

2012 Summarized Annual Report of Qilu Bank Co., Ltd.

(The annual report is prepared in Chinese and English. English translation is purely for reference only. Should there be any inconsistencies between them; the report in Chinese shall prevail.)

I . General Introduction

(I) Legal Name in Chinese: 齐鲁银行股份有限公司

(Abbreviation: 齐鲁银行)

Legal Name in English: QiLu Bank Co., Ltd.

(II) Legal Representative: Wang Xiaochun

(III) Secretary of the Board of Directors: Mao Fangzhu

Address: No.176 Shunhe Street, Shizhong District, Jinan City, Shandong Province

Tel: 0531-86075850

Fax: 0531-86923511

Email: boardoffice@qlbchina.com

(IV) Registered Address: No.176 Shunhe Street, Shizhong District, Jinan City

Office Address: No.176 Shunhe Street, Shizhong District, Jinan City

Postcode: 250001

Website: <http://www.qlbchina.com>

(V) Newspapers for Information Disclosure: Financial News

Website for Information Disclosure: <http://www.qlbchina.com>

Place where copies of the annual report are available at: The Board of Directors' Office of the Bank

(VI) Other Relevant Information

Date of the Initial Registration: 5 June 1996

Address of the Initial Registration: Shandong Administration for Industry and Commerce

Corporate Business License Number: 370000018009391

Tax Registration Number: Ludishuiji Zi No.370103264352296

Auditors: Ernst & Young Hua Ming LLP

Auditors' Address: Level 16, Ernst & Young Tower, Oriental Plaza No.1, East Changan Avenue, Dong Cheng District, Beijing, China

II. Financial Highlights

(I) Main Profit Indicators for the Reporting Period (Group)

Unit (RMB thousand)	
Item	Amount
Profit Before Tax	1,067,560
Net Profit	860,279
Operating Income	2,461,728
Operating Expense	1,335,544
Operating Profit	1,126,184
Non-Operating Profit	-58,624
Net Cash Flow from Operating Activities	841,205
Net Cash Flow from Operating Activities per Share (yuan / share)	0.36

(II) Main Financial Data and Indicators of 3 Years as at the End of the Reporting Period (The data of 2011 and 2012 measured in group)

Unit (RMB thousand)			
Item	2012	2011	2010
Operating Income	2,461,728	2,119,490	2,301,954
Total Assets	83,679,665	77,279,391	85,805,775
Deposits Balance	71,330,840	66,112,588	71,094,662
Loans Balance	47,056,564	43,443,836	46,694,731
Shareholders' Equity	5,327,536	4,401,377	3,626,262
Earnings per Share (yuan / share)	0.363	0.333	0.164
Net Assets Value per Share (yuan / share)	2.249	1.858	1.531
Cost to Income Ratio (%)	37.55	43.85	34.90
Return on Equity (%)	17.68	19.63	13.42
Cost-Benefit Ratio (%)	29.45	26.90	11.40

Note: The balance of deposits and loans were calculated according to the statistical caliber of CBRC and The People's Bank of China.

(III) Capital Structure and Changes for the Reporting Period (Group)

Unit (RMB thousand)			
Item	Closing balance	Opening balance	Changes for the Period
1.Core Capital	5,327,326	4,401,167	926,159

2.Core Capital's Deductions	340,291	336,350	3,941
3.Net Core Capital	4,987,035	4,064,817	922,218
4.Supplementary Capital	1,171,213	1,136,445	34,768
5.Measurable Value of Supplementary Capital	1,171,213	1,136,445	34,768
6.Deductions	680,582	672,701	7,881
7.Net Capital	5,817,957	4,864,911	953,046
8.Risk Weighted Assets	44,511,498	44,645,049	-133,551
Of which: On-balance sheet items	35,269,867	37,086,854	-1,816,987
Off-balance sheet items	9,241,631	7,558,195	1,683,436

III. Risk Management

(I) Supplementary Financial Data as at the End of the Reporting Period (Group)

Unit (%)

Item		Criteria	As at the end of 2012
Capital Adequacy Ratio		≥ 8	13.07
Core Capital Adequacy Ratio		≥ 4	11.20
Liquidity Ratio		≥ 25	42.02
Loan / Deposit Ratio		≤ 75	65.97
Borrowing/Lending to Deposit Ratio	Borrowing to Deposit Ratio	≤ 8	0.00
	Lending to Deposit Ratio	≤ 8	0.07
Non-Performing Loan Ratio		≤ 5	1.15
Interest Collection Ratio			97.89
Ratio of Single Largest Borrower's Loan Against Net Capital		≤ 10	5.53
Ratio of Top 10 Borrowers' Loan Against Net Capital		≤ 50	41.46

(II) Distribution of Loans by Main Industry (Group)

Unit (RMB thousand, %)

Category of Industry	Balance	Percentage
Wholesale and Retail	7,380,297	15.80
Manufacturing	6,606,126	14.14
Building and Construction	1,499,642	3.21
Leasing and Business Services	1,074,431	2.30
Real Estates	882,097	1.89
Total	17,442,593	37.34

(III) Loans Granted to Top 10 Borrowers (The balance of loans were calculated according to the statistical caliber of CBRC and The People's Bank of China)

Unit (RMB thousand, %)

Serial number	Name of Borrower	Outstanding Loan	As a percentage of Total Outstanding Loans	As a Percentage of Net Capital
1	Jinan Linuo Glasswork Co., Ltd.	321,920	0.68	5.53
2	Yanzhou Coal Mining Co., Ltd.	300,000	0.64	5.16
3	Zhongqing Industrial Group Co., Ltd.	270,000	0.57	4.64

4	Shandong Linuo Solar Power Co., Ltd.	260,200	0.55	4.47
5	Baiti Group Co., Ltd.	224,800	0.48	3.86
6	Zibo Universal Trading Co., Ltd.	218,000	0.46	3.75
7	Shandong Kevin Info Tech Co., Ltd.	210,000	0.45	3.61
8	Shandong Yongde Building Materials Sales Co., Ltd.	207,000	0.44	3.56
9	Wanda Dept. Store Co., Ltd.	200,000	0.43	3.44
10	Jinan Hi-tech Holding Group Co., Ltd.	200,000	0.43	3.44
Total		2,411,920	5.13	41.46

(IV) The Classification Method of Loan Risks and the Structure of Various NPLs

i. Classification Method of Loan Risks

The Bank has formulated its risk-classification method of credit assets based on the China Banking Regulatory Commission's "Guidelines on Classification of Loan Risks" in order to measure and manage loan risks. The Bank divides both on-and off-balance-sheet assets into 5 classes: Pass, Special-mention, Substandard, Doubtful and Loss, in which last three classes are deemed to be NPLs (Non-performing Loans).

The core definitions of the credit assets set out in the Bank's detailed rules for 5-tier classification of credit assets are as follows:

Pass: Borrowers are able to honor the terms of the contracts and the Bank does not have sufficient reasons to doubt their ability to repay the principals and interests of loan in full and in a timely manner.

Special-mention: Although borrowers are able to service their loan's principals and interests currently, repayments may be affected by existing unfavorable factors.

Substandard: Borrowers' ability to service their loans are questionable. Borrowers are not able to pay back the principals and interests only by their normal revenues. Certain losses may be incurred even when guarantees are invoked.

Doubtful: Borrowers are unable to fully pay back the principals and interests and significant losses will be incurred even when guarantees are invoked.

Loss: The principals and interests of loans will not be recovered or only a small portion will be recovered after the Bank takes all possible measures or necessary legal procedures.

ii. Five-tier Classification of Loans (Group)

Unit: (RMB thousand, %)

Type	Closing Balance	Opening Balance	Change for the Period (Increase+, Decrease-)	As a Percentage of the Closing Balance	As a Percentage of the Opening Balance	Change for the Period (Increase+, Decrease-)
Pass Loans	45,791,895	38,263,852	+7,528,043	97.31	88.08	+9.23
Special Mention Loans	722,229	1,027,619	-305,390	1.53	2.37	-0.84
Substandard Loans	99,828	3,867,584	-3,767,756	0.21	8.90	-8.69
Doubtful Loans	436,832	279,105	+157,727	0.93	0.64	+0.29
Loss Loans	5,780	5,676	+104	0.01	0.01	0.00
Total NPLs	542,440	4,152,365	-3,609,925	1.15	9.56	-8.41
Total Loans	47,056,564	43,443,836	3,612,728	100	100	

Note: The statistical method used was consistent with that applied in the reports to regulators.

(V) Change of Provision for Loans (Group)

Unit (RMB thousand)

Item	Opening Balance	Provision charges	Write-up	Write-Off	Write-up Due to Rise in Discounted Value	Closing Balance
Loan Provision	2,318,785	225,019	6,993	759,195	141,098	1,650,504

(VI) Impairment Provision for Investments, Pledged Assets and Other Assets (Group)

Unit (RMB thousand, %)

Item	Opening Balance	Closing Balance
Impairment Provision for Inter-bank Balances	19,503	19,503
Impairment Provision for Loans and Receivable investments	9,355	9,043
Provision for Other Receivables	52,170	52,251
Impairment Provision for Pledged Assets	35,819	23,098

(VII) Pledged Assets (Group)

Unit (RMB thousand, %)

Type	Closing Balance	Percentage
Real Estates	583,862	99.53
Machinery	0	0.00
Shareholding	0	0.00
Others	2,743	0.47

Total	586,605	100.00
-------	---------	--------

(VIII) Main External Equity Investments (the Bank)

Unit (RMB thousand, %)

External Investments	Amount of Investment as at the End of the Reporting Period	Share Proportion
Zhangqiu Qilu Village Bank Co., Ltd.	25,500	51
Bank of Jining Co., Ltd.	500,850	18.41
Bank of Dezhou Co., Ltd.	113,000	5.57
Shandong City Commercial Bank Association Co, Ltd.	20,000	4.60
China UnionPay Co., Ltd.	8,135	0.27
City Commercial Banks' Funds Clearing Center	400	1.33
Total	667,885	

Note: The investment on Bank of Dezhou Co., Ltd. was accounted under equity method; the others were accounted under cost method.

(IX) Off-Balance Sheet Items that may have significant influence on the Financial Position and Operating Results

i. Letters of Guarantee (L/Gs) and Letters of Credit (L/Cs) Issued

As at the end of the reporting period, the balance of L/Gs issued was RMB698.87million and the balance of L/Cs issued was RMB1,690.02 million.

ii. Guarantees and Loans Commitment

As at the end of the reporting period, there was no outstanding balance of Guarantees and Loans Commitment.

iii. Banker's Acceptance Bills Issued

As at the end of the reporting period, the balance of banker's acceptance bills issued was RMB 23,181.91 million.

(X) Risk Management of Credits Granted to Group Clients

As at the end of the reporting period, among the Bank's group clients, the amount of credit granted to Tri-cel Group Co., Ltd. was RMB490 million which accounted for 8.42% of the net capital of the Bank. The amount of credit granted to Shandong Jianbang Investment Management Co., Ltd. was RMB483.4 million which accounted for 8.31% of the net capital of the Bank. The amount of credit granted to Shandong Commercial Group Co., Ltd. was RMB342.69 million which accounted for 5.89% of the net capital of the Bank. The amount of credit granted to Tianjin Metallurgy Group Co., Ltd. was RMB300.1 million which accounted for 5.16% of the net capital of the Bank.

(XI) Various Risks Faced by the Bank and Risk Management

During the reporting period, the Bank has faced different kinds of risks such as credit risk, operation risk, market risk, liquidity risk, compliance risk, information technology risk, reputation risk, etc., in view of the existing risk situation, the Bank has actively taken relevant measures to continuously improve the Bank's level of risk management.

i. Credit Risk Management

(1) Improving the Management of the Comprehensive Credit Process

First, the Bank has implemented the carding project of credit process to perfect the basic management system, regulations and operating rules of credit line. Secondly, the Bank has strengthened the credit review and approval quality and efficiency, and improved the professional credit approval system by industries. Thirdly, the Bank has developed post-loan management mechanism by strengthening position settings, to bring risk management functions into full play in all levels.

(2) Optimizing the risk management framework

The Bank has carried out the structure reform of branches in Jinan area and made the risk controlling link forward by delegating risk director, establishing the department of risk management, and implementing parallel operation with risk managers in the new established administrative branches. The Bank has strengthened the vertical management of risk line through implementing routine meeting of risk director and developing risk reporting system.

(3) Implementing New Regulations and Regulatory Requirements on Loans

The Bank has strengthened compliance review of loan payment with the regulatory requirements. The proportion of trustee payments was 91% of all loans distributed, accounting for 100% of the loans that should be paid in this way, which met the regulatory requirements. The Bank has standardized repayment method of medium and long-term loans.

(4) Optimizing the Credit Structure

The Bank has formulated 'The 2012 Credit Policies', timely adjusted the policies in accordance with the macroeconomic situation and regulatory requirements, compressed real estate loans, withdrawn high-risk industry loan, strongly supported the development of small business.

(5) Planning and Implementing Collateral Management Reform

The Bank has improved the process of collateral management, strengthened the systematic control for purpose of unifying collateral information from Credit Risk Management System and Teller System and regulating the data of collateral management.

(6) Strengthening Post-loan Management

The Bank has clearly defined the post-loan management responsibility and working standard of

business line. The Bank has enhanced the on-site examination and off-site monitoring work, strengthened the risk-warning management to periodically monitor the credit customers by the Enterprise Risk Management System (ERMS). The Bank has actively carried out the special business inspections on inventory financing, business cooperated with guarantee agencies, etc.

ii. Operation Risk Management

(1) Launching the Construction of Risk Accountability System

The Bank has formulated the administrative regulation for risk accountability and completed the investigation of finding risk points of different business.

(2) Standardizing Loan Payment Management

The Bank has centralized the payment review of the corporate and personal loans, unified the payment review standard of different loans to improve the efficiency of issuing loans.

(3) Strengthening the Internal Controls of Operating Line

The Bank has strengthened the operating line management from staffing, system perfection and system support. The Bank has constantly improved the system function, such as completing the fingerprint verification system for tellers, developing accounting risk early-warning system (second stage). The Bank has strengthened frontline inspections, and constantly standardized the operation.

(4) Enhancing the E-banking Risk Management

First the Bank has constantly upgraded the system, optimized the process, and strengthened the security controls, such as anti-phishing, anti-monitoring. Secondly, the Bank has continuously carried out kinds of supervisions, inspections and trainings on the E-banking business. Thirdly, the Bank has continuously carried out the customer safety education.

iii. Market Risk Management

(1) System Construction

The Bank has issued ‘Administrative Detailed Rules for Stop-Loss Limit (Trial)’ and ‘Administrative Detailed Rules for Trading Limit (Trial)’ and set up relatively perfect limit management system. The Bank has issued ‘Administrative Policy of Financial Management’ and improved the risk management system of financial business.

(2) Internal Control Management

The Bank has monitored the profits and losses of trading account and available-for-sale account daily, improved the authorization management and supervision mechanism of financial market business. The Bank has implemented the risk-rating system of financial business, and issued risk assessment report.

(3) Monitoring the Risk Level

The Bank has monitored market risk indicators through risk models and tools such as Value at Risk

(VAR), Duration, Sensitivity Analysis and Stress Testing, and issued market risk reports on time.

iv. Liquidity Risk Management

(1) The Bank has issued 'Qilu Bank Administrative Policy of Liquidity Risk (temporary)' to further improve the system of liquidity risk management.

(2) The Bank has initially completed the data accumulation relevant to liquidity risk indicator.

(3) The Bank has completed the stress testing according the regulatory requirement, and inspected the result of stress testing by practical data, then adjusted the liquidity stress testing scenarios.

v. Compliance Risk Management

(1) Organizing Risk Investigation

According to the Shandong provincial government's requirement on local financial risk investigation, the Bank has organized the relevant risk investigation and passed the government's examination.

(2) Rectifying the on-site inspection problems found by CBRC Shandong Bureau

The Bank has continuously organized to rectify the problems found by CBRC Shandong Bureau, further found out the causes, and carried out a comprehensive and serious evaluation to the rectification work.

(3) Promoting the Compliance Culture Construction

The Bank has organized some activities to promote the compliance culture construction, such as the self-examination of executing the Bank's regulation, the publicity and education of fighting illegal fund-raising. The Bank has also organized the illegal fund-raising self-examination covering all the staff.

(4) Establishing and Improving the Supervising System to Regulate Staff's Conduct

The Bank has revised 'the Treatment Provisions of Employee Misconduct' and formulated 'the Qilu Bank Working Regulation of Employee Misconduct' and improved the system of accountability.

vi. Information Technology Risk Management

The Bank has implemented the consulting project of information technology risk management, further improved the system of risk management, risk evaluation and risk monitoring.

vii. Reputational Risk Management

The Bank has optimized the emergency treatment process of reputation risk, established the register and forecasting system of public opinion and monitored the public opinion in real-time and daily reported.

(XII) Main Policy Measures and Results of NPLs Management

During the reporting period, the Bank reset the management pattern of NPLs in accordance with the requirement of the new organization structure; the management of NPLs was centralized to the branches and administrative branches. The Bank completed streamlining the management of NPLs, set up the management and approval procedure under the newly established organization structure, i.e. Head Office–

Branch – Sub-branch model, revised and implemented the management rules regarding to NPLs. The Bank focused on preventing high risk of problematic debt, asset investigation, canceling problematic debt and controlling the increment of NPLs. During the reporting period, the Bank continued to promote suing and clearing NPLs work, and adopted various methods to dispose NPLs, including writing-off RMB759.20 million.

IV. Changes of Shareholding and Related-party Transactions

(I) Changes of Shareholding

Unit (shares)

Nature of the Share	Before Change	Changes for the period (Increase+, Decrease-)	After Change
Shares Held by State	557,500,000	0	557,500,000
Shares Held by Domestic Legal Entities	1,200,139,436	-324,031	1,199,815,405
Shares Held by Foreign Entities	473,750,000	0	473,750,000
Shares Held by Natural Persons	137,360,564	+324,031	137,684,595
Total	2,368,750,000	0	2,368,750,000

(II) Information of Shareholders

i. The Top 10 Shareholders and their Shareholdings as at the End of the Reporting Period

Commonwealth Bank of Australia held 473.75 million shares which accounted for 20% of the total shares; Jinan State-owned Assets Operation Co., Ltd. held 422.50 million shares (17.84%); Jigang Group Co., Ltd. held 117 million shares (4.94%); Jinan City Economic Development Investment Co., Ltd. held 115 million shares (4.85%); Shandong Jianbang Investment Management Co., Ltd. held 106 million shares (4.47%); Rizhao Steel Holding Group Co., Ltd. held 100 million shares (4.22%); Shandong Tri-cel Estates Co., Ltd. held 99 million shares (4.18%); China National Heavy Duty Truck Group Co., Ltd. held 70.50 million shares (2.98%); Jin'an Investment Co., Ltd. (The shareholder changed its name in the reporting period, its original name was Shandong Zhongrun Estates Group Co., Ltd.) held 45 million shares (1.90%) and Huasheng Jiangquan Group Co., Ltd. held 40 million shares (1.69%).

ii. Transfer of Shares by the Top 10 Shareholders

There were no transfer of shares by the top 10 shareholders happened during the reporting period.

(III) The Shares of Top 10 Shareholders of the Bank which were Pledged, Held in Custody or Frozen

At the end of the reporting period, shares held by the top 10 shareholders that were pledged were as follows: 154.50 million held by Jinan State-owned Assets Operation Co., Ltd., 105.50 million held by Jinan City Economic Development Investment Co., Ltd., 101 million held by Shandong Jianbang Investment Management Co., Ltd., 70 million held by Shandong Tri-cel Estates Co., Ltd., 45 million held by Jin'an Investment Co., Ltd., 36 million held by Huasheng Jiangquan Group Co., Ltd., totaling 512 million shares. At the end of the reporting period, no shares of the top 10 shareholders of the bank were frozen.

(IV) Significant Related-party Transactions

Unit (RMB thousand)

Related Share-holders	Significant Related-party Transactions			
	Name of Borrower	Business type	Amount of credit	Risk Exposure
Jigang Group Co., Ltd.	Shandong Iron and Steel Co., Ltd. Jinan branch	Loan	110,000	110,000
Shandong Jianbang Investment management Co., Ltd.	Jinnan Taicun Trade Co., Ltd.	Loan	28,000	28,000
	Jinnan Bituo Trade Co., Ltd.	Banker's Acceptance bill	125,000	79,500
	Jinan Tuojian Trade Co., Ltd.	Loan	28,000	28,000
	Shandong Ruide Economic Development Co., Ltd.	Loan, Banker's Acceptance bill	77,000	75,000
	Shandong Yongdao Investment Co., Ltd.	Loan	24,000	24,000
	Shandong Puhua Trade Co., Ltd.	Loan	47,000	47,000
	Jinan Runan Construction Co., Ltd.	Loan	19,000	19,000
	Shandong Forster Trade Co., Ltd.	Loan, Banker's Acceptance bill	82,100	80,000
	Shandong Honglu Metal Materials Co., Ltd.	Loan	47,900	47,900
	Shandong Jianbang Investment Management Co., Ltd.	Banker's Acceptance bill	110,000	55,000
Shandong Tri-cel Estates Co., Ltd.	Shandong Tri-cel Technology Development Co., Ltd.	Loan	60,000	60,000
	Shandong Kaiwen Technology Vocational College	Loan	80,000	80,000
	Jinan Qisheng Digital Technology Co., Ltd.	Loan	150,000	150,000
	Shandong Kevin Info Tech Co., Ltd.	Loan	210,000	150,000
	Shandong Guoqing Machinery and Electronic Technology Co., Ltd.	Loan, Banker's Acceptance bill	130,000	50,000
Jin'an Investment Co., Ltd. (Original name was Zhongrun Estates Group Co., Ltd.)	Jin'an Investment Co., Ltd.	Loan	170,000	170,000

Note: The transactions were measured by the adjusted Net Capital from the 2012 Auditor's report.

(V) NPLs of Shareholders and Affiliated Companies

As at the end of the reporting period, the non-performing loans of Bank's shareholders and its affiliated companies were as follows:

- i. Comprehensive Development Corporation of Urban Construction of Licheng District, Jinan City holds 1,896,654 shares, which accounts for 0.08%. As at the end of 2012, the company's loan balance (principal) was RMB35.1 million that the principal has not been expired, and interest on arrears was RMB

2,491,999.55. The loan was classified as substandard which was under litigation.

ii. The Yellow River Auto-Parts Factory of Shandong Kuangshan Holding Company holds 204,471 shares, which accounts for 0.0086%. As at the end of 2012, the company's loan balance (principal) was RMB700 thousand with no overdue interest and the loan was classified as substandard which was not under litigation.

iii. Aluminum Paste Factory Huaiyin District, Jinan City holds 127,794 shares, which accounts for 0.0054%. As at the end of 2012, the company's loan balance (principal) was RMB190 thousand with no overdue interest and the loan was classified as substandard which was not under litigation.

V. Corporate Governance

(I) Overview of Corporate Governance

In compliance with the relevant laws and regulations such as “Company Law”, “Commercial Bank Law” and the relevant banking regulations such as “Guidelines on Corporate Governance of Joint-Stock Commercial Banks”, “Guidelines on Independent Directors and External Supervisors Systems for Joint-Stock Commercial Banks” and “Guidelines on Due Diligence of Board of Directors of Joint-Stock Commercial Banks (Trial)”, the Bank continued to improve the effectiveness of its corporate governance structure and strengthened the Bank’s corporate governance mechanism.

i. Shareholders and Shareholders’ Meeting

The Bank did not have controlling shareholders. During the reporting period, the Bank held the 2011 Annual Shareholders’ Meeting.

ii. Directors, Board of Directors and its Specialized Committees

The Board of Directors was composed of 13 directors, of which there were 5 Independent Directors, 4 Executive Directors and 4 Shareholder Directors. The number and composition of directors of the Board of Directors met the requirements of the related laws and regulations. During the reporting period, the Board of Directors held 7 meetings and listened to the reporting on operations and risk management regularly and resolved the major operational management issues timely. The decision-making process, authorization procedures and voting procedures of the Board of Directors were strictly carried out in accordance with the relevant laws and regulations and the Memorandum and Articles of Association of the Bank. All of the Directors attended the meetings actively and deliberated the issues conscientiously and that protected the interests of the Bank and the shareholders effectively. 4 specialized committees were set up under the Board of Directors, i.e. Related-party Transactions Control and Risk Management Committee, Nomination and Remuneration Committee, Audit Committee and Strategy Committee, and the Chairpersonships of the 4 specialized committees were all assumed by Independent Directors. During the reporting period, the 4 committees diligently performed their duties in accordance with their own working procedures, actively provided constructive suggestions to the Board of Directors.

iii. Supervisors, Board of Supervisors and its Specialized Committees

The Board of Supervisors consisted of 9 members, of which there were 3 External Supervisors, 3 Employee Supervisors and 3 Shareholder Supervisors. The number and composition of directors of the Board of Supervisors met the requirements of the related laws and regulations. During the reporting period, the Board of Supervisors held 5 meetings. All supervisors remained highly responsible for the shareholders, diligently fulfilled their various supervisory duties and protected the legitimate interests of the shareholders and the relevant stakeholders effectively. Nomination Committee, Risk Monitoring Committee and

Financial Monitoring Committee were set up under the Board of Supervisors, and the Chairpersonships of the 3 specialized committees were all assumed by External Supervisors. During the reporting period, the 3 specialized committees, in accordance with their own working rules, carried out their work conscientiously and provided the Board of Supervisors with good service to enable the Board of Supervisors to carry out their work effectively.

iv. The Executive Management and its Subsidiary Committees

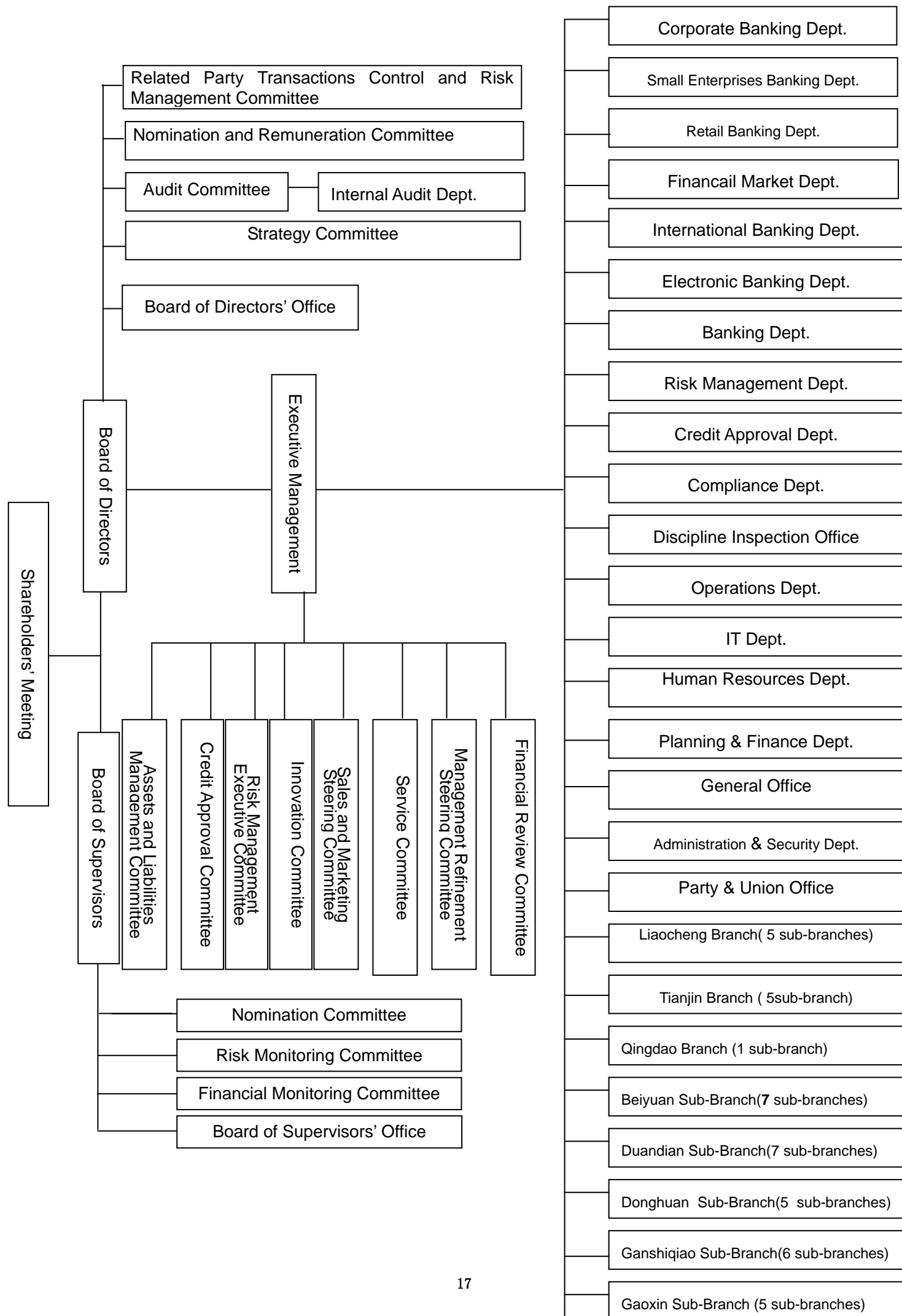
The Bank's Executive Management consisted of 1 President, 1 Executive Vice President, 5 Vice Presidents, 1 Assistant President, 1 Chief Financial Officer, and 1 Chief Information Officer. Under the Executive Management, there were committees including the Assets and Liabilities Management Committee (ALCO), Credit Approval Committee, Risk Management Executive Committee, Innovation Committee, Sales and Marketing Steering Committee, Service Committee, Management Refinement Steering Committee and Financial Review Committee. During the reporting period, the Executive Management conscientiously carried out the resolutions of the Board of Directors, executed the budget for the year and completed the operational assignments for the year.

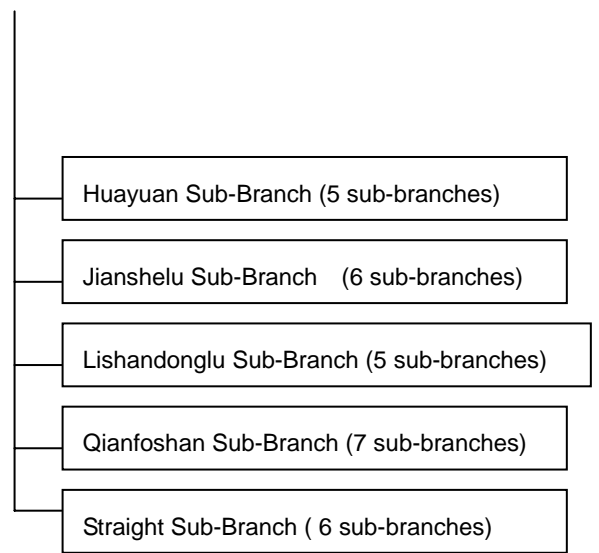
v. Information Disclosure and Investor Relationship Management

Because of the auditing of 2011 financial statements did not finish, authorized by CBRC, the 2011 annual report was delayed to disclose and didn't disclose within the reporting period. During the reporting period, the Bank kept on contacting with investors through the external website, investors' mailbox, telephone and face to face inquiries, supplying service for investor.

(II) The Organizational Structure of the Bank and its Branches

i . The Organizational Structure of the Bank





ii . Branches and Sub-branches of the Bank were as follows:

The Bank presently has 83 branches and sub-branches, including 1 business department of the Head Office, 3 branches and 79 sub-branches. The branches consisted of Liaocheng Branch, Tianjin Branch and Qingdao Branch, under which 11 sub-branches were established. There were 68 sub-branches in Jinan, six of which are directly managed by the Head Office and the other 62 sub-branches are managed by the 9 sub-branches with the authorization of the Head Office.

No.	Name	Address
1	Head Office	No.176 Shunhe Street, Shizhong District, Jinan
2	Liaocheng Branch	South-east corner of the crossroad of Dongchang Road and Weiyu Road, Liaocheng , Shandong Province
3	Liaocheng Chiping Sub-Branch	No.115 Yudong Road, Chiping County, Shandong Province
4	Liaocheng Gaotang Sub-Branch	No.511 Guandao Street, Huashengyuan Community, Gaotang Country, Liaocheng , Shandong Province
5	Liaocheng Kaifaqu Sub-Branch	No.54,Dongchang Road, Liaocheng Economic &Technological Development Area, Liaocheng
6	Liaocheng Linqing Sub-Branch	No.2009 Gulou East Street, Linqing , Shandong Province
7	Liaocheng Yanggu Sub-branch	No. 145 Gushan Road, Yanggu County, Shandong Province
8	Tianjin Branch	No.37&39 Youyibei Road, Hexi Distinct, Tianjin
9	Tianjin Beichen Sub-Branch	2175,2176,1193 and 1194 Room,No.1 & 2 & 3 Building, Changying Commercial Plaza, northwest corner of the crossroad of Jingjin Road and Longzhou Road, Beichen District,Tianjin
10	Tianjin Huayuan Sub-Branch	101,201,301 Room, Unit 5, No.1 Building, 101,201,301 Room, Unit 6, No.1 Building, Caizi Community, Western part of the North of Yashi Road, Nankai District ,Tianjin
11	Tianjin Jinnan Sub-Branch	No.3 and 4,Ground Floor, Binheyanyuan 4,north of Jingu Road and west of Xianshuigu Yueya River,Jinnan District ,Tianjin
12	Tianjin Jinghai Sub-Branch	1st and 2nd floor,Hailan Building,west of Lianmeng Road and north of Jingwen Road,Jinghai Town,Jinghai County, Tianjin
13	Tianjin Kaifaqu Sub-Branch	104A, 204 Room, No.39 east of 3rd Avenue, Binhai New District, Economic & Technological Development Zone, Tianjin

14	Qingdao Branch	1st and 3rd Floor,Crowne Plaza, No.76 Xianggang Zhong Road,Shinan District, Qingdao
15	Qingdao Jinjijishukaifa Sub-Branch	No.443 Changjiangdong Road, Economic and Technological Development Zone,Qingdao
16	Jinan Gaoxin Sub-Branch	No.746 Xinyu Road, High-tech Development Zone, Jinan
17	Jinan Dianchang Sub-Branch	No.164 Gongyebei Road, Licheng District, Jinan
18	Jinan Jigang Sub-Branch	West Front of Qingnian Street, Jigang New Village, Licheng District, Jinan
19	Jinan Jingshidonglu Sub-Branch	Zone B-C, 1st floor, Area B Yike Production Base, the Crossroad of Jingshidong Road and Shunhua Road, Gaoxin District, Jinan
20	Jinan Shunhuabei Sub-Branch	108&109&110 Room,Unit 1, No. 38 Building, Xinchenghuojiayuan Community, west of Xinyubei Road,Gaoxin District, Jinan
21	Jinan Yaojia Sub-Branch	No.75 Jiefangdong Road, Lixia District, Jinan
22	Jinan Duandian Sub-Branch	No. 28366 Jingshi Road, Huaiyin District, Jinan
23	Jinan Chengxi Sub-Branch	No.190 Zhangzhuang Road, Huaiyin District, Jinan
24	Jinan Huaiyin Sub-Branch	No.573 Jingqi Road, Huaiyin District, Jinan
25	Jinan Jingqilu Sub-Branch	No.425 Jingshi Road, Huaiyin District, Jinan
26	Jinan Keji Sub-Branch	No.555 Jingsi Road, Huaiyin District, Jinan
27	Jinan Minyingkejiyuan Sub-Branch	No. 2666 Erhuandong Road, Huaiyin District, Jinan
28	Jinan Xishichang Sub-Branch	No.575 Jinger Road, Huaiyin District, Jinan
29	Jinan Zhangzhuang Sub-Branch	No.191 Zhangzhuang Road, Huaiyin District , Jinan
30	Jinan Donghuan Sub-Branch	No.3966 Donghuan International Square, Erhuandong Road, Licheng District, Jinan
31	Jinan Chengdong Sub-Branch	Unit 1, No.6 Huaxin Road, Licheng District, Jinan
32	Jinan Daqiaolu Sub-Branch	No.78 Daqiao Road, Licheng District, Jinan
33	Jinan Gongyebeilu Sub-Branch	No.303 Gongyebei Road, Licheng District, Jinan
34	Jinan Honglou Sub-Branch	Unit 1, No.1 Honglounan Road, Licheng District, Jinan
35	Jinan Licheng Sub-Branch	No.41 Honglouxu Road, Licheng District, Jinan
36	Jinan Qianfoshan Sub-Branch	No.2 Yanzishanxi Road , Lixia District, Jinan
37	Jinan Erhuandonglu Sub-Branch	ZhongRunShijiCheng ,No.13777 Jingshi Road, Lixia District, Jinan
38	Jinan Gongyenanlu Sub-Branch	1st floor and 2nd floor, Block B, Sanqing Fengrun Building, No.100 Gongyenan Road, Lixia District, Jinan

39	Jinan Kaiyuan Branch	No.55 Huanshan Road, Lixia District, Jinan
40	Jinan Luoyuandajie Sub-Branch	No.61 Luoyuan Avenue, Lixia District, Jinan
41	Jinan Shandalu Sub-Branch	No.185 Shanda Road, Lixia District, Jinan
42	Jinan Wendong Sub-Branch	Unit 2, No.242 Shanda Road, Lixia District, Jinan
43	Jinan Yanshan Sub-Branch	Dashuntianchengshangdu, No.5 Jiefang Road, Lixia District, Jinan
44	Jinan Huayuan Sub-Branch	No.59 Lishan Road, Lixia District, Jinan
45	Jinan Daminghu Sub-Branch	No.1 Baobei Road, Lixia District, Jinan
46	Jinan Lishanbeilu Sub-Branch	No.4 Lishanbei Road, Tianqiao District, Jinan
47	Jinan Lixia Sub-Branch	106 Room , Block C2, Lishanmingjun, No.173 Lishan Road, Lixia District, Jinan
48	Jinan Liuhan Sub-Branch	No.226 Beiyuan Avenue, Tianqiao District, Jinan
49	Jinan Minghudonglu Sub-Branch	No.12 Minghudong Road ,Lixia District, Jinan
50	Jinan Lishandonglu Sub-Branch	No.112 Jiefang Road, Lixia District, Jinan
51	Jinan Beitan Sub-Branch	No.15 Yingxian Street, Tianqiao District, Jinan
52	Jinan Chaoshanjie Sub-Branch	No.59 Chaoshan Street, Lixia District, Jinan
53	Jinan Jiefanglu Sub-Branch	No. 159 Jiefang Road, Lixia District, Jinan
54	Jinan Shunjing Sub-Branch	No.59 Heihuquanxi Road, Lixia District, Jinan
55	Jinan Wenxi Sub-Branch	No.3 Qianfoshan Road, Lixia District, Jinan
56	Jinan Ganshiqiao Sub-Branch	No.87 Jingqi Road, Shizhong District, Jinan
57	Jinan Jingqiweier Sub-Branch	No.14 Building, No.227 Jingqiweiyi Road, Shizhong District, Jinan
58	Jinan Minshengdajie Sub-Branch	No.74 Minsheng Avenue, Shizhong District, Jinan
59	Jinan Shizhong Sub-Branch	No.131 Jinger Road, Shizhong District, Jinan
60	Jinan Yingxiongshan Sub-Branch	Unit 12, No.58 Ma'anshan Road, Shizhong District, Jinan
61	Jinan Shunnan Sub-Branch	No.3 Store , Weidongxindu Community, No.57 Shungeng Road, Shizhong District, Jinan
62	Jinan Wanzixiang Sub-Branch	No. 333 Jinger Road, Huaiyin District, Jinan
63	Jinan Jianshelu Sub-Branch	No.1 Liuchangshan Road, Shizhong District, Jinan
64	Jinan Chengnan Sub-Branch	No.222&223&224, Yingxiongshan Road, Shizhong District, Jinan
65	Jinan Guangming Sub-Branch	No.53 Yingxiongshan Road, Shizhong District, Jinan
66	Jinan Nanjiao Sub-Branch	No.306 Yingxiongshan Road, Shizhong District, Jinan

67	Jinan Shuanglong Sub-Branch	Middle Section of Nanwaihuan Road, Shizhong District, Jinan
68	Jinan Wangguanzhuang Sub-Branch	Unit 9, No.73 Jiwei Road, Shizhong District, Jinan
69	Jinan Yangguangxinlu Sub-Branch	No.19 Yangguangxin Road, Huaiyin District, Jinan
70	Jinan Beiyuan Sub-Branch	No.548 Beiyuan Avenue ,Tianqiao District, Jinan
71	Jinan Jinniu Sub-Branch	No.153 Wuyingshanzhong Road, Tianqiao District, Jinan
72	Jinan Lanxianglu Sub-Branch	No.1 Building ,Zone 2 Shidaizongbujidi, No.15 Lanxiang Road, Tianqiao District, Jinan
73	Jinan Luokou Sub-Branch	Unit 1, No.87 Jiluo Road, Tianqiao District, Jinan
74	Jinan Qinghe Sub-Branch	No.483 Beiyuan Avenue, Tianqiao District, Jinan
75	Jinan Tianqiao Sub-Branch	Unit 1, No.38 Wuyingshandong Road, Tianqiao District, Jinan
76	Jinan Wuyingshan Sub-Branch	No.15 Shifan Road, Tianqiao District, Jinan
77	Jinan Wuyingtian Sub-Branch	No.50 Wuyingshanzhong Road, Tianqiao District, Jinan
78	Jinan Ximen Sub-Branch	No.342 Quancheng Road, Lixia District, Jinan
79	Jinan Pingyin Sub-Branch	Unit 2, No.23 Fuqian Street, Pingyin County, Jinan
80	Jinan Shanghe Sub-Branch	No.1 Minghui Road, Shanghe County, Jinan
81	Jinan Changqing Sub-Branch	No.999 Bingu Street, Changqing District, Jinan
82	Jinan Jiyang Sub-Branch	No.180 Kaiyuan Street, Jiyang County, Jinan
83	Jinan Zhangqiu Sub-Branch	No.76 Huiquan Road, Zhangqiu

(III) Status of Directors, Supervisors, Senior Executives and Employees during the Reporting

Period

i. Profile of Directors, Supervisors and Senior Executives

Position	Name	Gender	Age	Company and Position	Remunerated or Not	Shareholding (No. of Shares)
Chairperson (Directors)	Wang Xiaochun	Female	52	Party Secretary and Chairperson of Board of Directors of Qilu Bank	Yes	0
Vice Chairperson (Directors)	Hu Xiaomeng	Male	55	Vice Party Secretary and Vice Chairperson of Board of Directors of Qilu Bank,	Yes	0
Executive Director	Huang Jiadong	Male	49	President and Vice Party Secretary of Qilu Bank	Yes	0
Executive Director	Mao Fangzhu	Male	47	Secretary of Board of Directors of Qilu Bank	Yes	138,919
Independent Director	Shi Jianping	Male	51	Professor of Central University of Finance and	No	0

				Economics		
Independent Director	Liu Feng	Male	49	Supervisor of Modern International Financial Planning Standards Co., Ltd.	Yes	0
Independent Director	Chen Xiao	Male	49	Director of Accounting Department of School of Economics and Management of Tsinghua University	Yes	0
Independent Director	Zhang Yichi	Male	46	Professor of Guanghua School of Management of Peking University	Yes	0
Independent Director	Wang Xiaodong	Male	52	Partner of Grandall Legal Group	Yes	0
Shareholder Director	Zhang Liang	Male	42	Chief Representative, China of Commonwealth Bank of Australia	Yes	0
Shareholder Director	Zhao Mingkui	Male	55	Chairperson of Board of Directors of Jinan City State-Owned Assets Operation Co., Ltd.	Yes	0
Shareholder Director	Bi Zhichao	Male	56	Chairperson of Board of Directors of Jigang Group Co., Ltd.	Yes	0
Shareholder Director	Chen Jian	Male	51	Chairperson of Board of Directors of Shandong Jianbang Investment Management Co., Ltd.	Yes	0
Chairperson (Supervisors)	Wang Jianjun	Male	55	Chairperson of Board of Supervisors of Qilu Bank	Yes	0
Employee Supervisor	Zhang Haiyan	Female	51	Chief Audit Officer of Qilu Bank & Chairperson of Board of Supervisors of Zhangqiu Qilu Village Bank	Yes	50,000
Employee Supervisor	Liu Yuhua	Female	50	Vice President of Qingdao Branch of Qilu Bank	Yes	90,000
External Supervisor	Hu Jinyan	Male	46	Executive Vice Dean of Undergraduate School of Shandong University	Yes	0
External Supervisor	Su Yuhai	Male	48	Vice Dean of School of Finance of Shandong University of Finance and Economics	Yes	0
External Supervisor	Zhang Zhiyuan	Male	49	Executive Vice Dean of School of Finance of Shandong University of Finance and Economics & Dean of Shandong Regional Economic Research Institute	Yes	0
Shareholder Supervisor	Wu Lichun	Male	49	President of Shandong Tri-cel Estates Co., Ltd.	Yes	0

Shareholder Supervisor	Li Mingji	Male	47	General Manager of Zhongrun Resources Investment Corporation	Yes	0
Vice Party Secretary	Wang Hongye	Male	57	Vice Party Secretary of Qilu Bank & Chairperson of Board of Directors of Zhangqiu Qilu Village Bank	Yes	70,000
Executive Vice President	Zhao Xuejin	Male	51	Executive Vice President of Qilu Bank	Yes	164,107
Vice President	Zhang Changping	Male	47	Vice President of Qilu Bank	Yes	286,359
Vice President	Jia Hanzhong	Male	48	Vice President of Qilu Bank	Yes	110,000
Vice President	Zhang Zhigao	Male	51	Vice President of Qilu Bank	Yes	70,000
Vice President	Chai Chuanzao	Male	50	Vice President of Qilu Bank	Yes	70,000
Secretary of Disciplinary Inspection Committee	Li Yingchun	Female	58	Secretary of Disciplinary Inspection Committee of Qilu Bank	Yes	163,256
Vice President	Xu Yedong	Male	42	Vice President of Qilu Bank	Yes	0
Assistant President	Zhanghua	Male	46	Assistant President of Qilu Bank	Yes	150,000
Chief Financial Officer	Cui Xiang	Female	50	Chief Financial Officer of Qilu Bank	Yes	249,000
Chief Information Officer	Zhang Diandong	Male	53	Chief Information Officer of Qilu Bank	Yes	50,000

Note: Liu Yuhua's qualification of Vice President of Qingdao Branch was applied to the regulator for approval and has not yet been approved by the end of the reporting period.

ii. Areas of Responsibilities of Executive Management

Position	Name	Year of Experience	Areas of Responsibilities
President	Huang Jiadong	31	Responsible for the Bank's overall executive management , assist in the management of cadres & personnel work, in charge of General Office, Planning & Finance Dept., Risk Management Dept., Discipline Inspection Office.
Executive Vice President	Zhao Xuejin	31	In Charge of Corporate Banking Dept., Financial Market Dept., International Banking Dept., IT Dept., cum the Director of Innovation Committee & Management Refinement Steering Committee.
Vice President	Zhang Changping	16	Responsible for Trade Union's overall executive management, in Charge of Administration & Security Dept., Banking Dept., cum the Deputy Director of Party and Masses Working Committee.
Vice President	Jia Hanzhong	26	In Charge of Credit Approval Dept., Compliance Dept., cum the Director of Credit Approval Committee.

Vice President	Zhang Zhigao	31	In charge of Electronic Banking Dept., Operations Dept., Retail Banking Dept., cum the Director of Service Committee
Vice President	Chai Chuanzao	27	Responsible for Tianjin Branch's overall executive management
Vice President	Xu Yedong	22	In charge of Small Enterprises Banking Dept.
Assistant President	Zhang Hua	27	Responsible for Qingdao Branch's overall executive management
Chief Financial Officer	Cui Xiang	34	Assist in Planning & Finance Dept., cum the Director of Financial Review Committee.
Chief Information Officer	Zhang Diandong	18	Assist in IT Dept.

iii. Employees Profile

At the end of the reporting period, the company had 2,100 employees, of which, 279 employees with master's degree and accounted for 13.29%, 1,738 employees with bachelor's degree and diploma (82.76%), 83 employees with below secondary and vocational qualifications (3.95%). There were 555 employees with middle and senior professional technical qualifications (26.43%) and 727 employees with junior professional technical qualifications (34.61%).

(IV) The Remuneration of Directors, Supervisors and Senior Executives

For the reporting period, a total of 18 persons, including directors (except Independent Directors, Shareholder Directors), supervisors (except External Supervisors, Shareholder Supervisors) and senior executives, was remunerated by the Bank, and the amount of remunerations (after tax) paid for the reporting period was RMB7.39 million. The actual allowances (after tax) received by the Independent Directors (4 people) were RMB608.4 thousand. The actual allowances (after tax) received by the Shareholder Directors (4 people) were RMB70 thousand. The actual allowances (after tax) received by the External Supervisors (3 people) were RMB195.5 thousand. The actual allowances (after tax) received by the Shareholder Supervisors (2 people) were RMB12 thousand.

(V) Changes of Directors, Supervisors and Senior Executives During the Reporting Period

During the reporting period, Fang Chao, the Shareholder Supervisor passed away for illness.

During the reporting period, Mr. Xu Yedong was appointed as the Vice President of the Bank nominated by President Huang Jiadong, agreed by the 20th meeting of the Board of Directors and approved by CBRC Shandong Bureau.

(VI) Shareholders' Meeting

The 2011 Annual Shareholders' Meeting was held on 30 November, 2012 on the 3rd floor in the first conference room of Qilu Bank Building at No.176, Shunhe Street, Shizhong District, Jinan City. 40 shareholders and representatives of the shareholders attended the meeting representing 1,610,650,400 shares, 68% of the total shareholding. The meeting was convened by the 5th Board of Directors of the Bank. The following resolutions were deliberated and passed by voting: agreed to the work report of the Board of Directors for 2011; agreed to the work report of the Board of Supervisors for 2011; agreed to the financial budget proposal for 2012; agreed to delay approval of the profit appropriation and dividend distribution proposals for 2010、2011; agreed to the “Measures for Related-party Transactions Management of Qilu Bank Co. Ltd”; agreed to the proposal of the Revision of the Memorandum and Articles of Association of the Bank.

(VII) The Work of the Board of Directors

i. The Meetings of the Board of Directors and the Major Resolutions Passed during the Reporting Period

The 17th meeting of the 5th Board of Directors was held on 11 April 2012 by means of telecommunication and the following resolution was passed: agreed to delay to release the 2011 annual report.

The 18th meeting of the 5th Board of Directors was held on 18 April 2012 by means of telecommunication and the following resolution was passed: agreed to the “Audit Plan for Year 2012 of Qilu Bank”.

The 19th meeting of the 5th Board of Directors was held on 25 May 2012 in the conference room on the 16th floor of Qilu Bank Building at No. 176 Shunhe Street, Shizhong District, Jinan City. 11 out of 13 directors attended the meeting. The meeting was chaired by Wang Xiaochun and the following resolutions were passed: agreed to the 2011 operation work report made by the President and the business operations plan of 2012; agreed to the “General Policy of Operation and Management in 2012 of the Board of the Directors”; agreed to proposal of the remuneration standard of the Vice Chairperson of Board of Directors' of the Bank; agreed to the proposal of the Revision of the Memorandum and Articles of Association of the Bank, and the submission of the proposal to the Shareholders' Meeting for approval.

The 20th meeting of the 5th Board of Directors was held on 23 July 2012 in the conference room on the 16th floor of Qilu Bank Building at No. 176 Shunhe Street, Shizhong District, Jinan City. All of the 13 directors attended the meeting. The meeting was chaired by Wang Xiaochun and the following resolutions were passed: agreed to the proposal for the nomination of Xu Yedong as Vice President of the Bank, agreed the appointment of Xu Yedong as Vice President of the Bank for two years, which need to the submit to banking regulatory authority for qualification review; agreed to the proposal for appointing Ernst & Young

Hua Ming to be the auditor for the Bank's 2012 annual report.

The 21st meeting of the 5th Board of Directors was held on 26 October 2012 in the conference room on the 16th floor of Qilu Bank Building at No. 176 Shunhe Street, Shizhong District, Jinan City. 12 out of 13 directors attended the meeting. The meeting was chaired by Wang Xiaochun and the following resolutions were passed: agreed to the "Measures for write-off of the NPLs of Qilu Bank"; agreed to the "Measures for Related-party Transactions Management of Qilu Bank Co., Ltd", and the submission of the proposal to the Shareholders' Meeting for approval; agreed to the proposal of the Revision of the Memorandum and Articles of Association of the Bank, and the submission of the proposal to the Shareholders' Meeting for approval; agreed to the proposal of adjustment the Audit Plan for Year 2012; agreed to the "2012 Performance Appraisal of Executive Management"; agreed to the proposal of supplement appointment of Assistant President; agreed to the proposed agenda for 2011 annual Shareholders' Meeting; agreed to the work report of the Board of Directors and the submission of the report to the Shareholders' Meeting for approval; agreed to the financial budget proposal for 2012 and the submission of the proposal to the Shareholders' Meeting for approval; agreed to delay approval of the profit appropriation and dividend distribution proposals for 2010、2011 and the submission of the proposal to the Shareholders' Meeting for approval.

The 22nd meeting of the 5th Board of Directors was held on 20 December 2012 by means of telecommunication and the following resolution was passed: agreed to the proposal of Related-party Transaction with Shandong Jianbang Investment Management Co., Ltd.

The 23rd meeting of the 5th Board of Directors was held on 27 December 2012 in the conference room on the 16th floor of Qilu Bank Building at No. 176, Shunhe Street, Shizhong District, Jinan City. 10 out of 13 directors attended the meeting. The meeting was chaired by Wang Xiaochun and the following resolutions were passed: agreed to the principle and framework of "General Policy of Operation and Management in 2012 of the Board of the Directors of Qilu Bank Co., Ltd."; agreed to the revised "Working Rules and Procedures for Internal Audit of Qilu Bank Co., Ltd."; agreed to the proposal of the supplementary provisions of the adjustment implementation plan of remuneration standards of Qilu Bank Co., Ltd.; agreed to the proposal for the development plan for 2013 branches and sub-branches of the Bank; agreed to revised the "Method of Shares Pledged and Frozen Registration Management of Qilu Bank Co., Ltd."; agreed to "the Performance Appraisal of Internal Audit Department and Board of Directors' Office", agreed to the proposal for write-off of the 2012 NPLs.

ii. The Execution of the Resolutions of Shareholders' Meeting by the Board of Directors during the Reporting Period

During the reporting period, the Board of Directors conscientiously carried out the resolutions of the

Shareholders' Meeting, and eventually completed the operational assignments.

iii. The Meetings of Specialized Committees of the Board of Directors during the Reporting Period

During the reporting period, the Related-party Transactions Control and Risk Management Committee held 3 meetings, the Audit Committee held 6 meetings, the Nomination and Remuneration Committee held 4 meetings, and the Strategy Committee held 3 meeting. The committees were generally able to deliberate on the items under their respective responsibilities according to the working regulations of the various specialized committees and then submitted them to the Board of Director.

iv. The Work of Independent Directors during the Reporting Period

Name of Independent Director	Number of Board of Directors' Meetings to Attend (times)	Personal Attendance (times)	Attendance by Proxy (times)	Absence (times)
Shi Jianping	7	5	2	0
Liu Feng	7	6	1	0
Chen Xiao	7	7	0	0
Zhang Yichi	7	7	0	0
Wang Xiaodong	7	7	0	0

(VIII) The Work of the Board of Supervisors

i. Meetings of the Board of Supervisors during the Reporting Period

During the reporting period, the following meetings were attended, or held, or observed by the Board of Supervisors:

On 30 November 2012, members of the Board of Supervisors attended the 2011 Annual Shareholders' Meeting.

On 17 April 2012, the 10th meeting of the 5th Board of Supervisors was held by means of telecommunication. The meeting passed the following resolution: agreed to "Work Plans of the Board of Supervisors of Qilu Bank for the Year 2012".

On 25 May 2012, the 11th meeting of the 5th Board of Supervisors was held in the conference room on the 11th floor of Qilu Bank Building at No.176 Shunhe Street, Shizhong District, Jinan City. All of the 8 supervisors attended. The meeting was chaired by Wang Jianjun and passed the following resolutions: agreed to "The Proposal for Results about the execution of duty of Directors by the Board of Supervisors for the Year 2011". In addition, supervisors listened to the report about information submitted by the liaison of the Board of Supervisors for the 1st quarter of 2012.

On 23 July 2012, the 12th meeting of the 5th Board of Supervisors was held in the conference room on the 12th floor of Qilu Bank Building at No.176 Shunhe Street, Shizhong District, Jinan City. 7 out of 8 supervisors attended the meeting. The meeting was chaired by Wang Jianjun and bulletined the appraisal

situation to supervisors for the year 2011, examined the work plan of the committees of the Board of Supervisors for the 2nd half of 2012, and listened to the report on financial performance of the 1st half of 2012.

On 26 October 2012, the 13th meeting of the 5th Board of Supervisors was held in the conference room on the 12th floor of Qilu Bank Building at No.176 Shunhe Street, Shizhong District, Jinan City. 6 out of 8 supervisors attended. The meeting was chaired by Wang Jianjun and passed the following resolutions: agreed to the revised “Methods of Execution of Duty of Supervisors by the Board of Supervisors”; agreed to “The Work Report of the Board of Supervisors for the Year 2011”, and agreed to submit the report to Shareholders’ Meeting for approval.

On 27 December 2012, the 14th meeting of the 5th Board of Supervisors was held in the conference room on the 17th floor of Qilu Bank Building at No.176 Shunhe Street, Shizhong District, Jinan City. All of the 8 supervisors were present. The meeting was chaired by Wang Jianjun and passed the following resolutions: agreed to “The Report of Inspection on Qianfoshan Administrative Branch by the Board of Supervisors”; agreed to “The Inspection Report of the Board of Supervisors on the Financial Revenue and Expenditure of the Head Office”.

On 25 May 2012, the members of Board of Supervisors, as non-voting delegates, attended the 19th meeting of the 5th Board of Directors.

On 23 July 2012, the members of Board of Supervisors, as non-voting delegates, attended the 20th meeting of the 5th Board of Directors.

On 26 October 2012, the members of Board of Supervisors, as non-voting delegates, attended the 21st meeting of the 5th Board of Directors.

On 27 December 2012, the members of Board of Supervisors, as non-voting delegates, attended the 23rd meeting of the 5th Board of Directors.

ii. Conclusion of Special Inspection of the Board of Supervisors during the Reporting Period

On 31 August 2012, the Board of Supervisors inspected Beiyuan Administrative Branch, and comprehended the performance results for the 1st half of the year and the reform experience of Beiyuan Administrative Branch, and made suggestions on administrative branch’ s reform. According to the investigation, supervisors gave recognition for Beiyuan Administrative Branch’ s development since establishment, and put forward the following suggestions: clearing right allocation, perfecting appraisal mechanism, paying attention to risk management and so on.

From 5 November 2012 to 30 November, the Board of Supervisors inspected the financial revenue and expenditure of the Head Office, and put forward the following suggestions: perfecting systems, standardizing operation and so on.

On 11 December 2012, the Board of Supervisors inspected the NPLs situation of Qianfoshan Administrative Branch. Through this investigation, the Board of Supervisors analyzed the causes of NPLs of Qianfoshan Administrative Branch, and put forward the following suggestions for the Bank preventing and disposing NPLs: strengthening process management, carrying out continuous warning education, strengthening appraisal intensity and so on.

iii. Work of External Supervisors during the Reporting Period

Name of External Supervisors	Number of Board of Supervisors' Meetings to Attend (times)	Personal Attendance (times)	Attendance by Proxy (times)	Absence (times)
Hu Jinyan	5	4	1	0
Su Yuhai	5	5	0	0
Zhang Zhiyuan	5	5	0	0

iv. Independent Opinions from the Board of Supervisors on the following issues

During the reporting period, for the purpose of protecting the interest of the shareholders and the employees, the Board of Supervisors carried out supervision on the financial condition, and the performance of Directors and senior executives according to the applicable requirements of the Company Law and the Memorandum and Articles of Association of the Bank. The specific details were as follows:

(i)Supervision on Operating Legally of the Bank

During the reporting period, the Bank intensified the contact with the Banking Regulatory Bureau, strengthened the internal controls and system execution, and operated legally and managed properly with true and fair operating results, and the decision making procedures were legal and valid. There was no detection of behaviors of breaking laws, statutes and the Memorandum and Articles of Association, or harming the shareholders' interest by the Directors and the Executive Management of the Bank when performing their duties.

(ii)Supervision on Financial Condition of the Bank

During the reporting period, the financial report of the bank has been audited by Ernst and Young Hua Ming LLP and received unqualified audit report. And the report truly and fairly reflects the financial position and the operating results of the bank.

(iii)Supervision on Execution of the Resolutions of the Shareholders' Meetings

During the reporting period, the Board of Supervisors did not raise any objection to any of the reports and proposals submitted to the Shareholders' Meetings by the Board of Directors, and concluded that the Board of Directors seriously carried out the relevant resolutions of the Shareholders' Meetings.

(IX) The Major Business Operations Plan of 2013

The business operation plan of 2013 are to achieve the year-end deposit balance of 78 billion which is

10% more than that of 2012 and average deposit of 71 billion which is 8% more than that of 2012. The end-of-year balance target of loan is expected to be 51.8 billion, 10% more than that of 2012. There would be no increase in the balance of non-performing loan before write-off and the target rate of non-performing loan of 2013 would be controlled under 1%. The operating profit of 2013 is expected to be 1.2billion.

VI. Key Events

(I) During the reporting period, whether the Bank was involved in any litigation and arbitration events , legal case which had a material impact on the operating activities

During the reporting period, the Bank was not involved in any litigation or arbitration events, legal case which had a material impact on the operating activities.

(II) During the reporting period, whether the Bank had any major acquisition, merger or sale of assets events

During the reporting period, the Bank was not involved in any major acquisition, merger or sale of assets events.

(III) During the reporting period, whether the Bank had any significant custody, guarantee, commitment, management of entrustment assets

During the reporting period, the Bank was not involved in significant custody, guarantee, commitment, management of entrustment assets

(IV) During the reporting period, whether members of the Board of Directors, members of the Board of Supervisors and the Executives were subject to punishment by the relevant regulatory authorities and judicial authorities

During the reporting period, the Executives were subject to punishment by the relevant regulatory authorities please refer to 2010 annual report.

VII. Important Notice

The Board of Directors and its directors hereby assure that there are no false records and misleading statements or major omissions in the report, and undertake responsibility jointly and severally that the contents of the report are true, accurate and complete.

The meeting of the 5th Board of Directors of the Bank deliberated and approved the annual report on 28 March 2013.

The Chairperson, Wang Xiaochun, the President, Huang Jiadong and the Chief Finance Officer, Cui Xiang, hereby assure that the financial reporting of the annual report is true and complete.

All relevant figures in the report are consolidated figures of RMB and foreign currencies.

VIII. Balance Sheet, Income Statement, and Cash Flow Statement that were audited by the Auditors of Ernst & Young Hua Ming LLP

QILU BANK COMPANY LIMITED

CONSOLIDATED BALANCE SHEET 31 DECEMBER 2012

(All amounts expressed in RMB unless otherwise stated)

[English translation for reference only]

<u>Assets</u>	<u>31 December 2012</u>	<u>31 December 2011</u>
Cash and balances with the central bank	16,545,979,186	14,757,351,997
Due from banks	2,228,667,671	1,664,522,842
Placements with banks	50,000,000	185,923,616
Financial assets, held-for-trading	49,965,586	50,235,059
Reverse repurchase agreements	360,000,000	392,664,000
Interest receivables	314,074,173	301,855,286
Loans and advances to customers	45,061,030,833	40,917,701,935
Financial assets, available-for-sale ("AFS")	9,275,477,395	7,628,639,254
Financial assets, held-to-maturity ("HTM")	5,857,750,393	6,451,574,234
Investments classified as loans and receivables	904,659,784	1,834,418,159
Investment property	38,196,818	41,315,838
Fixed assets and construction in progress	509,460,831	535,815,857
Intangible assets	19,572,918	27,373,737
Long term equity investments	642,384,839	631,384,839
Deferred income tax assets	562,560,764	788,254,500
Long-term prepaid expenses	31,622,014	40,179,388
Other assets	<u>1,228,261,500</u>	<u>1,030,180,334</u>
TOTAL ASSETS	<u>83,679,664,705</u>	<u>77,279,390,875</u>

QILU BANK COMPANY LIMITED

CONSOLIDATED BALANCE SHEET(CONTINUED)

31 DECEMBER 2012

(All amounts expressed in RMB unless otherwise stated)

[English translation for reference only]

LIABILITIES and SHAREHOLDERS'

EQUITY

31 December 2011

31 December 2011

LIABILITIES:

Due to central bank	489,724,451	639,392,701
Due to banks and other financial institutions	1,204,249,211	1,244,099,369
Repurchase agreements	4,194,900,000	4,058,077,788
Due to customers	70,401,197,244	65,122,846,863
Employee benefits payable	227,103,220	207,255,748
Taxes payable	50,627,886	61,412,929
Bonds payable	700,000,000	700,000,000
Interest payable	690,425,265	626,077,742
Provision	93,102,288	39,908,282
Other liabilities	<u>300,799,087</u>	<u>178,942,307</u>

TOTAL LIABILITIES

78,352,128,652

72,878,013,729

SHAREHOLDERS' EQUITY:

Share capital	2,368,750,000	2,368,750,000
Capital reserve	1,571,650,630	1,505,770,276
Surplus reserve	295,377,252	209,107,149
General reserve	657,006,346	286,866,249
Retained profits	<u>413,210,937</u>	<u>8,155,570</u>
Equity attributable to equity holders of the parent company	<u>5,305,995,165</u>	<u>4,378,649,244</u>

Non-controlling interests

21,540,888

22,727,902

TOTAL SHAREHOLDERS' EQUITY

5,327,536,053

4,401,377,146

TOTAL LIABILITIES AND EQUITY

83,679,664,705

77,279,390,875

QILU BANK COMPANY LIMITED

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2012

(All amounts expressed in RMB unless otherwise stated)

[English translation for reference only]

	<u>2012</u>	<u>2011</u>
I. Operating income	<u>2,461,728,236</u>	<u>2,119,490,791</u>
Interest income	4,026,420,206	3,911,716,880
Interest expense	(1,741,062,149)	(1,916,537,683)
Net interest income	<u>2,285,358,057</u>	<u>1,995,179,197</u>
Fee and commission income	120,572,721	99,613,773
Fee and commission expenses	(30,032,526)	(27,124,767)
Net fee and commission income	<u>90,540,195</u>	<u>72,489,006</u>
Investment income	53,247,638	30,303,064
Including: Share of profits of associates	17,000,000	27,510,000
Fair value losses	(55,670)	(39,045)
Foreign exchange gains	14,123,543	5,393,315
Other operating income	<u>18,514,473</u>	<u>16,165,254</u>
II. Operating expense	<u>(1,335,544,706)</u>	<u>(1,179,384,334)</u>
Business tax and surcharges	(185,464,057)	(194,376,243)
Operating and administrative expenses	(918,619,935)	(923,099,923)
Impairment losses on assets	(225,624,600)	(55,513,858)
Other operating expenses	(5,836,114)	(6,394,310)
III. Operating profit	<u>1,126,183,530</u>	<u>940,106,457</u>
Non-operating income	14,464,512	29,728,325
Non-operating expenses	(73,088,289)	(10,992,904)
IV. Profit before tax	<u>1,067,559,753</u>	<u>958,841,878</u>
Less: Income tax	(207,281,200)	(171,116,468)
V. Profit for the year	<u>860,278,553</u>	<u>787,725,410</u>
Attributable to:		
Equity holders of the parent company	861,465,567	789,497,508
Non-controlling interests	(1,187,014)	(1,772,098)
VI. Other comprehensive income	<u>65,880,354</u>	<u>(37,110,365)</u>
VII. Total comprehensive income	<u>926,158,907</u>	<u>750,615,045</u>
Attributable to:		
Equity holders of the parent company	927,345,921	752,387,143
Non-controlling interests	(1,187,014)	(1,772,098)

QILU BANK COMPANY LIMITED

CONSOLIDATED STATEMENT OF CASH FLOW FOR THE YEAR ENDED 31 DECEMBER 2012

(All amounts expressed in RMB unless otherwise stated)

[English translation for reference only]

	<u>2012</u>	<u>2011</u>
1 Cash flows from operating activities		
Net increase in due to customers, banks and other financial institutions	5,238,500,222	-
Net decrease in loans and advances to customers	-	1,792,769,443
Net increase in due to central bank	-	639,392,701
Net decrease in placements with banks	-	50,000,000
Net decrease in financial asset held-for-trading	213,803	30,793,721
Net decrease in reverse repurchase agreements	232,664,000	949,462,089
Net increase in repurchase agreements	136,822,212	-
Interest received	3,985,380,328	3,728,704,174
Fee and commission received	120,572,721	99,613,772
Cash received relating to other operating activities	<u>593,467,478</u>	<u>131,317,013</u>
Subtotal of cash inflows	<u>10,307,620,764</u>	<u>7,422,052,913</u>
Net decrease in due to customers, banks and other financial institutions	-	(5,259,081,110)
Net decrease in due to central bank	(149,668,250)	-
Net increase in loans and advances to customers	(4,911,198,441)	-
Net increase in due from central bank and other banks	(1,659,891,953)	(2,699,922,516)
Net decrease in repurchase agreements	-	(4,819,272,867)
Net decrease in placements from banks	-	(39,736,200)
Interest paid	(1,638,064,823)	(1,675,448,155)
Fee and commission paid	(30,032,526)	(27,124,767)
Cash paid to employees	(445,347,806)	(411,912,158)
Payment of taxes	(286,603,196)	(238,863,024)
Cash paid relating to other operating Activities	<u>(345,608,900)</u>	<u>(382,671,178)</u>
Subtotal of cash outflows	<u>(9,466,415,895)</u>	<u>(15,554,031,975)</u>
Net cash flows from operating activities	<u>841,204,869</u>	<u>(8,131,979,062)</u>
2 Cash flows from investing activities		
Net cash received from disposals of investments	3,833,164,717	3,273,585,254
Net cash received from disposals of fixed assets, intangible assets and other non-current assets	848,131	19,407,100
Dividends received	<u>32,080,000</u>	<u>3,734,000</u>
Subtotal of cash inflows	<u>3,866,092,848</u>	<u>3,296,726,354</u>
Purchase of investments	(3,849,742,402)	(2,736,399,000)
Purchase of fixed assets, intangible assets and other non-current assets	(72,915,166)	(77,932,150)
Net cash paid for other investing activities	<u>-</u>	<u>(2,458,643)</u>
Subtotal of cash outflows	<u>(3,922,657,568)</u>	<u>(2,816,789,793)</u>
Net cash flows from investing activities	<u>(56,564,720)</u>	<u>479,936,561</u>

QILU BANK COMPANY LIMITED

CONSOLIDATED STATEMENT OF CASH FLOW(CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2012

(All amounts expressed in RMB unless otherwise stated)

[English translation for reference only]

	<u>2012</u>	<u>2011</u>
3 Net cash flows from financing activities		
Cash received from investments	-	24,500,000
Cash received from bonds issued	-	-
Cash received from other financing activities	-	-
Subtotal of cash inflows	-	24,500,000
Dividends and interests paid	(40,775,032)	(41,430,978)
Subtotal of cash outflows	(40,775,032)	(41,430,978)
Net cash flows from financing activities	(40,775,032)	(16,930,978)
4 Effect of foreign exchange rate changes on cash and cash equivalents	13,091,332	(11,872,159)
5 Net increase in cash and cash equivalents	756,956,449	(7,680,845,638)
Add: Cash and cash equivalents at beginning of the year	5,807,287,584	13,488,133,222
6 Cash and cash equivalents at end of the year	6,564,244,033	5,807,287,584