for the period		Purchases, issues, disposals and settlements			As at 30 June 2020
				In profit or loss	In other comprehensive income	Purchases	Issues	Disposals and settlements	
Financial investments measured at FVTPL									
– Asset management plans	9,240,047	–	–	95,176	–	5,560,766	–	(4,166,847)	10,729,142
– Wealth management products	1,033,973	–	–	6,727	–	–	–	(1,040,700)	–
– Trust fund plans	2,829,424	–	–	(32,913)	–	–	–	(606,322)	2,190,189
– Investment funds	50,258	–	–	217	–	–	–	–	50,475
Derivative financial assets	5,588	–	–	(5,588)	–	–	–	–	–
Financial investments measured at FVOCI									
– Other investments	732,842	–	–	6,241	2,267	–	–	(27,299)	714,051
– Equity investments	23,250	–	–	–	–	–	–	–	23,250
Loans and advances to customers measured at FVOCI	6,249,822	–	–	89,370	5,270	17,293,433	–	(14,273,722)	9,364,173
<b>Total financial assets</b>	<b>20,165,204</b>	<b>–</b>	<b>–</b>	<b>159,230</b>	<b>7,537</b>	<b>22,854,199</b>	<b>–</b>	<b>(20,114,890)</b>	<b>23,071,280</b>
Derivative financial liabilities	2,015	–	–	767	–	–	–	–	2,782
<b>Total financial liabilities</b>	<b>2,015</b>	<b>–</b>	<b>–</b>	<b>767</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>2,782</b>

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 43 FAIR VALUE (continued)

	As at 1 January	Transfer into level 3	Transfer out of level 3	Total gains or losses for the year		Purchases, issues, disposals and settlements			As at 31 December
				In profit or loss	In other comprehensive income	Purchases	Issues	Disposals and settlements	
2019									
Financial investments measured at FVTPL									
- Asset management plans	9,354,611	-	-	280,983	-	5,221,089	-	(5,616,636)	9,240,047
- Wealth management products	2,080,946	-	-	33,973	-	1,000,000	-	(2,080,946)	1,033,973
- Trust fund plans	3,221,359	-	-	112,326	-	270,304	-	(774,565)	2,829,424
- Investment funds	49,684	-	-	574	-	-	-	-	50,258
Derivative financial assets	-	-	-	5,588	-	-	-	-	5,588
Financial investments measured at FVOCI									
- Other investments	-	-	-	27,299	5,543	700,000	-	-	732,842
- Equity investments	23,250	-	-	-	-	-	-	-	23,250
Loans and advances to customers									
measured at FVOCI	6,772,625	-	-	309,424	(9,022)	22,794,208	-	(23,617,413)	6,249,822
<b>Total financial assets</b>	<b>21,502,475</b>	<b>-</b>	<b>-</b>	<b>770,167</b>	<b>(3,479)</b>	<b>29,985,601</b>	<b>-</b>	<b>(32,089,560)</b>	<b>20,165,204</b>
Derivative financial liabilities									
	-	-	-	2,015	-	-	-	-	2,015
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,015</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,015</b>

#### (3) Level 2 of the fair value hierarchy

A majority of the financial instruments classified as level 2 of the Group are RMB bonds. The fair value of these bonds are determined based on the valuation results provided by China Central Depository Trust & Clearing Co., Ltd., which are determined based on a valuation technique for which all significant inputs are observable market data.

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## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

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### 43 FAIR VALUE (continued)

#### (4) 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.



## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 44 COMMITMENTS AND CONTINGENCIES

#### (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 2020	31 December 2019
Bank acceptances	27,501,661	20,884,567
Unused credit card commitments	6,933,028	5,045,541
Letters of credit	3,934,293	1,562,969
Letters of guarantees	1,363,610	1,891,134
Irrevocable loan commitments	274,170	274,170
Total	40,006,762	29,658,381

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 34(3).

#### (2) Credit risk-weighted amount

	30 June 2020	31 December 2019
Credit risk-weighted amount of contingent liabilities and commitments	9,007,388	10,077,887

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



## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 44 COMMITMENTS AND CONTINGENCIES (continued)

#### (3) Capital commitments

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

	30 June 2020	31 December 2019
Contracted but not paid for	80,584	82,790
Total	80,584	82,790

#### (4) Outstanding litigations and disputes

A number of outstanding litigation matters against the Group had arisen in the normal course of its operation as at 30 June 2020 and 31 December 2019. With the professional advice from counselors, the Group's management believes such litigation will not have a significant impact on the Group.

#### (5) 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 2020	31 December 2019
Bonds redemption obligations	4,605,518	5,026,883

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 44 COMMITMENTS AND CONTINGENCIES (continued)

#### (6) Pledged assets

	30 June 2020	31 December 2019
Investment securities	27,896,573	21,792,317
Discounted bills	6,071,655	1,106,722
Total	33,968,228	22,899,039

Some of the Group's assets are pledged as collateral under repurchase agreements and borrowings from central bank.

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 2020 and 31 December 2019, the Group did not have these discounted bills under resale agreements. As at 30 June 2020 and 31 December 2019, the Group did not sell or repledge any pledged assets which it has an obligation to resale when they are due.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 45 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, 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 2020 and 31 December 2019 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 2020				
	Financial investments measured at FVTPL	Financial investments measured at FVOCI	Financial investments measured at amortised cost	Carrying amount	Maximum exposure
Asset management plans	10,729,142	6,914,230	12,336,596	29,979,968	29,979,968
Trust fund plans	2,190,189	–	2,239,703	4,429,892	4,429,892
Asset-backed securities	151,592	966,245	–	1,117,837	1,117,837
Investment funds	16,067,216	–	–	16,067,216	16,067,216
<b>Total</b>	<b>29,138,139</b>	<b>7,880,475</b>	<b>14,576,299</b>	<b>51,594,913</b>	<b>51,594,913</b>

	31 December 2019				
	Financial investments measured at FVTPL	Financial investments measured at FVOCI	Financial investments measured at amortised cost	Carrying amount	Maximum exposure
Asset management plans	9,240,047	7,302,406	15,884,877	32,427,330	32,427,330
Trust fund plans	2,829,424	–	4,781,679	7,611,103	7,611,103
Wealth management products	1,033,973	–	–	1,033,973	1,033,973
Asset-backed securities	100,000	1,008,633	–	1,108,633	1,108,633
Investment funds	9,008,256	–	–	9,008,256	9,008,256
<b>Total</b>	<b>22,211,700</b>	<b>8,311,039</b>	<b>20,666,556</b>	<b>51,189,295</b>	<b>51,189,295</b>

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.

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## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

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

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### 45 INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES (continued)

#### (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 2020 and 31 December 2019, the carrying amounts of the management fee receivables being recognized are not material in the statement of financial position.

As at 30 June 2020, the amount of assets held by the unconsolidated non-principal-guaranteed wealth management products, which are sponsored by the Group, was RMB104.512 billion (31 December 2019: RMB100.969 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 2020, the amount of fee and commission income recognized from the above mentioned structured entities by the Group was RMB54 million (six months ended 30 June 2019: RMB38 million).

During the six months ended 30 June 2020, 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 RMB20.883 billion (six months ended 30 June 2019: RMB30.716 billion).

### 46 TRANSFERRED FINANCIAL ASSETS

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties or to structured entities. In some cases where these transfers may give rise to full or partial derecognition of the financial assets concerned. In other cases where the transferred assets do not qualify for derecognition as the Group has retained substantially all the risks and rewards of these assets, the Group continued to recognise the transferred assets.

#### (1) *Repurchase transactions and securities lending transactions*

Transferred financial assets that do not qualify for derecognition mainly include debt securities held by counterparties as collateral under repurchase agreements and debt securities lent to counterparties under securities lending agreements. The counterparties are allowed to sell or repledge those securities sold under repurchase agreements in the absence of default by the Group, but has an obligation to return the securities at the maturity of the contract. If the securities increase or decrease in value, the Group may require or be required to pay additional cash collateral in certain circumstances. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. In addition, it recognises a financial liability for cash received as collateral.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

### 46 TRANSFERRED FINANCIAL ASSETS (continued)

#### (2) 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 Group transferred a portfolio of customer loans with a book value of RMB2.543 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. The trust has completed the liquidation of trust property on 26 March 2020.

In 2017, the Group entrusted a portfolio of customer loans with a book value of RMB2.000 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. The trust has completed the liquidation of trust property on 28 August 2019.

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 servicing the related assets.

### 47 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 2020, the entrusted loans balance of the Group was RMB2.884 billion (31 December 2019: RMB3.145 billion).

### 48 THE IMPACT OF COVID-19

The outbreak of the COVID-19 in the beginning of 2020 has brought some uncertainties to the Group’s operating environment and impacted on the financial and operational results of the Group in some extent. The Group earnestly implemented the requirements of the “Notice on Further Enhancing Financial Support for Prevention and Control of the COVID-19 (《關於進一步強化金融支持防控新型冠狀病毒感染肺炎疫情的通知》)” and other relevant policies and regulations jointly published by the People’s Bank of China, the Ministry of Finance, the China Banking Insurance Regulatory Commission, China Securities Regulatory Commission and the State Administration of Foreign Exchange, to strengthen financial support for epidemic prevention and control. The Group has been closely monitoring the development of the COVID-19 and has taken proactive measures to minimize its impact on the financial condition, operating results and other aspects of the Group.

### 49 SUBSEQUENT EVENTS

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

### 50 COMPARATIVE FIGURES

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

## SECTION XII 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 CBRC and based on the financial information prepared in accordance with the requirements of the Accounting Standards for Business Enterprises issued by the MOF.

#### (1) Liquidity coverage ratio

	As at 30 June 2020	As at 31 December 2019
Qualified and high-quality current assets	75,830,413	78,152,065
Net cash outflows in next 30 days	47,388,291	54,930,790
Liquidity coverage ratio (RMB and foreign currency)	160.02%	142.27%

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 2020	As at 31 December 2019
Leverage ratio	6.38%	7.46%

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

#### (3) Net stable funding ratio

	As at 30 June 2020	As at 31 March 2020
Available stable funding	246,428,181	224,115,387
Required stable funding	235,882,448	215,816,615
Net stable funding ratio	104.47%	103.85%

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

## SECTION XII UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(Expressed in thousands of Renminbi, unless otherwise stated)

### 2 CURRENCY CONCENTRATIONS

	30 June 2020			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total
Spot assets	13,536,526	23,521	37,342	13,597,389
Spot liabilities	(4,373,650)	(16,415)	(21,909)	(4,411,974)
Net long position	9,162,876	7,106	15,433	9,185,415

	31 December 2019			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total
Spot assets	13,425,717	30,125	29,524	13,485,366
Spot liabilities	(4,589,358)	(23,144)	(25,997)	(4,638,499)
Net long position	8,836,359	6,981	3,527	8,846,867

### 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 2020			
	Public sector entities	Banks and other financial institutions	Non-bank private sector	Total
– Asia Pacific	114,883	6,704,288	6,346,259	13,165,430
– of which attributed to Hong Kong	–	5,457,145	–	5,457,145
– North and South America	–	388,548	–	388,548
– Europe	–	17,579	–	17,579
	114,883	7,110,415	6,346,259	13,571,557

## SECTION XII UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(Expressed in thousands of Renminbi, unless otherwise stated)

### 3 INTERNATIONAL CLAIMS (continued)

	31 December 2019			Total
	Public sector entities	Banks and other financial institutions	Non-bank private sector	
– Asia Pacific	96,805	6,099,621	6,930,484	13,126,910
– of which attributed to Hong Kong	–	3,882,939	–	3,882,939
– North and South America	–	314,471	–	314,471
– Europe	–	19,205	–	19,205
	96,805	6,433,297	6,930,484	13,460,586

### 4 GROSS AMOUNT OF OVERDUE LOANS AND ADVANCES TO CUSTOMERS

	30 June 2020	31 December 2019
Gross loans and advances which have been overdue with respect to either principal or interest for periods of		
– between 3 and 6 months (inclusive)	875,699	561,698
– between 6 months and 1 year (inclusive)	605,263	502,752
– over 1 year	789,371	723,309
<b>Total</b>	<b>2,270,333</b>	<b>1,787,759</b>
As a percentage of total gross loans and advances (excluding accrued interest)		
– between 3 and 6 months (inclusive)	0.43%	0.32%
– between 6 months and 1 year (inclusive)	0.30%	0.29%
– over 1 year	0.39%	0.42%
<b>Total</b>	<b>1.12%</b>	<b>1.03%</b>