



# 中国农业银行

AGRICULTURAL BANK OF CHINA

## 迪拜分行

DUBAI BRANCH

## AGRICULTURAL BANK OF CHINA LIMITED

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

### U.S.\$15,000,000,000

### Medium Term Note Programme

On 3 July 2014, Agricultural Bank of China Limited (the "Bank") published the offering circular attached hereto as Annex A (the "Offering Circular") in connection with the Medium Term Note Programme (the "Programme") established by the Bank for the issuance by any branch of the Bank of up to U.S.\$15,000,000,000 (or equivalent in other currencies) in aggregate nominal amount of notes (the "Notes").

On 3 July 2014, The Stock Exchange of Hong Kong Limited (the "HKSE") approved (conditional upon the delivery of certain documents) the listing on the HKSE of the Programme (effective on 4 July 2014) under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and granted permission to deal in, and the listing of, any Notes issued thereunder by way of debt issues to professional investors only during the 12-month period from the date of the Offering Circular, agreed at the time of issuance to be listed on the HKSE.

Application has been made: (i) to the Dubai Financial Services Authority (the "DFSA") for Notes issued under the Programme by Agricultural Bank of China Limited Dubai Branch (the "Issuer") to be admitted to the official list of securities maintained by the DFSA; and (ii) to NASDAQ Dubai for Notes issued under the Programme by Agricultural Bank of China Limited Dubai Branch to be admitted to trading on NASDAQ Dubai. The Offering Circular has been approved by the DFSA under Rule 2.7.1 of the Markets Rules (MKT) module (version 4/07-13) of the DFSA (the "Markets Rules") and constitutes an "Approved Prospectus" for the purposes of Article 14 of the Markets Law (DIFC Law No.1 of 2012) (the "Markets Law"). Information required to be contained in such Approved Prospectuses pursuant to the DFSA's Markets Rule 2.5 but not included in the Offering Circular is set out in Annex B.

On 26 August 2014 the Bank published its interim reviewed consolidated financial statements for the six months ended 30 June 2014, which are set out in Annex C. The interim consolidated financial statements for the six months ended 30 June 2014 have been reviewed by PricewaterhouseCoopers in accordance with the International Standards on Review Engagements and have not been audited.

The Offering Circular, as supplemented by Annexes B and C (together, the "Offering Document"), complies with the requirements in Part 2 of the Markets Law and Chapter 2 of the Markets Rules.

The Offering Document relates to an Exempt Offer in accordance with the Markets Rules. The Offering Document is intended for distribution only to persons of a type specified in the Markets Rules. It must not be delivered to, or relied on by, any other person. The DFSA does not accept any responsibility for the content of the information included in the Offering Document, including the accuracy or completeness of such information. The liability for the content of the Offering Document lies with the Issuer and the Bank. The DFSA has also not assessed the suitability of the Notes to which the Offering Document relate to any particular investor or type of investor. If you do not understand the contents of the Offering Document or are unsure whether the Notes to which the Offering Document relate are suitable for your individual investment objectives and circumstances, you should consult an authorised financial adviser.

The Bank and the Issuer accept responsibility for the information contained in the Offering Circular. To the best of the

knowledge of the Bank and the Issuer, having taken all reasonable care to ensure that such is the case, the information contained in the Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

To the fullest extent permitted by law, none of Agricultural Bank of China Limited Hong Kong Branch, ABCI Capital Limited, Australia and New Zealand Banking Group Limited, Deutsche Bank AG, Hong Kong Branch, DBS Bank Ltd., National Bank of Abu Dhabi PJSC and Standard Chartered Bank (Hong Kong) Limited (the "Joint Lead Managers") or the Agents accept any responsibility for the contents of this Offering Document or for any other statement, made or purported to be made by the Joint Lead Managers or any Agent or on its behalf in connection with the Bank, the Issuer, the Programme or the issue and offering of the Notes. Each Joint Lead Manager and each Agent accordingly disclaim all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Offering Document or any such statement. Neither this Offering Document nor any financial statements of the Bank or the Group are intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Issuer, the Joint Lead Managers or the Agents that any recipient of this Offering Document or any financial statements of the Bank or the Group should purchase the Notes. Each potential investor of Notes should determine for itself the relevance of the information contained in this Offering Document and its purchase of Notes should be based upon such investigation as it deems necessary. None of the Joint Lead Managers or the Agents undertakes to review the financial condition or affairs of the Bank or the Group during the life of the arrangements contemplated by this Offering Document nor to advise any investor or potential investor in the Notes of any information coming to the attention of any of the Joint Lead Managers or the Agents.

The date of this document is 3 September 2014.

**ANNEX A**  
**OFFERING CIRCULAR**

## IMPORTANT NOTICE

### THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE ADDRESSEES OUTSIDE OF THE UNITED STATES AND ARE NOT U.S. PERSONS

**IMPORTANT:** You must read the following before continuing. The following applies to the offering circular following this page (the "Offering Circular"), and you are therefore advised to read this carefully before reading, accessing or making any other use of the Offering Circular. In accessing the Offering Circular, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE UNITED STATES SECURITIES ACT 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT ("REGULATION S")). THIS OFFERING IS MADE SOLELY TO NON-U.S. PERSONS IN OFFSHORE TRANSACTIONS PURSUANT TO REGULATION S UNDER THE SECURITIES ACT.

THIS OFFERING CIRCULAR MAY NOT BE DOWNLOADED, FORWARDED OR DISTRIBUTED, IN WHOLE OR IN PART, TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND IN PARTICULAR, MAY NOT BE FORWARDED TO ANY US ADDRESS. ANY DOWNLOADING, FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED THEREIN.

**Confirmation of your Representation:** In order to be eligible to view this Offering Circular or make an investment decision with respect to the securities, investors must be a non-U.S. person purchasing the securities outside the United States in an offshore transaction in reliance on Regulation S under the Securities Act. By accepting the e-mail and accessing the attached Offering Circular, you shall be deemed to have represented to Agricultural Bank of China Limited Hong Kong Branch, ABCI Capital Limited 農銀國際融資有限公司 and Standard Chartered Bank (Hong Kong) Limited (the "Arrangers"), Agricultural Bank of China Limited Hong Kong Branch, ABCI Capital Limited 農銀國際融資有限公司, Standard Chartered Bank (Hong Kong) Limited 渣打銀行(香港)有限公司, Australia and New Zealand Banking Group Limited 澳新銀行集團有限公司, Barclays Bank PLC, Citigroup Global Markets Limited, Crédit Agricole Corporate and Investment Bank, DBS Bank Ltd., Deutsche Bank AG, Singapore Branch, Goldman Sachs (Asia) L.L.C., The Hongkong and Shanghai Banking Corporation Limited, J.P. Morgan Securities plc, Merrill Lynch International, Oversea-Chinese Banking Corporation Limited, Hong Kong Branch, UBS AG, Hong Kong Branch and Wells Fargo Securities, LLC (the "Dealers") and Agricultural Bank of China Limited or such branch of Agricultural Bank of China Limited (including Agricultural Bank of China Limited Hong Kong Branch) as specified in the applicable Pricing Supplement (each an "Issuer") (1) that you and any customers you represent are and that the electronic mail address that you gave the Issuer and to which this e-mail has been delivered is not located in the United States, (2) that you are not a U.S. person, or acting to, the account or benefit of a U.S. person (in each case as defined in Regulation S) and (3) that you consent to delivery of the attached Offering Circular and any amendments or supplements thereto by electronic transmission.

You are reminded that this Offering Circular has been delivered to you on the basis that you are a person into whose possession this Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver or disclose the contents of this Offering Circular to any other person. You should not reply by e-mail to this notice, and you may not purchase any securities by doing so. Any reply e-mail communications, including those you generate by using the "Reply" function on your e-mail software, will be ignored or rejected.

This Offering Circular does not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Dealers or any affiliate of the Dealers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Dealers or such affiliate on behalf of the Issuer in such jurisdiction.

This Offering Circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Issuer, the Arrangers, the Dealers or the Agents (as defined below), nor any person who controls any of them, nor any director, officer, employee, nor agent of any of them, or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Offering Circular distributed to you in electronic format and the hard copy version available to you on request from the Arrangers or the Dealers.

You are responsible for protecting against viruses and other destructive items. Your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.



# 中国农业银行

AGRICULTURAL BANK OF CHINA

AGRICULTURAL BANK OF CHINA LIMITED

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

## U.S.\$15,000,000,000 Medium Term Note Programme

Under the U.S.\$15,000,000,000 Medium Term Note Programme described in this Offering Circular (the "Programme"), Agricultural Bank of China Limited (the "Bank") and, in relation to any issue of Notes under the Programme, the relevant issuing branch of the Bank (including Agricultural Bank of China Limited Hong Kong Branch) specified as an issuer in the applicable Pricing Supplement (each an "Issuer"), subject to compliance with all relevant laws, regulations and directives, may from time to time issue Notes (the "Notes"). The aggregate nominal amount of Notes outstanding will not at any time exceed U.S.\$15,000,000,000 (or the equivalent in other currencies), subject to increases of the programme size made in accordance with the terms of a Dealer Agreement dated 3 July 2014 (the "Dealer Agreement").

The Notes may be issued on a continuing basis to one or more of the Dealers appointed under the Programme from time to time by the Issuer (each a "Dealer" and together the "Dealers"), which appointment may be for a specific issue or on an ongoing basis. References in this Offering Circular to the "relevant Dealer" shall, in the case of an issue of Notes being (or intended to be) subscribed for by more than one Dealer, be to all Dealers agreeing to subscribe for such Notes.

Investing in the Notes involves certain risks. See "Risk Factors" beginning on page 16.

Application will be made to The Stock Exchange of Hong Kong Limited (the "HKSE") for permission to deal in, and the listing of, the Notes issued under the Programme by way of debt issues to professional investors only during the 12-month period from the date of this Offering Circular on the HKSE. However, unlisted Notes and Notes to be listed, traded or quoted on or by any other competent authority, stock exchange or quotation system may be issued pursuant to the Programme. The relevant Pricing Supplement (as defined in "Summary of the Programme") in respect of the issue of any Notes will specify whether or not such Notes will be listed on the HKSE (or listed, traded or quoted on or by any other competent authority, other exchange or quotation system). Notes listed on the HKSE will be traded on the HKSE in a board lot size of at least HK\$500,000 (or its equivalent in other currencies). Notice of the aggregate nominal amount of Note, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each series of Notes will be set out in the Pricing supplement which, with respect to Notes to be listed on the HKSE, will be delivered to the HKSE, on or before the date of issue of such series of Notes. Hong Kong Exchanges and Clearing Limited and the HKSE take no responsibility for the contents of this Offering Circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Offering Circular.

Each Series (as defined in "Summary of the Programme") of Notes in bearer form will be represented on issue by a temporary global note in bearer form (each a "temporary Global Note") or a permanent global note in bearer form (each a "permanent Global Note" together with the temporary Global Note, (the "Global Notes")). Notes in registered form will be represented by registered certificates (each a "Certificate"), one Certificate being issued in respect of each Noteholder's entire holding of Registered Notes of one Series. The Notes of each Series in registered form will initially be represented by a permanent global certificate (each a "Global Certificate") without interest coupons. The Global Notes and Global Certificates may be deposited on the relevant issue date (a) in the case of a Series intended to be cleared through Euroclear and/or Clearstream, Luxembourg, with a common depository on behalf of Euroclear Bank S.A./N.V. ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg") or with a sub-custodian for the Central Moneymarkets Unit Service, operated by the Hong Kong Monetary Authority (the "CMU") and (b) in the case of a Series intended to be cleared through a clearing system other than, or in addition to, Euroclear and/or Clearstream, Luxembourg or CMU, or delivered outside a clearing system, as agreed between the Issuer and the relevant Dealer.

The Notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States, and the Notes may include Bearer Notes that are subject to U.S. tax law requirements. Subject to certain exceptions, the Notes may not be offered or sold within the United States, or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) or, in the case of Bearer Notes, offered, sold or delivered in the United States, or to, or for the account or benefit of, United States persons (as defined in the Internal Revenue Code). Registered Notes are subject to certain restrictions on transfer, see "Subscription and Sale".

The Notes may not be offered or sold within the United States to or to, or for the benefit of, U.S. persons (as defined in Regulation S under the United States Securities Act 1933, as amended (the "Securities Act") except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Notes are being offered and sold by the Dealers only to non-U.S. persons outside the United States in offshore transactions in reliance on Regulation S. For a description of certain restrictions on transfer, see "Subscription and Sale".

The Issuer may agree with any Dealer that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes herein (the "Conditions"), in which event a supplementary Offering Circular, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Notes.

The Programme is expected to be rated "(P)A1" by Moody's Investors Service Hong Kong Ltd. ("Moody's") and "(A)" by Standard & Poor's Ratings Services ("S&P"), a division of the McGraw-Hill Companies Inc. These ratings are only correct as at the date of this Offering Circular. Tranches of Notes (as defined in "Summary of the Programme") to be issued under the Programme may be rated or unrated. Where a Tranche of Notes is to be rated, such rating will not necessarily be the same as the ratings assigned to the Programme. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction, revision or withdrawal at any time by the assigning rating agency.

### Arrangers

Agricultural Bank of China Limited  
Hong Kong Branch

ABCI Capital Limited  
農銀國際融資有限公司

Standard Chartered Bank  
(Hong Kong) Limited  
渣打銀行(香港)有限公司

### Dealers

Agricultural Bank of China Limited  
Hong Kong Branch

ABCI Capital Limited  
農銀國際融資有限公司

Standard Chartered Bank  
(Hong Kong) Limited

Australia and New Zealand  
Banking Group Limited

Barclays Bank PLC

Citigroup Global Markets Limited

Crédit Agricole Corporate and  
Investment Bank

DBS Bank Limited

Deutsche Bank AG, Singapore  
Branch

Goldman Sachs (Asia) L.L.C.

HSBC

J.P. Morgan Securities plc

Merrill Lynch International

Oversea-Chinese Banking  
Corporation Limited,  
Hong Kong Branch

UBS AG,  
Hong Kong Branch

Wells Fargo Securities

## IMPORTANT NOTICE

*The Issuer, having made all reasonable enquiries, confirms that to the best of its knowledge this Offering Circular contains or incorporates all information which is material in the context of the issuance and offering of Notes, that the information contained or incorporated by reference in this Offering Circular is true and accurate in all material respects and is not misleading in any material respect, that the opinions and intentions expressed in this Offering Circular are honestly held and that there are no other facts the omission of which would make this Offering Circular or any of such information or the expression of any such opinions or intentions misleading in any material respect and which, in each case, is material in the context of the issuance and offering of the Notes. The Issuer accepts responsibility accordingly.*

*This Offering Circular is to be read in conjunction with all documents which are incorporated herein by reference (see "Documents Incorporated by Reference").*

No person has been authorised to give any information or to make any representation other than those contained in this Offering Circular in connection with the issue or sale of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or any of the Arrangers or the Dealers (as defined in "Summary of the Programme") or the Agents (as defined in "Terms and Conditions of the Notes"). Neither this Offering Circular nor any other information supplied in connection with the Programme or any Notes should be considered as a recommendation by the Issuer, any Dealer, any Arranger or the Agents that any recipient of this Offering Circular or any other information supplied in connection with the Programme or any Notes should purchase any Notes. This Offering Circular does not take into account the objectives, financial situation or needs of any potential investor. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Offering Circular nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of the Issuer, any Dealer, any Arranger or the Agents to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Offering Circular nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer or the Bank and its subsidiaries (together, the "Group") since the date hereof or the date upon which this Offering Circular has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer since the date hereof or the date upon which this Offering Circular has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

The distribution of this Offering Circular and the offering or sale of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer, the Arrangers and the Dealers to inform themselves about and to observe any such restriction.

The Notes are being offered and sold to non-U.S. persons outside the United States in reliance on Regulation S. For a description of these and certain further restrictions on offers, sales and transfers of Notes and distribution of this Offering Circular, see "Subscription and Sale".

**THE NOTES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY, NOR HAS ANY OF THE FOREGOING AUTHORITIES PASSED UP ON OR ENDORSED THE MERITS OF THE OFFERING OF NOTES OR THE ACCURACY OR THE ADEQUACY OF THIS OFFERING CIRCULAR. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.**

This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such

jurisdiction. None of the Issuer, any Arranger, the Agents or any Dealer makes any representation to any investor in the Notes regarding the legality of its investment under any applicable law. The distribution of this Offering Circular and the offer or sale of Notes may be restricted by law in certain jurisdictions.

None of the Issuer, the relevant Dealers, the Arrangers or the Agents represents that this Offering Circular may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, unless specifically indicated to the contrary in the applicable Pricing Supplement, no action has been taken by the Issuer, the relevant Dealers, the Arrangers or the Agent which is intended to permit a public offering of any Notes or distribution of this Offering Circular in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Offering Circular or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Circular and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Offering Circular and the offer or sale of Notes in the United States, the European Economic Area including the United Kingdom, Hong Kong and Japan. See "*Subscription and Sale*"

To the fullest extent permitted by law, none of the Arrangers, the Dealers or the Agents accept any responsibility for the contents of this Offering Circular or for any other statement, made or purported to be made by the Arrangers or a Dealer or any Agent or on its behalf in connection with the Issuer, the Programme or the issue and offering of the Notes. The Arrangers, each Dealer and each Agent accordingly disclaim all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Offering Circular or any such statement. Neither this Offering Circular nor any financial statements of the Issuer or the Group are intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Issuer, the Arrangers, the Dealers or the Agents that any recipient of this Offering Circular or any financial statements of the Issuer or the Group should purchase the Notes. Each potential investor of Notes should determine for itself the relevance of the information contained in this Offering Circular and its purchase of Notes should be based upon such investigation as it deems necessary. None of the Arrangers, the Dealers or the Agents undertakes to review the financial condition or affairs of the Issuer or the Group during the life of the arrangements contemplated by this Offering Circular nor to advise any investor or potential investor in the Notes of any information coming to the attention of any of the Arrangers, the Dealers or the Agents.

This Offering Circular includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") for the purposes of giving information with regard to the Issuer. The Issuer accepts full responsibility for the accuracy of the information contained in this Offering Circular and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading. This Offering Circular is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see "*Documents Incorporated by Reference*"). This Offering Circular shall be read and construed on the basis that such documents are incorporated and form part of this Offering Circular.

From time to time, in the ordinary course of business, certain of the Dealers and their affiliates have provided advisory and investment banking services, and entered into other commercial transactions with the Issuer and its affiliates, including commercial banking services, for which customary compensation has been received. It is expected that the Dealers and their affiliates will continue to provide such services to, and enter into such transactions, with the Issuer and its affiliates in the future.

The Dealers or certain of their respective affiliates may purchase the Notes and be allocated Notes for asset management and/or proprietary purposes and not with a view to distribution.

In making an investment decision, each potential investor must rely on its own examination of the Issuer and the terms of the Notes being offered, including the merits and risks involved. The Issuer does not and the Arrangers, the Dealers and the Agents do not make any representation regarding the legality of investment under any applicable laws.

Potential investors should be able to bear the economic risk of an investment in the Notes for an indefinite period of time.

**In connection with any Tranche of Notes, one or more of the Dealers (or persons acting on their behalf) may act as the stabilising manager(s) (the “Stabilising Manager(s)”). The identity of the Stabilising Manager(s) (if any) will be disclosed in the relevant Pricing Supplement. In connection with the issue of any Tranche of Notes, one or more of the Dealers named as Stabilising Manager (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Pricing Supplement may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail for a limited period after the closing date of the relevant Tranche of Notes. However, there is no obligation on the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager) to do this. Such stabilising if commenced may be discontinued at any time, and must be brought to an end after a limited period. Such stabilising shall be in compliance with all applicable laws, regulations and rules.**

In the Offering Circular, unless otherwise specified, references to “Hong Kong” are to the Hong Kong Special Administrative Region of the People’s Republic of China, all references to the “PRC” or “China” are to the People’s Republic of China, excluding Taiwan, Hong Kong and Macau, references to “U.S.\$”, “USD” or “U.S. dollars” are to the lawful currency of the United States of America, references to “Renminbi”, “RMB” or “CNY” are to the lawful currency of the PRC, and references to “Hong Kong dollar” or “HK\$” are to the lawful currency of Hong Kong.

In this Offering Circular, unless otherwise specified, references to:

- “the Bank” and “the Group” refer to either or both of Agricultural Bank of China Limited and the Bank’s predecessor, Agricultural Bank of China, as applicable, and, except as the context otherwise requires, the subsidiaries of Agricultural Bank of China Limited and of the Bank’s predecessor, Agricultural Bank of China;
- the “branch outlets” include the head office, branches and outlets and other establishments of the Bank;
- a “business day” is a day that is not Saturday, Sunday or a public holiday in Hong Kong; and
- the terms “associate”, “subsidiary” and “substantial shareholder” shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.

For ease of reference, in this Offering Circular, unless otherwise indicated, the terms “loans and advances to customers”, “loans” and “loans to customers” are used synonymously.

In this Offering Circular, unless otherwise indicated, the discussions on loans are based on the Bank’s gross loans and advances to customers, before taking into account the related allowance for impairment losses, rather than its net loans to customers. The Bank’s loans and advances to customers are reported net of the allowance for impairment losses on its consolidated balance sheet.

The growth rates with respect to the business and financial data of the Bank presented in this Offering Circular are calculated based on amounts in millions of Renminbi.

#### **Presentation of financial information**

This Offering Circular contains the audited consolidated financial statements of the Bank as at and for each of the years ended 31 December 2011, 2012 and 2013. The audited financial statements were



prepared in accordance with the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (the “IASB”).

Following the completion of auditing the Bank’s consolidated financial statements prepared in accordance with IFRS for the year ended 31 December 2012 by Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the Bank replaced Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong with PricewaterhouseCoopers as the Bank’s new auditor. The change of the Bank’s principal auditor is to comply with the Measures for Financial Enterprises to Select and Employ Accounting Firms by Bidding (金融企業選聘會計師事務所招標管理辦法 (試行)) promulgated by MOF, which impose certain restrictions in respect of the number of years of audit services that an accounting firm may continuously provide to state-owned and state-controlled financial enterprises.

Unless otherwise stated, all financial data contained herein which is stated as relating to the Bank are referring to the consolidated data of the Group.

In this Offering Circular, because certain amounts have been rounded, totals of columns or rows of numbers in tables may not be equal to the apparent total of the individual items, and actual numbers may differ from those contained herein due to rounding.

#### **Documents Incorporated by Reference**

The Issuer hereby incorporates by reference (i) each Pricing Supplement, (ii) the most recently published audited consolidated annual financial statements and the most recently published unaudited but reviewed interim consolidated financial statements of the Bank published from time to time after the date of this Offering Circular in each case together with any audit or review reports prepared in connection therewith, (iii) the most recently published unaudited and unreviewed consolidated quarterly interim reports, published subsequent to the most recently published consolidated financial statements of the Bank, and (iv) all amendments and supplements from time to time to this Offering Circular, each of which shall be deemed to be incorporated in, and to form part of, this Offering Circular and which shall be deemed to modify or supersede the contents of this Offering Circular to the extent that a statement contained in any such document is inconsistent with the contents of this Offering Circular.

The Bank publishes its consolidated quarterly interim reports in respect of the three months ended 31 March and 30 September of each financial year. A copy of the quarterly interim reports can be found on the website of the HKSE. The quarterly interim reports have not been and will not be audited or reviewed by the Bank’s auditors and were and will be prepared under IFRS. The quarterly interim reports should not be relied upon by investors to provide the same quality of information associated with information that has been subject to an audit or review. Potential investors should exercise caution when using such data to evaluate the Bank’s financial condition and results of operation. The quarterly interim reports should not be taken as an indication of the expected financial condition or results of operations of the Bank for the relevant full financial year.

Any documents themselves incorporated by reference in the documents incorporated by reference in this Offering Circular shall not form part of this Offering Circular.

Copies of all such documents which are so deemed to be incorporated in, and to form part of, this Offering Circular will be available free of charge during usual business hours on any weekday (Saturdays and public holidays excepted) from the specified offices of the Issuer and of the Paying Agents set out at the end of this Offering Circular.

#### **Supplemental Offering Circular**

The Issuer has given an undertaking to the Arrangers and the Dealers that if it has notified the Arrangers or the Dealers in writing that it intends to issue Notes under the Programme for the time being, and if a significant new factor, material mistake or inaccuracy arises or is noted relating to the information included in the Offering Circular which is capable of affecting an assessment by investors of the assets and liabilities, financial position, profits and losses, and prospects of the Issuer and/or of the rights

attaching to the Notes, it shall (i) prepare and publish an amendment or supplement to the Offering Circular, (ii) advise the Arrangers and the Dealers promptly of any proposal to amend or replace the Offering Circular, (iii) advise the Arrangers and Dealers promptly of any proposal to supplement the Offering Circular and (iv) provide the Arrangers and the Dealers with a copy of any such proposed amendment, supplement or replacement immediately prior to its publication.

#### **Forward-looking statements**

Certain statements under "Risk Factors", "Business" and elsewhere in this Offering Circular constitute "forward-looking statements". The words including "believe", "expect", "plan", "anticipate", "schedule", "estimate", "may", "will", "would", "could", "aim", "intend", "project", "potential", "future", "seek", "should" and similar words or the negative thereof, or expressions identify forward- looking statements.

In addition, all statements other than statements of historical facts included in this Offering Circular, including, but without limitation, those regarding the financial position, business strategy, prospects, capital expenditure and investment plans of the Group and the plans and objectives of the Group's management for its future operations (including development plans and objectives relating to the Group's operations), are forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results or performance of the Group to differ materially from those expressed or implied by such forward-looking statements. Reliance should not be placed on these forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Group's present and future business strategies and the environment in which the Group will operate in the future. The Issuer expressly disclaims any obligation or undertaking to release any updates or revisions to any forward-looking statements contained herein to reflect any change in the Issuer's or the Group's expectations with regard thereto or any change of events, conditions or circumstances, on which any such statements were based. This Offering Circular discloses, under "Risk Factors" and elsewhere, important factors that could cause actual results to differ materially from the Issuer's expectations. All subsequent written and forward- looking statements attributable to the Issuer or persons acting on behalf of the Issuer are expressly qualified in their entirety by such cautionary statements.

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## DEFINITIONS AND CONVENTIONS

In this Offering Circular, unless the context otherwise requires, the following terms shall have the meanings set out below.

“Accountholder”	each person who is for the time being shown in the records of the CMU operator as the holder of a particular principal amount of the Notes
“Articles of Association”	Articles of Association of the Bank, as constituted and amended from time to time. Except where the context otherwise requires, the Articles of Association refers to the Articles of Association of the Bank approved by CBRC on 31 December 2012
“ATM”	Automatic Teller Machine
“Basel I”	1988 Basel Capital Accord
“Basel II”	the revised Basel Capital Framework promulgated in June 2004
“Basel III”	the newest Basel Capital Accord promulgated in December 2010
“Big Four”	Agricultural Bank of China, Bank of China, China Construction Bank and Industrial and Commercial Bank of China
“Capital Adequacy Regulations”	the Administrative Measures on Capital Adequacy Ratio of Commercial Banks (商業銀行資本充足率管理辦法), as promulgated by the CBRC on 23 February 2004, effective as of 1 March 2004 and amended on 3 July 2007 (repealed and replaced by the Capital Management Regulations on 1 January 2013)
“Capital Management Regulations”	the Provisional Administrative Measures on Capital Management of Commercial Banks (商業銀行資本管理辦法 (試行)), as promulgated by the CBRC on 7 June 2012, effective as of 1 January 2013
“CAGR”	compound annual growth rate
“CBRC”	China Banking Regulatory Commission (中國銀行業監督管理委員會)
“China” or “PRC”	the People’s Republic of China, but for the purpose of this Offering Circular only and except where the context requires, references in this Offering Circular to “China” and the “PRC” do not include Hong Kong, Macau and Taiwan
“CIRC”	China Insurance Regulatory Commission (中國保險監督管理委員會)
“CMU”	Central Moneymarkets Unit Service
“County Area” or “County Areas”	areas designated as counties or county-level cities under China’s administrative division system. As an administrative division unit, a county or county-level city is generally directly below and under the direct supervision of its corresponding municipal-level or provincial-level government. County Areas include economically more developed county centres, towns and the vast rural areas within their jurisdictions
“County Area Banking Business” or “Sannong Banking Business”	a broad range of financial products and services the Bank provides to customers in the County Areas through the Bank’s branch outlets located in counties and county-level cities in the PRC. The Bank refers to such

banking business as the “County Area Banking Business” or “Sannong Banking Business” (三農金融業務), which are used interchangeably throughout this Offering Circular

“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會)
“Fiscal Agent”	Agricultural Bank of China Limited Hong Kong Branch
“GDP”	gross domestic product
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“HKMA”	Hong Kong Monetary Authority
“HKSE”	The Stock Exchange of Hong Kong Limited
“Huijin”	Central Huijin Investment Ltd. (中央滙金投資有限責任公司), a state- owned investment company incorporated under the laws of the PRC
“IAS 34”	the International Accounting Standard 34 “Interim Financial Reporting” and its interpretation by the IASB
“IAS 39”	the International Accounting Standard 39 “Financial Instruments: Recognition and Measurement” and its interpretations by the IASB
“IASB”	the International Accounting Standards Board
“IFRIC”	the International Financial Reporting Interpretations Committee
“IFRS”	International Accounting Standards, International Financial Reporting Standards, amendments and the related interpretations issued by the International Accounting Standards Board
“Internal Revenue Code”	the U.S. Internal Revenue Code of 1986 and the regulations thereunder
“Issuer”	Agricultural Bank of China Limited and, in relation to any issue of Notes under the Programme, the relevant issuing branch of the Bank (including Agricultural Bank of China Limited Hong Kong Branch) specified as the Issuer in the applicable Pricing Supplement
“Large Commercial Banks”	Agricultural Bank of China, Bank of China, Bank of Communications, China Construction Bank and Industrial and Commercial Bank of China
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
“Macau”	the Macau Special Administrative Region of the PRC
“MOF”	Ministry of Finance of the PRC (中華人民共和國財政部)
“MOFCOM”	Ministry of Commerce of the PRC (中華人民共和國商務部)
“NAO”	National Audit Office of the PRC (中華人民共和國審計署)
“NBSC”	National Bureau of Statistics of China (中華人民共和國國家統計局)
“NDRC”	National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)

“National Joint Stock Commercial Banks”	China CITIC Bank, China Everbright Bank, Huaxia Bank, Guangdong Development Bank, Shenzhen Development Bank, China Merchants Bank, Shanghai Pudong Development Bank, Industrial Bank, China Minsheng Bank, Evergrowing Bank, Zheshang Bank and Bohai Bank
“non-performing loans”	identified impaired loans and advances
“Notes”	Notes issued under the U.S.\$15,000,000,000 Medium Note Programme
“OFAC”	the Office of Foreign Assets Control of the U.S. Department of the Treasury
“PBOC”	People’s Bank of China (中國人民銀行)
“POS”	point of sale, a checkout counter in a shop or any location where a transaction occurs
“PRC GAAP”	the PRC Accounting Standards and Accounting Regulations for Business Enterprises promulgated by the MOF on 15 February 2006 and its supplementary regulations
“QDIIs”	qualified domestic institutional investors in the PRC, which are licensed by the CSRC to invest in foreign securities markets
“QFIIs”	qualified foreign institutional investors licensed by the CSRC to invest in Renminbi-denominated shares listed on China’s domestic securities exchanges
“Regulation S”	Regulation S under the U.S. Securities Act
“SAFE”	State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“SAIC”	State Administration for Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局)
“Sannong”	a short-hand reference to the Chinese pronunciation of the phrase “agriculture, rural areas and farmers” (農業·農村和農民). The terminology “Sannong” (三農) was initially created to refer to the three rural development issues in China (specifically, agriculture, rural areas and farmers) and has become an expression widely adopted by the policymakers in China. Throughout this Offering Circular, the Bank uses “Sannong” to refer to the PRC government’s policies or vision, as applicable, aiming to promote agricultural industry, rural development and the welfare of China’s farmers. The current economic development of China’s County Areas directly benefits from the PRC government’s “Sannong” policies
“SASAC”	State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會)
“SAT”	State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
“Securities and Futures Commission” or “SFC”	the Securities and Futures Commission of Hong Kong

“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (as amended from time to time)
“SHIBOR”	Shanghai Interbank Offered Rate, a daily reference rate published by the National Interbank Funding Centre
“SME” or “SMEs”	small- and medium-sized enterprises
“SSE”	The Shanghai Stock Exchange
“SSF”	National Council for Social Security Fund of the PRC (全國社會保障基金理事會)
“State Council”	the PRC State Council (中華人民共和國國務院)
“United States,” or “U.S.”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“Urban Area” or “Urban Areas”	the rest of China other than the County Areas
“U.S. Securities Act” or “Securities Act”	the U.S. Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
“WTO”	World Trade Organisation

In this Offering Circular, the Bank defines the geographical regions of China to which the Bank refers for the purpose of describing the Bank's branch network and presenting certain results of operations and financial condition as follows:

<u>Geographical regions</u>	<u>Branches</u>	
“Yangtze River Delta” . . . . .	<ul style="list-style-type: none"> <li>• Shanghai Municipality</li> <li>• Jiangsu Province</li> </ul>	<ul style="list-style-type: none"> <li>• Zhejiang Province</li> <li>• City of Ningbo</li> </ul>
“Pearl River Delta” . . . . .	<ul style="list-style-type: none"> <li>• Guangdong Province</li> <li>• City of Shenzhen</li> </ul>	<ul style="list-style-type: none"> <li>• Fujian Province</li> <li>• City of Xianen</li> </ul>
“Bohai Rim” . . . . .	<ul style="list-style-type: none"> <li>• Beijing Municipality</li> <li>• Tianjin Municipality</li> <li>• Hebei Province</li> </ul>	<ul style="list-style-type: none"> <li>• Shandong Province</li> <li>• City of Qingdao</li> </ul>
“Central China” . . . . .	<ul style="list-style-type: none"> <li>• Shanxi Province</li> <li>• Hubei Province</li> <li>• Henan Province</li> <li>• Hunan Province</li> </ul>	<ul style="list-style-type: none"> <li>• Jiangxi Province</li> <li>• Hainan Province</li> <li>• Anhui Province</li> </ul>
“Northeastern China” . . . . .	<ul style="list-style-type: none"> <li>• Liaoning Province</li> <li>• Heilongjiang Province</li> </ul>	<ul style="list-style-type: none"> <li>• Jilin Province</li> <li>• City of Dalian</li> </ul>
“Western China” . . . . .	<ul style="list-style-type: none"> <li>• Chongqing Municipality</li> <li>• Sichuan Province</li> <li>• Guizhou Province</li> <li>• Yunnan Province</li> <li>• Shaanxi Province</li> <li>• Gansu Province</li> <li>• Qinghai Province</li> <li>• Ningxia Autonomous Region</li> </ul>	<ul style="list-style-type: none"> <li>• Xinjiang Autonomous Region</li> <li>• The Xinjiang Production and Construction Corps</li> <li>• Tibet Autonomous Region</li> <li>• Inner Mongolia Autonomous Region</li> <li>• Guangxi Autonomous Region</li> </ul>



## SUMMARY OF THE PROGRAMME

*The following summary is qualified in its entirety by the remainder of this Offering Circular. Words and expressions defined in "Terms and Conditions of the Notes" below shall have the same meaning in this summary.*

<b>The Issuer</b>	Agricultural Bank of China Limited and, in relation to any issue of Notes under the Programme, the relevant issuing branch of the Bank (including Agricultural Bank of China Limited Hong Kong Branch) specified as the Issuer in the applicable Pricing Supplement.
<b>Description</b>	Euro Medium Term Note Programme.
<b>Size</b>	Up to U.S.\$15,000,000,000 (or the equivalent in other currencies at the date of issue) aggregate nominal amount of Notes outstanding at any one time. The Issuer may increase the amount of the Programme in accordance with the terms of the Dealer Agreement. The Dealer Agreement provides for the U.S.\$ equivalent of any Note denominated in another currency to be determined on or around the date agreement is reached to issue those Notes or, if the agreement date is not a date that commercial banks and foreign exchange markets are open for general business in London, on the preceding day on which commercial banks and foreign exchange markets are open for general business in London.
<b>Risk Factors</b>	There are certain factors that may affect the Issuer's ability to fulfil its obligations under Notes issued under the Programme. These are set out under "Risk factors" below. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme. These are set out under "Risk factors" and include the fact that the Notes may not be a suitable investment for all investors, certain risks relating to the structure of particular Series of Notes and certain market risks.
<b>Arrangers</b>	Agricultural Bank of China Limited Hong Kong Branch ABCI Capital Limited 農銀國際融資有限公司 Standard Chartered Bank (Hong Kong) Limited
<b>Dealers</b>	Agricultural Bank of China Limited Hong Kong Branch ABCI Capital Limited 農銀國際融資有限公司 Standard Chartered Bank (Hong Kong) Limited 渣打銀行(香港)有限公司 Australia and New Zealand Banking Group Limited 澳新銀行集團有限公司 Barclays Bank PLC Citigroup Global Markets Limited Crédit Agricole Corporate and Investment Bank DBS Bank Ltd. Deutsche Bank AG, Singapore Branch Goldman Sachs (Asia) L.L.C. The Hongkong and Shanghai Banking Corporation Limited J.P. Morgan Securities plc Merrill Lynch International Oversea-Chinese Banking Corporation Limited, Hong Kong Branch UBS AG, Hong Kong Branch Wells Fargo Securities, LLC

The Issuer may from time to time terminate the appointment of any dealer under the Programme or appoint additional dealers either in respect of one or more Tranches or in respect of the whole Programme. References in this Offering Circular to "Permanent Dealers" are to the persons listed above as Dealers and to such additional persons that are appointed as dealers in respect of the whole Programme (and whose appointment has not been terminated) and to "Dealers" are to all Permanent Dealers and all persons appointed as a dealer in respect of one or more Tranches.

**Fiscal Agent**

Agricultural Bank of China Limited Hong Kong Branch.

**Transfer Agents**

Agricultural Bank of China Limited Hong Kong Branch.

**Registrar**

Agricultural Bank of China Limited Hong Kong Branch.

**CMU Lodging and  
Paying Agent**

Agricultural Bank of China Limited Hong Kong Branch.

**Method of Issue**

The Notes may be issued on a syndicated or non-syndicated basis. The Notes may be issued in series (each a "Series") having one or more issue dates (each tranche within such Series a "Tranche") and on terms otherwise identical (or identical other than in respect of the first payment of interest), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. Each Series may be issued in tranches on the same or different issue dates. The specific terms of each Tranche (which will be supplemented, where necessary, with supplemental terms and conditions and, save in respect of the issue date, issue price, first payment of interest and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be set out in a pricing supplement (a "Pricing Supplement").

**Issue Price**

Notes may be issued at their nominal amount or at a discount or premium to their nominal amount. Partly Paid Notes may be issued, the issue price of which will be payable in two or more instalments.

**Form of Notes**

Notes may be issued in bearer form ("Bearer Notes") or in registered form ("Registered Notes"). Registered Notes will not be exchangeable for Bearer Notes and vice versa.

Each Tranche of Bearer Notes will initially be in the form of either a Temporary Global Note or a Permanent Global Note, in each case as specified in the relevant Pricing Supplement. Each Global Note will be deposited on or around the relevant issue date with a common depositary or sub-custodian for Euroclear, Clearstream, Luxembourg and/or as the case may be, the CMU and/or any other relevant clearing system. Each Temporary Global Note will be exchangeable for a Permanent Global Note or, if so specified in the relevant Pricing Supplement, for Definitive Notes. If the TEFRA D Rules are specified in the relevant Pricing Supplement as applicable, certification as to non-U.S. beneficial ownership will be a condition precedent to any exchange of an interest in a Temporary Global Note or receipt of any payment of interest in respect of a Temporary Global Note. Each Permanent Global Note will be exchangeable for Definitive Notes in accordance with its terms.

Definitive Notes will, if interest-bearing, have Coupons attached and, if appropriate, a Talon for further Coupons.

Registered Notes will be represented by Certificates, one Certificate being issued in respect of each Noteholder's entire holding of Registered Notes of one Series. Certificates representing Registered Notes that are registered in the name of a nominee for one or more clearing systems are referred to as "Global Certificates".

Registered Notes sold in an "offshore transaction" within the meaning of Regulation S will initially be represented by a Global Certificate.

**Clearing Systems**

The CMU, Clearstream, Luxembourg, Euroclear and, in relation to any Tranche, such other clearing system as may be agreed between the Issuer, the Fiscal Agent and the relevant Dealer.

**Initial Delivery of Notes**

On or before the issue date for each Tranche, the Global Note representing Bearer Notes or the Global Certificate representing Registered Notes may be deposited with a common depository for Euroclear and Clearstream, Luxembourg or deposited with a sub-custodian for the HKMA as operator of the CMU or deposited with a depository or sub-custodian for any other clearing system or may be delivered outside any clearing system provided that the method of such delivery has been agreed in advance by the Issuer, the Fiscal Agent and the relevant Dealers. Registered Notes that are to be credited to one or more clearing systems on issue will be registered in the name of, or in the name of nominees or a common nominee for, such clearing systems.

**Currencies**

Subject to compliance with all relevant laws, regulations and directives, Notes may be issued in any currency agreed between the Issuer and the relevant Dealers.

**Maturities**

Subject to compliance with all relevant laws, regulations and directives, any maturity, including for the avoidance of doubt, undated perpetual Notes with no fixed maturity.

**Specified Denomination**

Definitive Notes will be in such denominations as may be specified in the relevant Pricing Supplement, save that unless otherwise permitted by then current laws and regulations, Notes (including Notes denominated in sterling) which must be redeemed before the first anniversary of their date of issue and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the Financial Services and Markets Act 2000 will have a minimum denomination of £100,000 (or its equivalent in other currencies).

**Fixed Rate Notes**

Fixed interest will be payable in arrear on the date or dates in each year specified in the relevant Pricing Supplement.

**Floating Rate Notes**

Floating Rate Notes will bear interest determined separately for each Series as follows:

- (i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an

agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., as amended, supplemented or replaced; or

- (ii) by reference to LIBOR or EURIBOR or HIBOR (or such other benchmark as may be specified in the relevant Pricing Supplement) as adjusted for any applicable margin.

Interest periods will be specified in the relevant Pricing Supplement.

**Zero Coupon Notes**

Zero Coupon Notes may be issued at their nominal amount or at a discount to it and will not bear interest.

**Dual Currency Notes**

Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange as may be specified in the relevant Pricing Supplement.

**Index Linked Notes**

Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula as may be specified in the relevant Pricing Supplement.

**Interest Periods and Interest Rates**

The length of the interest periods for the Notes and the applicable interest rate or its method of calculation may differ from time to time or be constant for any Series. Notes may have a maximum interest rate, a minimum interest rate, or both. The use of interest accrual periods permits the Notes to bear interest at different rates in the same interest period. All such information will be set out in the relevant Pricing Supplement.

**Redemption and Redemption Amounts**

The relevant Pricing Supplement will specify the basis for calculating the redemption amounts payable. Unless permitted by then current laws and regulations, Notes (including Notes denominated in sterling) which must be redeemed before the first anniversary of their date of issue and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the Financial Services and Markets Act 2000 must have a minimum redemption amount of £100,000 (or its equivalent in other currencies).

**Redemption by Instalments**

The Pricing Supplement issued in respect of each issue of Notes that are redeemable in two or more instalments will set out the dates on which, and the amounts in which, such Notes may be redeemed.

**Other Notes**

Terms applicable to high interest Notes, low interest Notes, step-up Notes, step-down Notes, reverse dual currency Notes, optional dual currency Notes, partly paid Notes and any other type of Note that the Issuer and any Dealer or Dealers may agree to issue under the Programme will be set out in the relevant Pricing Supplement.

**Optional Redemption**

The Pricing Supplement issued in respect of each issue of Notes will state whether such Notes may be redeemed prior to their stated maturity at the

	option of the Issuer (either in whole or in part) and/or the holders, and if so the terms applicable to such redemption.
<b>Status of the Notes</b>	The Notes issued by the Issuer will constitute direct, unconditional, unsubordinated and (subject to Condition 4) unsecured obligations of the Issuer and will rank <i>pari passu</i> without any preference among themselves and <i>pari passu</i> with all other present and future unsecured and unsubordinated obligations of the Issuer other than any such obligations as are preferred by law, all as further described in Condition 3.
<b>Negative Pledge</b>	See “Terms and Conditions of the Notes – Negative Pledge”.
<b>Events of Default</b>	See “Terms and Conditions of the Notes – Events of Default”.
<b>Cross Default</b>	See the relevant sub-condition under “Terms and Conditions of the Notes – Events of Default”.
<b>Ratings</b>	<p>The Programme is expected to be rated “(P)A1” by Moody’s and “A” by S&amp;P. Tranches of Notes will be rated or unrated. Where a Tranche of Notes is to be rated, such rating will be specified in the relevant Pricing Supplement.</p> <p>A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.</p>
<b>Early Redemption</b>	Except as provided in “Optional Redemption” above, Notes will be redeemable at the option of the Issuer prior to maturity only for tax reasons. See “Terms and Conditions of the Notes – Redemption, Purchase and Options”.
<b>Withholding Tax</b>	All payments of principal and interest in respect of the Notes will be made free and clear of withholding taxes of a Tax Jurisdiction, subject to customary exceptions, all as described in “Terms and Conditions of the Notes – Taxation”.
<b>Governing Law</b>	English law.
<b>Listing</b>	<p>Application has been made to list the Notes issued under the Programme on the HKSE. The Notes may also be listed on such other or further stock exchange(s) as may be agreed between the Issuer and the relevant Dealer in relation to each Series.</p> <p>Unlisted Notes may also be issued.</p> <p>The applicable Pricing Supplement will state whether or not the relevant Notes are to be listed and, if so, on which stock exchange(s).</p>
<b>Selling Restrictions</b>	For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of offering material in the United States, the European Economic Area, the United Kingdom, Hong Kong, Singapore, the PRC and Japan, see “Subscription and Sale” below.

## SUMMARY FINANCIAL INFORMATION

Following the completion of auditing the Bank's consolidated financial statements in accordance with IFRS for the year ended 31 December 2012 by Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the Bank replaced Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong with PricewaterhouseCoopers as the Bank's new auditor. The change of the Bank's principal auditor is to comply with the Measures for Financial Enterprises to Select and Employ Accounting Firms by Bidding (金融企業選聘會計師事務所招標管理辦法 (試行)) promulgated by MOF, which impose certain restrictions in respect of the number of years of audit services that an accounting firm may continuously provide to state-owned and state-controlled financial enterprises.

The summary historical financial information as at and for the years ended 31 December 2011 and 2012 set forth below are derived from the Bank's audited consolidated statements as at and for the years ended 31 December 2011 and 2012, which have been audited by Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong. The summary historical financial information as at and for the year ended 31 December 2013 set forth below is derived from the Bank's audited consolidated statements as at and for the year ended 31 December 2013, which have been audited by PricewaterhouseCoopers.

Summary historical financial information should be read in conjunction with the Bank's audited consolidated financial statements as at and for the years ended 31 December 2011, 2012 and 2013 and the notes thereto, which are included from page F-2 of this Offering Circular. Such published consolidated financial statements have been prepared in accordance with IFRS. The historical results do not necessarily indicate the expected results for any future period of the Bank.

### Summary historical consolidated income statement

(in millions of CNY unless otherwise stated)	For the year ended 31 December		
	2011	2012	2013
Interest income .....	472,921	566,063	613,384
Interest expense .....	(165,722)	(224,184)	(237,182)
<b>Net interest income</b> .....	<b>307,199</b>	<b>341,879</b>	<b>376,202</b>
Net fee and commission income .....	68,750	74,844	83,171
Other net income <sup>(1)</sup> .....	3,807	8,241	6,398
<b>Operating income</b> .....	<b>379,756</b>	<b>424,964</b>	<b>465,771</b>
Operating expenses <sup>(2)</sup> .....	(157,330)	(182,802)	(198,607)
Impairment losses on assets .....	(64,225)	(54,235)	(52,990)
<b>Profit before tax</b> .....	<b>158,201</b>	<b>187,927</b>	<b>214,174</b>
Income tax expense .....	(36,245)	(42,796)	(47,963)
<b>Net profit</b> .....	<b>121,956</b>	<b>145,131</b>	<b>166,211</b>
Attributable to equity holders of the Bank .....	121,927	145,094	166,315
Attributable to non-controlling interests .....	29	37	(104)
Other comprehensive income/(expense), net of tax .....	3,142	(2,170)	(22,196)
<b>Total comprehensive income</b> .....	<b>125,098</b>	<b>142,961</b>	<b>144,015</b>
Attributable to equity holders of the Bank .....	125,069	142,924	144,123
Attributable to non-controlling interests .....	29	37	(108)
Earnings per share			
– Basic (CNY) .....	0.38	0.45	0.51

#### Notes:

(1) Other net income consists primarily of net trading gain/(loss), net gain/(loss) on financial instruments designated as at fair value through profit or loss, net gain/(loss) on investment securities and other net operating income/(expense).

(2) Consists primarily of staff costs, general operating and administrative expenses, depreciation and amortisation and business tax and surcharges.

## Summary historical consolidated statements of financial position

(in millions of CNY unless otherwise stated)	As at 31 December		
	2011	2012 <sup>(5)</sup>	2013
Loans and advances to customers, net .....	5,410,086	6,153,411	6,902,522
Investment in securities and other financial assets, net <sup>(1)</sup> .....	2,628,052	2,856,148	3,220,098
Cash and balances with central banks .....	2,487,082	2,613,111	2,603,802
Deposits with banks and other financial institutions, net .....	131,874	262,233	397,678
Placements with banks and other financial institutions, net .....	212,683	223,380	308,655
Financial assets held under resale agreements .....	529,440	814,620	737,052
Other assets <sup>(2)</sup> .....	278,360	321,439	392,295
<b>Total assets</b> .....	<b>11,677,577</b>	<b>13,244,342</b>	<b>14,562,102</b>
Deposits from customers .....	9,622,026	10,862,935	1,811,411
Deposits from banks and other financial institutions .....	615,281	784,352	729,354
Placements from banks and other financial institutions .....	108,955	149,721	174,363
Financial assets sold under repurchase agreements .....	92,079	7,631	26,787
Debt securities issued .....	119,390	192,639	266,261
Borrowings from central bank .....	50	66	104
Other liabilities <sup>(3)</sup> .....	470,008	495,644	709,285
<b>Total liabilities</b> .....	<b>11,027,789</b>	<b>12,492,988</b>	<b>13,717,565</b>
Paid-in share capital .....	324,794	324,794	324,794
Reserves <sup>(4)</sup> .....	193,721	216,533	274,832
Retained earnings .....	131,086	208,488	243,482
<b>Equity attributable to equity holders</b> .....	<b>649,601</b>	<b>749,815</b>	<b>843,108</b>
Non-Controlling interests .....	187	1,539	1,429
<b>Total equity</b> .....	<b>649,788</b>	<b>751,354</b>	<b>844,537</b>
<b>Total equity and liabilities</b> .....	<b>11,677,577</b>	<b>13,244,342</b>	<b>14,562,102</b>

### Notes:

- (1) Investment in securities and other financial assets consist of financial assets at fair value through profit or loss (including financial assets held for trading and financial assets designated as at fair value through profit or loss), available-for-sale financial assets, held-to-maturity investments and debt securities classified as receivables. Investment in securities and other financial assets are net of the related allowance for impairment losses of CNY822 million, CNY428 million and CNY941 million at 31 December 2011, 2012 and 2013, respectively.
- (2) Other assets consists primarily of property and equipment, deferred tax assets, derivative financial assets, interests in associates and joint ventures, and other assets.
- (3) Other liabilities consists of financial liabilities designated as at fair value through profit or loss, financial liabilities held for trading, derivative financial liabilities, accrued staff costs, tax liabilities, deferred tax liabilities, dividends payable and other liabilities.
- (4) Reserves consists of capital reserve, investment revaluation reserve, surplus reserve, general reserve and foreign currency translation reserve.
- (5) The consolidated statement of financial position of the Bank for the year ended 31 December 2012 was derived from the Bank's audited consolidated financial statements for the year ended 31 December 2012. Balances of precious metals, other assets and financial assets held for trading as at 31 December 2012 have been restated in the Bank's audited consolidated financial statements for the year ended 31 December 2013.

## Financial indicators

(in millions of CNY unless otherwise stated)	For the year ended 31 December		
	2011	2012	2013
<b>PROFITABILITY (%)</b>			
Return on average total assets <sup>(1)</sup> .....	1.11	1.16	1.20
Return on weighted average net assets <sup>(2)</sup> .....	20.46	20.74	20.89
Net interest margin <sup>(3)</sup> .....	2.85	2.81	2.79
Net interest spread <sup>(4)</sup> .....	2.73	2.67	2.65
Return on risk weighted assets <sup>(5)</sup> .....	1.91	2.01	1.83
Net fee and commission income to operating income .....	18.10	17.61	17.86
Cost to income ratio <sup>(6)</sup> .....	35.84	37.05	36.80
<b>DATA PER SHARE (CNY)</b>			
Basic earnings per share .....	0.38	0.45	0.51
Net cash per share generated by operating activities .....	0.69	0.98	0.10
	As at 31 December		
	2011	2012	2013
<b>ASSET QUALITY (%)</b>			
Non-performing loan ratio <sup>(7)</sup> .....	1.55	1.33	1.22
Allowance to non-performing loans <sup>(8)</sup> .....	263.10	326.14	367.04
Allowance to total loans <sup>(9)</sup> .....	4.08	4.35	4.46
<b>CAPITAL ADEQUACY (%)</b>			
Common Equity Tier 1 capital adequacy ratio <sup>(10)</sup> .....	N/A	N/A	9.25
Tier 1 capital adequacy ratio <sup>(10)</sup> .....	N/A	N/A	9.25
Core capital adequacy ratio <sup>(10)</sup> .....	9.50	9.67	N/A
Capital adequacy ratio <sup>(10)</sup> .....	11.94	12.61	11.86
Total equity to total assets ratio .....	5.56	5.67	5.80
Risk-weighted assets to total assets ratio .....	54.71	54.48	62.25
<b>DATA PER SHARE (CNY)</b>			
Net assets per share attributable to equity holders of the Bank .....	2.00	2.31	2.60

### Notes:

- (1) Calculated by dividing net profit for the year by the average balance of total assets at the beginning and the end of the year.
- (2) Calculated in accordance with the "Rules for the Compilation and Submission of Information Disclosure by Companies that Offer Securities to the Public No. 9 – Computation and Disclosure of Return on Net Assets and Earnings per Share" (Revision in 2010) issued by the CSRC. The Bank has no potential diluted ordinary shares.
- (3) Calculated by dividing net interest income by average balance of interest-earning assets by daily average basis over the year.
- (4) Calculated as the difference between the average yield on interest-earning assets and the average cost on interest-bearing liabilities.
- (5) Calculated by dividing net profit by risk-weighted assets at the end of the period (including adjustment to market risk capital), and the risk-weighted assets are calculated in accordance with the relevant regulations of the CBRC.
- (6) Calculated by dividing operating expenses (excluding business tax and surcharges) by operating income.
- (7) Calculated by dividing the balance of still non-performing loans, defined above by total gross loans and advances to customers.
- (8) Calculated by dividing allowance for impairment losses on loans by balance of non-performing loans.
- (9) Calculated by dividing allowance for impairment losses on loans by total loans and advances to customers.
- (10) Figures as at 31 December 2013 were calculated in accordance with the Capital Rules for Commercial Banks (Provisional) and other relevant regulations. Figures as at 31 December 2011 and 2012 were calculated in accordance with the Rules for the Management of Capital Adequacy Ratio of Commercial Banks and Other relevant regulations.



## Other financial indicators

		Regulatory standard	As at 31 December		
			2011	2012	2013
Liquidity Ratio (%) <sup>(1)</sup>	RMB	≥25	40.18	44.75	43.57
	Foreign Currency	≥25	154.66	161.78	114.95
Loan-to-deposit ratio (%) <sup>(2)</sup>	RMB and Foreign Currency	≤75	58.61	59.22	61.17
Percentage of loans to the largest single customer (%) <sup>(3)</sup>		≤10	2.80	3.59	3.33
Percentage of loans to top ten customers (%) <sup>(4)</sup>			16.31	15.76	13.22
Loan migration ration (%) <sup>(5)</sup>	Normal		2.26	2.49	2.53
	Special mention		2.61	4.65	4.36
	Substandard		14.82	21.79	37.24
	Doubtful		5.41	4.96	8.62

### Notes:

- (1) Calculated by dividing current assets by current liabilities in accordance with the relevant regulations of the CBRC, and based on the data determined under the PRC GAAP.
- (2) Calculated by dividing total loans and advances to customers by deposits from customers.
- (3) Calculated by dividing loans to the largest customer by net capital base.
- (4) Calculated by dividing loans to top ten customers by net capital base.
- (5) Calculated in accordance with the relevant regulations of the CBRC by using domestic data.

## Operating income by business segment

(in millions of CNY)	For the year ended 31 December		
	2011	2012	2013
Corporate banking	218,628	249,522	253,092
Retail banking	137,383	149,398	180,223
Treasury operations	22,844	23,473	27,916
Other operations	901	2,571	4,540
<b>Total</b>	<b>379,756</b>	<b>424,964</b>	<b>465,771</b>

## Key financial indicators of County Area Banking Business

	As at and for the year ended 31 December		
	2011	2012	2013
Return on average total assets (%) <sup>(1)</sup>	1.04	1.05	1.15
Net fee and commission income to operating income (%)	17.07	15.98	15.70
Cost-to-income ratio (%) <sup>(2)</sup>	41.83	41.50	40.96
Loan-to-deposit ratio (%)	43.64	44.97	47.34
Non-performing loan ratio (%) <sup>(3)</sup>	1.96	1.66	1.54
Allowance to non-performing loans (%) <sup>(4)</sup>	241.78	315.99	352.85
Allowance to total loans (%) <sup>(5)</sup>	4.75	5.24	5.44

### Notes:

- (1) Represents the net profit for the period as a percentage of the average balance of total assets at the beginning and end of the period. The net profit for the period represents a product of profit before tax multiplied by the difference between 1 and the effective income tax rate of the Bank. The average balance of total assets represents the average of the balance at the beginning of the period and the balance at the end of the period.

- (2) Calculated by dividing total operating expenses (excluding business tax and surcharges) by operating income.
- (3) Calculated by dividing the balance of non-performing loans and advances to customers by total amount of loans and advances to customers.
- (4) Calculated by dividing allowance for impairment losses on loans and advances to customers by balance of non-performing loans.
- (5) Calculated by dividing allowance for impairment losses on loans and advances to customers by total amount of loans and advances to customers.

## RISK FACTORS

*Prior to making any investment decision, prospective investors should consider carefully all of the information contained in this Offering Circular, including the risks and uncertainties described below. The Bank's business, financial condition or results of operations could be materially adversely affected by any of these risks. The Bank believes that the following factors may affect the Bank's ability to fulfil its obligations under the Notes. Additional considerations and uncertainties not presently known to the Bank or which the Bank currently deems immaterial may also have an adverse effect on an investment in the Notes. All of these factors are contingencies which may or may not occur and the Bank is not in a position to express a view on the likelihood of any such contingency occurring.*

*Factors which the Bank believes may be material for the purpose of assessing the market risks associated with the Notes are described below. The Bank believes that the factors described below represent the principal risks inherent in investing in the Notes, but its inability to repay principal, pay interest (if any) or other amounts or fulfil other obligations on or in connection with the Notes may occur for other reasons and it does not represent that the statements below regarding the risks of holding the Notes are exhaustive.*

### **Risks relating to the Bank's loan portfolio**

*The Bank has a concentration of loans to certain regions, industries and customers, and if the conditions of these regions or these industries, or the financial conditions of these customers deteriorate significantly, its asset quality, financial condition and results of operations may be materially and adversely affected.*

As at 31 December 2013, 38.1% of the Bank's total loans and 43.8% of its non-performing loans originated in Western, Central and Northeastern China. Although these regions may currently benefit economically from favourable government policies, any of these economic policies may change in the future and the implementation of such policies may not be as effective as the Bank anticipates, nor can the Bank control or influence the change of such policies in these regions. A significant economic downturn in any of these regions, or any inaccurate assessment or the Bank's failure in the management of the credit risks regarding borrowers who are located, or have substantial operations, in such regions, whether due to changes in government policies or otherwise, may materially and adversely affect its asset quality, financial condition and results of operations.

As at 31 December 2013, the Bank's loans to China's (i) manufacturing; (ii) transportation, logistics and postal services; (iii) real estate; (iv) retail and wholesale and (v) production and supply of power, thermal power, gas and water; represented 29.0%, 12.8%, 11.3%, 11.0% and 10.3% of its total corporate loans outstanding, respectively. A significant downturn in any industry in which its loans are highly concentrated may lead to a significant increase in non-performing loans, and may negatively affect the level of new lending or refinancing of existing loans to borrowers in that industry, which may materially and adversely affect its asset quality, financial condition and results of operations.

In addition, the Bank is exposed to the real estate market in China through, in particular, residential mortgage loans and other loans secured by real property collateral. As at 31 December 2013, the Bank's residential mortgage loans represented 61.7% of its domestic retail loans outstanding. The PRC government has imposed and may continue to impose macroeconomic control measures aimed at cooling down the real estate market. For example, the State Council, the PBOC and the CBRC recently announced a number of measures and notices which, among other things, limited the number of residential properties that a PRC family can purchase, and raised the minimum down payment percentage to not less than 60% of the total property price while increasing the minimum interest rate of residential mortgage loans to not less than 110% of the PBOC benchmark interest rate for the second residential property purchased by a PRC family. As to cities where the prices of residential property are rising too rapidly, the local PBOC authorities may further raise the minimum down payment percentage and interest rate. Such measures may adversely affect the growth and quality of the Bank's loans to the real estate industry and the Bank's residential mortgage loans.

As at 31 December 2013, the Bank's loans to its top ten customers totalled CNY142.1 billion, which represented 2.0% of its total loan portfolio and 13.2% of its regulatory capital. The Bank's loans to the top ten customers were classified as performing. If any of the performing loans to the top ten customers deteriorates or becomes non-performing, the Bank's asset quality, financial condition and results of operations may be materially and adversely affected.

Furthermore, the Bank also provides loans to SMEs and agriculture-related industries and customers. The loans to SMEs and agriculture-related industries and customers are, compared to its other loans, generally more vulnerable to the adverse impact of certain factors such as natural disasters and economic slowdown. The Bank adopted a number of measures to manage these risks, such as imposing stricter requirements on approving credit applications and charging higher interest rates, but there can be no certainty that these measures will effectively reduce or eliminate the risks relating to such industries or customers. If the Bank's loans to SMEs and agriculture-related industries and customers deteriorate, its asset quality, financial condition and results of operations may be materially and adversely affected.

*If the Bank is unable to effectively maintain the quality of its loan portfolio, its financial condition and results of operations may be materially and adversely affected.*

As at 31 December 2011, 2012 and 2013, the Bank's non-performing loan ratio was 1.55%, 1.33% and 1.22%, respectively and for the same periods, the Bank's non-performing loans amounted to CNY87.4 billion, CNY85.8 billion and CNY87.8 billion, respectively. Although its non-performing loan ratio experienced a continued decrease in recent years, the Bank cannot assure you that it will be able to maintain or lower its current non-performing loan ratio in the future or that the quality of its existing or future loans and advances to customers will not deteriorate. The quality of the Bank's loan portfolio may deteriorate in the future due to various reasons, including factors beyond the Bank's control, such as restructuring of the PRC economy, overcapacity in certain industries, a slowdown in the PRC or global economies due to the recent financial crisis, a relapse of the global credit crisis, adverse macroeconomic trends in China and other parts of the world and the occurrence of natural disasters, all of which could impair the ability of the Bank's borrowers to service their outstanding debt. Inflation in China may cause rising costs and negatively impact the profitability of the Bank's corporate customers, which in turn may lead to significant increases in the Bank's allowance made for impaired loans. The actual or perceived deterioration in creditworthiness of counterparties, declines in residential and commercial property prices, higher unemployment rates and reduced profitability of corporate borrowers may also cause the Bank's asset quality to deteriorate and may lead to significant increases in allowance made for impaired loans. If the Bank's non-performing loans or the allowance made for impaired loans increase in the future, the results of its operations and financial condition may be materially and adversely affected. In addition, the sustainability of the Bank's growth also depends largely on its ability to effectively manage its credit risk and maintain or improve the quality of its loan portfolio. The Bank seeks to continuously improve its credit risk management policies, procedures and systems. However, there can be no certainty that the Bank's credit risk management policies, procedures and systems are effective or free from deficiency. Failure of the Bank's credit risk management policies, procedures and systems may result in an increase in its non-performing loans and adversely affect the quality of its loan portfolio.

*The Bank's allowance for impairment losses may not be sufficient to cover the actual losses on its loan portfolio in the future.*

As at 31 December 2011, 2012 and 2013, the Bank's allowance for impairment losses on loans was CNY229.8 billion, CNY280.0 billion and CNY322 billion, respectively. For the same periods, the ratio of its allowance for impairment losses to total loans was 4.1%, 4.4% and 4.5%, respectively and the ratio of its allowance for impairment losses to non-performing loans was 263.1%, 326.1% and 367.0%, respectively. The allowance is based on the Bank's current assessment of, and expectations concerning, various factors affecting the quality of its loan portfolio. These factors include, among other things, borrowers' financial condition, repayment ability and repayment intention, the realisable value of any collateral, the ability of the guarantors of the borrowers to fulfil their obligations and the implementation of the Bank's credit policies, as well as China's economy, macroeconomic policies, interest rates, exchange rates, and legal and regulatory environments. Many of these factors are beyond the Bank's

control, and therefore its assessment and expectations on these factors may differ from future developments. The adequacy of the Bank's allowance for impairment losses depends on the reliable application of its risk assessment system to estimate these potential losses, as well as its ability to accurately collect, process and analyse the relevant statistical data. If the Bank's assessment of, and expectations concerning, the factors that affect the quality of its loan portfolio differ from actual developments, if its assessment results prove to be inaccurate, or if its application of the assessment systems or its ability to collect relevant statistical data proves to be insufficient, the Bank's allowance for impairment losses may not be adequate to cover its actual losses and the Bank may need to make additional provisions for impairment losses, which may reduce its profit and therefore materially and adversely affect its asset quality, financial conditions and results of operations.

*The collateral or guarantees securing the Bank's loans may not be sufficient, and it may be unable to realise the full value of the collateral or guarantees in a timely manner or at all.*

A significant portion of the Bank's loans is secured by collateral or guarantees. As at 31 December 2013, 48.6% and 11.0% of its total loans were secured by mortgages and pledges, respectively, and 17.9% of its total loans were secured by guarantees.

The pledged collateral securing the Bank's loans includes, among other things, bond or equity securities. The mortgages securing the Bank's loans primarily comprise real properties and other assets located in China. The value of the collateral securing its loans may significantly fluctuate or decline due to factors beyond the Bank's control, including macroeconomic factors affecting the economy of China. For example, a downturn in China's real estate market may result in a decline in the value of the real properties securing the Bank's loans to levels significantly below the outstanding principal and interest balances of such loans. Any decline in the value of such collateral may reduce the amounts the Bank can recover from such collateral and increase its impairment losses.

*The Bank's policies require regular internal re-valuations of collateral. However, such policies may not be implemented in a timely manner and, as a result, it may not have updated valuation of such collateral, which may adversely affect the accuracy of the assessment of its loans secured by such collateral.*

Some of the guarantees securing the Bank's loans were provided by the borrowers' affiliates. Such loans and advances are generally not backed by collateral or security interests other than guarantees. A significant deterioration in the financial condition of a guarantor could significantly decrease the amounts the Bank may recover under such guarantees. Moreover, it is subject to the risk that a court or other judicial or government authorities may declare a guarantee to be invalid or otherwise decline or fail to enforce such guarantees. The Bank is therefore exposed to the risk that it may not be able to recover all or any part of the amounts guaranteed in respect of its loans.

In China, the procedures for liquidating or otherwise realising the value of collateral in the form of non-monetary assets may be protracted and it may be difficult to enforce claims in respect of such collateral. As a result, it may be difficult and time-consuming for the Bank to take control of or liquidate the collateral securing non-performing loans. For example, in accordance with the Directive on Foreclosure of Mortgage on Residential Properties issued by the PRC Supreme Court (最高人民法院關於人民法院執行設定抵押的房屋的規定), effective from 21 December 2005, the PRC courts cannot evict a borrower or his or her dependents from his or her principal residence during the six-month grace period after a court approves its petition to foreclose. In addition, under certain circumstances, the Bank's rights to the collateral securing its loans may have lower priority than certain other rights. For example, according to the PRC Bankruptcy Law (中華人民共和國企業破產法), claims for the amount that a company in bankruptcy owed to its employees prior to 27 August 2006, including salaries, medical insurance claims and basic pension benefits, will have priority over the Bank's rights to the collateral, if not adequately provided for in accordance with liquidation proceedings.

The Bank's inability to realise the full value of the collateral and guarantees securing its loans on a timely basis may materially and adversely affect its asset quality, financial condition or results of operations.

***The Bank's loan classification and provisioning policies may be different in certain respects from those applicable to banks in certain other countries or regions.***

The Bank classifies its loans using a five-category loan classification system in accordance with the guidelines set forth by the PRC regulators. The five categories are normal, special mention, substandard, doubtful and loss. The Bank assesses its loans for impairment, determines a level of allowance for impairment losses and recognises any related provisions made in a year using the five-category classification system. It performs such assessment, determination and recognition using the concept of impairment under IAS 39. For its corporate loans classified as substandard or lower, it makes an assessment on the impairment allowance on an individual loan basis. For the performing corporate loans and for all of the retail loans, it makes a collective assessment based on its historical loan loss experience. The Bank's loan classification and impairment provisioning policies may be different in certain respects from those of banks incorporated in certain other countries or regions. As a result, the Bank's loan classification as well as its allowance for impairment losses may differ from those reported by international banks incorporated in those countries or regions.

***If the Bank does not maintain the growth of its loan portfolio, its business operations and financial condition may be materially and adversely affected.***

The Bank's loans to customers, net of loan loss allowance, have grown significantly in the past few years, increasing to CNY6,902.5 billion at 31 December 2013 from CNY5,410.1 billion at 31 December 2011. The growth of its loan portfolio may be affected by various factors, such as China's macroeconomic policies and capital constraints. The Bank's loan portfolio experienced a significant increase in the first half of 2009. This was in part attributable to the moderately loose monetary policy and the implementation of the economic stimulus package of the PRC government. Since 2011, the growth rate of the Bank's total loan portfolio has maintained a relatively steady pace. Recently, the CBRC has been actively pushing forward more stringent capital adequacy requirements which may further impact on the growth of the loan portfolio. In the future, the growth rate of the Bank's loan portfolio may continue to slow down, or it may not grow or may even decline. In addition, in response to the constraints from the amount of its regulatory capital, the Bank may adopt strategies to reduce its reliance on its loan portfolio and expand its activities in other businesses that require relatively lower capital. Any of the foregoing factors could impact the growth of its loan portfolio and thereby materially and adversely affect its business, business prospects, financial condition and results of operations.

***Deterioration in the debt repayment abilities of local government financing vehicles of which the Bank extended loans to, may materially and adversely affect the Bank's asset quality, financial condition and results of operations.***

Loans extended to local government financing vehicles have been a part of the loan portfolio for China's commercial banks. According to the CBRC, local government financing vehicles consist primarily of government-led vehicles and vehicles whose shares are controlled by the government. These vehicles primarily engage in financing activities wholly or partially supported by the direct or indirect repayment commitments or direct or indirect guarantees from local governments, to provide support to various infrastructure development and quasi-public interest government investment projects. The Bank extends loans primarily to local government financing vehicles for transportation and urban development as well as those vehicles relating to land reserve centres, economic development zones, industry parks or state asset management companies. Within China's administrative division system, the recipients of these loans generally rank at or above the district city level. The Bank targets its loans to local government financing vehicles mainly to China's economically developed areas, including the Yangtze River Delta, Pearl River Delta and Bohai Rim regions. The majority of its loans to local government financing vehicles are backed by mortgages, pledges or guarantees and have remaining maturities of five years or less.

Recently, with the aim of reinforcing the risk management of loans to local government financing vehicles, the State Council, the CBRC and the PBOC, along with several other PRC regulatory authorities promulgated a series of notices, guidelines and other regulatory documents to direct PRC banks and other financial institutions to optimise and strengthen their risk management measures regarding their loans to local government financing vehicles. While the Bank has taken various measures to reduce the risks of

default such as setting clear thresholds for its loans to local government financing vehicles and enhancing the mortgages and guarantees on such loans, unfavourable developments in macroeconomic conditions, adverse changes to state policies, adverse changes to the financial condition of local governments or other factors may adversely affect the debt repayments of these financing vehicles, which may in turn materially and adversely affect the Bank's asset quality, financial condition and results of operations.

#### **Risks relating to the Bank's business**

*The Bank faces certain risks relating to its recently implemented operational reform initiatives.*

The Bank continues to develop and implement a number of operational reform initiatives in an effort to become more competitive and customer-oriented, including those relating to re-engineering its business process and organisational structure. For example, (i) the Bank has revamped its corporate banking products and services, targeting growth in value-added products and services such as asset management, bancassurance and investment banking business; (ii) it has prioritised the development of retail banking business, through implementing operational reform of branch outlets, streamlining business procedures and increasing investments in the distribution channels and IT system; and (iii) it has focused on product innovations in order to achieve greater customer satisfaction.

Although the Bank's operational reform initiatives have contributed to its financial results in recent years, it may face certain risks relating to the implementation of these initiatives and there can be no assurance that the Bank will be able to achieve the results it expects in the future due to a number of factors, including:

- it may not have sufficient experience or expertise to successfully manage and continue implementing these operational reform initiatives;
- it may not have sufficient and effective management systems and information technology system to support the implementation of these operational reform initiatives according to its contemplated schedule or at all; and
- changes in government policies or banking regulations may adversely affect the schedule for implementing, or the Bank's ability to implement, these operational reform initiatives.

If the Bank does not successfully implement all or any of these reform initiatives or, if implemented, these initiatives do not achieve the intended benefits or within its schedule, its business, results of operations and financial condition may be adversely affected.

Moreover, these operational reform initiatives may expose the Bank to additional risks. Accordingly, if it is unable to manage risks associated with its initiatives to transform its business, the Bank's business prospects, financial condition and results of operations could be adversely and materially affected.

*The Bank's focus on the growth of its County Area Banking Business and its related initiatives expose it to increased risks that may materially and adversely affect its business.*

The County Area Banking Business is an important component of the Bank's business. Its initiatives in the County Areas are designed to further increase the penetration of its products and services into these areas. Historically, the County Area Banking Business has generally presented relatively higher risks and lower returns than the banking business in the Urban Areas. The Bank's significant banking portfolio and initiatives in the County Areas expose it to higher risks, including: (i) risks that its provisions for impairment losses on loans may be higher than anticipated due to the limited financial capacity of its customers in the County Areas or otherwise; (ii) revenues from its County Area Banking Business may be lower than anticipated; (iii) if the actual development of the County Area banking market differs from its anticipation, the Bank may not be able to derive the return as anticipated from its increased allocation of resources to its County Area Banking Business; (iv) natural disasters and global climate changes may adversely affect the business operation and financial condition of certain of its customers who may not be able to service their obligations owed to it; and (v) the Bank's extensive branch network in the vast County Areas may represent challenges to its operations. The Bank's growing County Area Banking Business presents an increased challenge to its management skills, risk control capabilities and information technology systems.

In addition, many of the Bank's initiatives in respect of the County Area Banking Business are unprecedented, and there can be no certainty that such initiatives will be successful or achieve the results anticipated. For example, the Bank is implementing a pilot programme at eight selected tier-1 branches in Sichuan, Fujian and other provinces to set up a business division dedicated to its County Area Banking Business in the respective regions. This initiative is unprecedented in China and the Bank may not be able to achieve the results anticipated or within its schedule. If any of the Bank's initiatives in respect of the County Area Banking Business does not achieve the results anticipated, its County Area Banking Business, its overall business, results of operations and financial condition may be materially and adversely impacted.

Furthermore, certain governmental policies and guidelines relating to the Bank's County Area Banking Business impose constraints on its operations. For example, on 23 April 2009, the CBRC issued the Guideline to Agricultural Bank of China's County Area Banking Division Reform and Regulations (中國農業銀行三農金融事業部制改革與監管指引), or the Guideline. The Guideline, which was further revised on 29 December 2010, has imposed requirements on its County Area Banking Business, including its organisation structure, operation mechanism and performance review. The Bank's efforts to comply with the requirements of the Guideline may affect its business strategies, as well as its ability to optimise the resource allocation and customer selection, which may adversely affect its profitability in the near-and medium-term. In the past, there have been instances where the ratios of the Bank's assets and liabilities in its County Area Banking Business to its total assets and liabilities and its cost-to-income ratio in the County Area Banking Business did not meet the requirements of the Guideline. Although the Bank has not been subject to any regulatory actions for such non-compliance, there can be no certainty that it will not be subject to any regulatory actions in the future for its past non-compliance. In addition, it cannot assure you that it will be able to meet all regulatory requirements relating to its County Area Banking Business, including the requirements of the Guideline, in the future due to changes of these requirements or otherwise, or that it will not be subject to sanctions as a result. If any of the above circumstances occurs, the reputation, business, results of operations and financial condition of the Bank may be materially and adversely affected.

*If the Bank is not effective in implementing enhanced risk management and internal control policies and procedures and introducing certain information technology systems to assist with its risk management and internal control, its business and prospects may be materially and adversely affected.*

The Bank has in the past suffered from credit-quality problems, lapses in credit approval and control processes, internal control deficiencies and operational problems as a result of weaknesses in its risk management controls. The Bank has significantly enhanced its risk management and internal control policies and procedures in recent years in an effort to improve its risk management capabilities and enhance its internal control. However, there can be no certainty that the Bank's risk management and internal control policies and procedures will adequately control, or protect it against, all credit and other risks. Some of these risks are yet to be identified by the Bank, and may be unforeseeable or higher than what it originally expected or the historical level. In addition, given the short history of certain aspects of its risk management and internal control policies and procedures, the Bank will require additional time to implement these policies and procedures and fully measure the impact of, and evaluate the compliance with, these policies and procedures. Moreover, the Bank's staff will require time to adjust to these policies and procedures and it cannot assure you that its employees will be able to consistently comply with or correctly apply these policies and procedures.

The Bank's risk management capabilities are limited by the information, tools or technologies available to it. For example, it may not be able to effectively monitor credit risk due to limited information resources or tools. In recent years, the Bank has introduced or refined certain risk management tools and systems to assist it in better managing risks, including the internal credit rating system, the assets and liabilities management system, the internal funds transfer pricing system, the treasury trading and risk management system and CMS. These systems aim at enhancing the Bank's ability to use quantitative measures to manage risks. However, its ability to operate such systems and to monitor and analyse the effectiveness of such systems is still subject to continuous testing. The Bank is also still in the process of further developing information systems to manage certain aspects of risk management, such as automated systems for the collection of certain information relating to connected party transactions and group lending.



If the Bank is not effective in improving its risk management and internal control policies, procedures and systems, or if the intended results of such policies, procedures or systems are not achieved in a timely manner, its asset quality, business, financial condition and results of operations may be materially and adversely affected.

***The Bank's expanding range of products, services and business activities exposes it to new risks.***

The Bank has been increasing its product development efforts and expanding the range of its products and services to meet the needs of its customers and to enhance its competitiveness.

Expansion of its business activities exposes the Bank to a number of risks and challenges, including:

- insufficient experience or expertise in certain new products and services, which may prevent it from effectively competing in these areas;
- imitation or replication of its new products and services by its competitors;
- failure of its new products and services to be accepted by its customers or meet the expected targets;
- inability to hire additional qualified personnel or to hire personnel on commercially reasonable terms;
- insufficient financial, operational, management and other human resources to support its expanded range of products and services;
- inability to obtain regulatory approvals for its new products or services; and
- unsuccessful attempts to enhance its risk management and internal control capabilities and information technology systems to support a broader range of products and services.

If the Bank is not able to successfully expand into or grow new products, services and related business areas due to these risks or to achieve the intended results with respect to the new products and services, its business, financial condition and results of operations may be materially and adversely affected.

***The Bank may face difficulties in meeting regulatory requirements relating to capital adequacy.***

The Bank is required by the PRC Commercial Banking Law and the rules promulgated by the CBRC to maintain a minimum core capital adequacy ratio of 4% and a minimum capital adequacy ratio of 8%, and under the Capital Rules for Commercial Banks (Provisional), the Bank's minimum CET 1 capital adequacy and Tier 1 capital adequacy ratio are 5% and 6%, respectively. As at 31 December 2011, 2012 and 2013, the Bank's consolidated core capital adequacy ratios were 9.50%, 9.67% and 9.81%, respectively, and its consolidated capital adequacy ratios were 11.94%, 12.61% and 12.57%, respectively. In accordance with the Capital Rules for Commercial Banks (Provisional), the CET 1 capital adequacy ratio, Tier 1 capital adequacy ratio and capital adequacy ratio were 9.25%, 9.25% and 11.86%, respectively, as at 31 December 2013. Although these capital adequacy ratios were in compliance with the applicable PRC requirements, certain developments could affect the Bank's ability to satisfy applicable capital adequacy requirements in the future.

In recent years, CBRC has issued several regulations and guidelines governing capital adequacy requirements applicable to commercial banks in the PRC. Currently, CBRC is actively pushing forward the implementation of Basel III. In April 2011, CBRC promulgated the Guideline Concerning the Implementation of New Regulatory Standards for the PRC Banking Industry (關於中國銀行業實施新監管標準的指導意見) to clarify the direction for future regulations and the requirement for prudent regulatory requirements. On 7 June 2012, the CBRC promulgated the Capital Rules for Commercial Banks (Provisional), which came into effect on 1 January 2013. The Capital Rules for Commercial Banks (Provisional) clarified and refined the categorisations and methods of measurement in

respect of the capital instruments of commercial banks. According to the Capital Rules for Commercial Banks (Provisional), the regulatory requirements on the capital adequacy ratio of commercial banks shall cover the requirements on the minimum capital, reserve capital and counter-cyclical capital, additional capital for systematically important banks, as well as second pillar capital, which shall be reached by commercial banks by the end of 2018. In order to smoothly implement the Capital Rules for Commercial Banks (Provisional), on 30 November 2012, the CBRC promulgated the Notice of Transitional Arrangement for the Implementation of the Regulation Governing Capital of Commercial Banks (Provisional) (中國銀監會關於實施《商業銀行資本管理辦法(試行)》過渡期安排相關事項的通知) (the “Notice of Transitional Arrangement”), pursuant to which commercial banks shall reach the minimum capital requirement by 1 January 2013. Within the transitional period for reaching required targets, the Capital Rules for Commercial Banks (Provisional) and the Notice of Transitional Arrangement require commercial banks to formulate and implement feasible plans for reaching capital adequacy ratio targets step by step, and submit the same to the CBRC for approval. Given the requirement of capital adequacy ratio under the Capital Rules for Commercial Banks (Provisional), the Bank’s capital adequacy may be substantially affected. Although the Bank is currently in compliance with the requirement for capital adequacy, new requirements and regulations may adversely affect the Bank’s compliance with capital adequacy ratios, and it is possible that the Bank may face difficulties in meeting the requirement of the regulations regarding capital adequacy.

In addition, some regulatory developments may affect the Bank’s ability to continually comply with capital adequacy requirements, including the raising of minimum capital adequacy ratios by CBRC and the changes in calculations of capital adequacy ratios by CBRC. If any of these circumstances occurs, the Bank may be unable to comply with the regulatory requirements of CBRC.

There can be no assurance that the Bank will be able to meet these requirements in the future at all times and any failure to meet these requirements may have a material and adverse effect on the Bank’s business, financial condition and results of operations.

In order to support its steady growth and development, the Bank may need to raise more capital to ensure that its capital complies with or exceeds the minimum regulatory requirement. In its future plans to raise capital, the Bank may sell any share securities that can contribute towards core capital or any debt securities that can contribute towards supplementary capital. The Bank’s capital-raising ability may be restricted by the Bank’s future business, financial condition and results of operations, the Bank’s credit rating, necessary regulatory approvals and overall market conditions, including Chinese and global economic, political and other conditions at the time of capital raising.

*The Bank may not be able to detect and prevent fraud or other misconduct committed by its employees or third parties.*

Fraud and other misconduct by employees or third parties may be difficult to detect and prevent and could subject the Bank to financial losses and sanctions imposed by governmental authorities as well as seriously harm its reputation. Types of misconduct by the Bank’s employees in the past have included, among other things: improper extension of credit, unauthorised business transactions, business process in breach of the Bank’s internal policies and procedures, inappropriate accounting treatment, theft, embezzlement or misappropriation of customer funds, fraud, and bribery.

Types of possible misconduct by third parties against the Bank may include, among other things, fraud, theft and robbery. Types and incidents of fraud and other misconduct by employees or third parties against the Bank may go beyond those detected in the past. In addition, the Bank’s employees may commit errors or take improper actions that could subject the Bank to financial claims as well as regulatory actions. As at 31 December 2013, the Bank had 23,547 domestic branch outlets, with a total of 478,980 employees<sup>1</sup>. There can be no certainty that all of the employees of the Bank will comply with its risk management and internal control policies and procedures.

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<sup>1</sup> The Bank had additional contracted employees of 34,770

Although the Bank has increased its efforts to detect and prevent employee and third-party fraud or other misconduct, it is not always possible to detect or prevent such activities, and the precautions it takes may not be effective in all cases. There can be no certainty that fraud or other misconduct, whether involving past acts that have gone undetected or future acts, will not have a material adverse effect on the reputation, results of operations and business prospects of the Bank.

*The Bank or its customers may engage in certain transactions in or with countries or persons that are the subject of U.S. and other sanctions.*

U.S. law generally prohibits U.S. persons from directly or indirectly investing or otherwise doing business in or with certain countries (such as Iran, Cuba, the Sudan, North Korea and others) and with certain persons or businesses that have been specially designated by the OFAC or other U.S. government agencies. Other governments and international or regional organisations also administer similar economic sanctions.

While the Bank does not believe that it is in violation of any applicable sanctions and the proceeds of the issue of the Notes is not intended to be used in violation of sanctions, if it were determined that transactions in which it participates violate U.S. or other sanctions, it could be subject to U.S. or other penalties, and its reputation and future business prospects in the United States or with U.S. persons, or in other jurisdictions, could be adversely affected.

*If the Bank fails to maintain the growth rate in its customer deposits or if there is a significant decrease in customer deposits, its business operations and liquidity may be materially and adversely affected.*

Customer deposits are the Bank's primary source of funding. From 31 December 2011 to 31 December 2013, its average balance of deposits grew from CNY9,187.5 billion to CNY11,170.8 billion, and its domestic retail deposits grew from CNY5,626.1 billion to CNY6,923.6 billion. However, many factors affect the growth of deposits, some of which are beyond the Bank's control, such as economic and political conditions, availability of investment alternatives and retail customers' changing perceptions toward savings. For example, with the continuing development of China's capital markets, customers of the Bank may reduce their deposits and increase their investment in securities for a higher return.

If the Bank fails to maintain the growth rate in its deposits or if a substantial portion of its depositors withdraw their deposits or do not roll over their time deposits upon maturity, the Bank's liquidity position, financial condition and results of operations may be materially and adversely affected. In such event, the Bank may need to seek more expensive sources of funding and there can be no assurance that it will be able to obtain additional funding on commercially reasonable terms as and when required. The Bank's ability to raise additional funds may be impaired by factors over which it has little or no control, such as deteriorating market conditions, severe disruptions in the financial markets, or negative outlooks for the industries to which it has significant credit exposure.

*The business of the Bank is highly dependent on the proper functioning and improvement of its information technology systems.*

The Bank depends on its information technology systems to process transactions on an accurate and timely basis, and to store and process its business and operating data. The proper functioning of the Bank's financial control, risk management, credit analysis and reporting, accounting, customer service and other information technology systems, as well as the communication networks between its branches and main data processing centres, is critical to its business and ability to compete effectively. The Bank's disaster recovering testing centre in Beijing provides backup for its Shanghai data centre and could be used in the event of a catastrophe or a failure of its core production system. The Bank is in the process of establishing a backup data centre in Beijing, which is designed to further enhance its backup and disaster recovery capabilities. It has also established alternative communication networks where available. However, its business activities would be materially disrupted if there is a partial or complete failure of any of the information technology systems or communication networks. Such failure can be caused by a variety of reasons, including natural disasters, extended power outages, breakdown of key hardware systems and computer viruses. The proper functioning of the information technology systems of the Bank

also depends on accurate and reliable data input and other sub-system installation, which are subject to human errors. Any failure or delay in recording or processing its transaction data could subject it to claims for losses and regulatory fines and penalties.

In particular, the secure transmission of confidential information is critical to the Bank's operations. Its networks and systems may be vulnerable to unauthorised access and other security problems. There can be no assurance that its existing security measures will prevent unforeseeable security breaches, including break-ins and viruses, or other disruptions such as those caused by defects in hardware or software and errors or misconduct of operators. Persons that circumvent the security measures could use the Bank's or its clients' confidential information wrongfully. Any material security breach or other disruptions could expose the Bank to risk of loss and regulatory actions and harm its reputation.

The competitiveness of the Bank will to some extent depend on its ability to upgrade its information technology systems on a timely and cost-effective basis. In addition, the information available to and received by it through the existing information technology systems may not be timely or sufficient for the Bank to manage risks and prepare for, and respond to, market changes and other developments in the current operating environment. Any substantial failure to improve or upgrade the information technology systems effectively or on a timely basis could materially and adversely affect the competitiveness, results of operations and financial condition of the Bank.

***The Bank is subject to credit risk with respect to certain off-balance sheet commitments.***

In the normal course of its business, the Bank makes commitments which, under applicable accounting principles, are not reflected as liabilities on the balance sheet, including bank acceptances, loan commitments, guarantees and letters of credit to guarantee the performance of the customers. The Bank is subject to credit risk on its off-balance sheet commitments because these commitments may need to be fulfilled by it in certain circumstances. If the Bank is unable to recover payment from its customers in respect of the commitments that it is called upon to fulfil, the financial condition and results of operations of the Bank could be adversely affected.

***The Bank does not possess the relevant land use right certificates or building ownership certificates for some of its properties, and it may be required to seek alternative premises for some of the offices or business sites due to the landlords' lack of relevant title certificates.***

The Bank currently holds certain properties for which it does not have the relevant land use right certificates or building ownership certificates. The Bank is in the process of applying for the relevant land use rights and building ownership certificates that it has not yet obtained and it plans to cooperate closely with the local land and property management authorities to expedite such applications. The Bank has taken steps to rectify certain title defects. However, it may not be able to obtain certificates for all of these properties due to title defects or for other reasons. There can be no assurance that the ownership rights of the Bank would not be adversely affected in respect of properties for which it was unable to obtain the relevant title certificates. If the Bank was forced to relocate any of the operations it conducts on the affected properties, it may incur additional costs as a result of such relocation.

In addition, the Bank leases certain properties from lessors who were not able to provide the title certificates or documents evidencing the authorisation or consent of the owners of such properties. As a result, the leases may be invalid. In addition, there can be no assurance that the Bank would be able to renew its leases on terms acceptable to it upon their expiration. If any of the leases is terminated as a result of challenges by third parties or if the Bank fails to renew them upon expiration, it may be forced to relocate affected branches and sub-branches and incur additional costs associated therewith, and the business, financial condition and results of operations of the Bank may be adversely affected.

***The Bank is subject to various PRC and overseas regulatory requirements, and its failure to fully comply with such requirements, if any, could materially and adversely affect its business, reputation, financial condition and results of operations.***

The Bank is subject to the regulatory requirements and guidelines set forth by the PRC regulatory authorities. Its overseas branches, subsidiaries and representative offices are subject to local laws and regulations as well as to local regulatory authorities.

The PRC regulatory authorities include the MOF, PBOC, CBRC, CSRC, CIRC, SAT, NAO, SAIC and SAFE. These regulatory authorities carry out periodic supervision and spot checks of the Bank's compliance with laws, regulations and guidelines.

The Bank is subject to various PRC and overseas regulatory requirements, and the PRC and overseas regulatory authorities conduct periodic inspections, examinations and inquiries in respect of its compliance with such requirements. On occasion it has failed to meet certain requirements and guidelines set by the PRC regulatory authorities, or it was found to have violated certain regulations. In addition, the Bank has in the past been subject to fines and other penalties for cases of its non-compliance. There can be no assurance that it will be able to meet all the applicable regulatory requirements and guidelines, or comply with all the applicable regulations at all times, or that it will not be subject to sanctions, fines or other penalties in the future as a result of non-compliance. If sanctions, fines and other penalties are imposed on the Bank for failing to comply with applicable requirements, guidelines or regulations, the business, reputation, financial condition and results of operations of the Bank may be materially and adversely affected.

*The Bank may not be able to detect money-laundering and other illegal or improper activities fully or on a timely basis, which could expose it to additional liability and harm its business or reputation.*

The Bank is required to comply with applicable anti-money-laundering and anti-terrorism laws and other regulations in the PRC, Hong Kong, Singapore and other jurisdictions where it has operations. These laws and regulations require it, among other things, to adopt and enforce "know-your-customer" policies and procedures and to report suspicious and large transactions to the applicable regulatory authorities in different jurisdictions. The Bank has in the past been subject to administrative fines and penalties imposed by regulatory agencies in the PRC for, among other things, incidents of non-compliance with the PRC anti-money-laundering rules, including, for example, failure to report large or suspicious transactions. While it has adopted policies and procedures aimed at detecting and preventing the use of its banking networks for money-laundering activities and by terrorists and terrorist-related organisations and individuals generally, such policies and procedures may not completely eliminate instances where it may be used by other parties to engage in money-laundering and other illegal or improper activities due to, in part, the short history of these policies and procedures. To the extent it may fail to fully comply with applicable laws and regulations, the relevant government agencies to whom the Bank reports have the power and authority to impose fines and other penalties on the Bank. In addition, the business and reputation of the Bank could suffer if customers use it for money-laundering or illegal or improper purposes.

*The uncertainties in the global economy, the global financial market and, in particular, in China could materially and adversely affect the financial condition and results of operations of the Bank.*

Emerging from the peak of the global financial crisis, some countries started to withdraw the stimulus packages previously executed and implement more moderate monetary policies. China started to withdraw its economic stimulus plan implemented during the financial crisis and returned to its normal policy direction. The PRC government implemented stricter controlling measures on the real estate market, regulated the local government financing vehicles, cancelled the export tax refund policies for certain commodities and restarted the reform of Renminbi exchange rate.

Currently, the employment, credit and property market conditions of developed economies are still unstable. The status of the global economy therefore remains uncertain and such uncertainties in the global economy together with uncertainties in China's economy may adversely affect the Bank's financial condition and results of operations in many ways, including, among other things:

- during a period of economic slowdown, there is a greater likelihood that more of the Bank's customers or counterparties could become delinquent in respect of their loan repayments or other obligations to the Bank, which, in turn, could result in a higher level of non-performing loans, allowance for impairment losses and write-offs, all of which would adversely affect its results of operations and financial condition;

- the increased regulation and supervision of the financial services industry in response to the financial crisis in certain jurisdictions where the Bank operates may restrict its business flexibility and increase the compliance costs, which may adversely affect its business operations;
- the value of the Bank's investments in the debt securities issued by overseas governments and financial institutions may significantly decline, which may adversely affect its financial condition;
- the Bank's ability to raise additional capital on favourable terms, or at all, could be adversely affected; and
- trade and capital flows may further contract as a result of protectionist measures being introduced in certain markets, which could cause a further slowdown in economies and adversely affect the Bank's business prospects.

There can be no assurance that China's economy or the global economy will maintain sustainable growth. If further economic downturn occurs or continues, the business, results of operations and financial condition of the Bank could be materially and adversely affected.

*The Bank may be involved in legal and other disputes from time to time arising out of its operations and may face potential liabilities as a result.*

The Bank is often involved in legal and other disputes for a variety of reasons, which generally arise because it seeks to recover outstanding amounts from borrowers or because customers or other claimants bring actions against it. The majority of these cases arise in the ordinary course of the Bank's business. Where the Bank assesses that there is a probable risk of loss, it is the Bank's policy to make provisions for the loss. The Bank has made provisions with respect to pending legal proceedings and other disputes against it.

However, there can be no assurance that the judgments in any of the litigation in which the Bank is involved would be favourable to it or that its litigation provisions are adequate to cover the losses arising from legal proceedings or other disputes. In addition, if the Bank's assessment of the risk changes, its view on provisions will also change. It is expected that the Bank will continue to be involved in various legal and other disputes in the future, which may subject it to additional risks and losses. These disputes may relate to, among others, the amount of the unpaid obligations of the relevant borrowers, the terms for such borrowers to perform their obligations and the application of statute of limitations. In addition, the Bank may have to advance legal costs associated with such disputes, including fees relating to appraisal, notarisation, auction, execution and counsel's legal services. These and other disputes may lead to legal, administrative or other proceedings and may result in damage to the reputation of the Bank, additional operational costs and a diversion of resources and management's attention from its core business operations. There can be no assurance that the outcome of future or current disputes or proceedings will not materially and adversely affect the business, reputation, financial condition and results of operations of the Bank.

*The Bank is subject to counterparty risks in its derivative transactions.*

The Bank acts primarily as an intermediary in domestic and international foreign exchange and derivative markets, and it currently has foreign currency forward and swap arrangements and interest rate swap arrangements with a number of domestic and international banks, other financial institutions and other entities. While the Bank believes that the overall credit quality of its counterparties is satisfactory, there can be no assurance that the Bank's counterparties with significant exposures will not face difficulty in paying the amounts on derivative contracts when due, which may result in financial losses to the Bank.

*The Bank's major shareholders have the ability to exercise significant influence over it.*

As at 31 December 2013, the Bank's major shareholders, the MOF and Huijin, own approximately 39.2% and 40.3%, respectively, of its outstanding shares. In accordance with the Articles of Association and applicable laws and regulations, the MOF and Huijin will have the ability to exercise a controlling influence over the business of the Bank, including matters relating to:

- the timing and amount of the distribution of dividends;

- the issuance of new securities;
- the election of the Bank's directors and supervisors;
- the Bank's business strategies and policies;
- any plans relating to mergers, acquisitions, joint ventures, investments or divestitures; and
- amendments to the Articles of Association.

The interests of the MOF and Huijin may conflict with the interests of the Bank. In addition, since the MOF is a ministry of the State Council and Huijin is a wholly state-owned limited liability company formed under the PRC law, they have strong interests in the successful implementation of the economic or fiscal policies enacted by the PRC government, which policies may not be in the best interest of the Bank.

*The Bank has expanded its business in jurisdictions other than the PRC, which has increased the complexity of the risks that it faces.*

In recent years, the Bank has taken actions to expand its operations outside mainland China. As at 31 December 2013, it had seven overseas branches in Hong Kong, Singapore, Seoul, New York, Dubai, Tokyo and Frankfurt and representative offices in Sydney, Vancouver and Hanoi. During 2013, the Bank's Dubai branch, Tokyo branch and Frankfurt branch commenced operation. The Bank has received approvals for its applications for the establishment of Hanoi branch, Luxembourg branch and Vancouver branch (approval obtained in January 2014).

The expansion into multiple jurisdictions outside of China exposes the Bank to a new variety of regulatory and business challenges and risks and has increased the complexity of risks in a number of areas, including currency risk, interest rate risk, regulatory and compliance risk, reputational risk and operational risk. Adverse market conditions in these overseas jurisdictions may result in mark-to-market and realised losses on the investment assets held by the overseas branches and increase their cost of funding. Furthermore, despite the Bank's best efforts to comply with all applicable regulations in all the jurisdictions in which it operates, there may be incidences of failure to comply with the regulations in certain jurisdictions. Overseas regulators may bring administrative or judicial proceedings against the Bank or its employees, representatives, agents and third party service providers, which could result, among other things, in suspension or revocation of one or more of its licenses, cease and desist orders, fines, civil penalties, criminal penalties or other disciplinary actions. In addition, the regulatory changes in various jurisdictions, including those in which it has or plans to have operations could have an adverse impact on the Bank's growth, capital adequacy and profitability. If the Bank is unable to manage the risks resulting from its expansion outside mainland China, its business, reputation, financial condition and results of operations may be adversely affected.

#### **Risks relating to the banking industry in China**

*The Bank faces intense competition in China's banking industry as well as competition from alternative corporate financing and investment channels.*

The Bank is facing competition from other commercial banks and financial institutions in both the Urban Areas and the County Areas. It competes primarily with other Large Commercial Banks, National Joint Stock Commercial Banks, city commercial banks and foreign banks in China.

Certain of these banks may have more established presence in certain areas and more financial, management and technology resources than the Bank does. In the County Areas, the Bank competes primarily with other Large Commercial Banks, rural credit cooperatives and the Postal Savings Bank of China. Some of these banks may have more simplified management structures and procedures in certain regions and areas. In recent years, the PRC government has gradually lowered the threshold for financial institutions to conduct business in the County Areas and strengthened the relevant financial and tax support, which, while the Bank believes will promote the development of the County Area financial market, will further intensify the competition among financial institutions in the County Areas.

Additionally, following the removal of regulatory restrictions on their geographical presence, customer base and operating license in China in December 2006 as part of China's WTO accession commitments, the Bank has experienced increased competition from foreign-invested commercial banks. Recently, a number of well-known foreign banks have expanded their presence in the County Areas. Furthermore, the Mainland and Hong Kong Closer Economic Partnership Arrangement (內地與香港關於建立更緊密經貿關係的安排), the Mainland and Macau Closer Economic Partnership Arrangement (內地與澳門關於建立更緊密經貿關係的安排) and the Cross-Straits Economic Co-operation Framework Agreement (海峽兩岸經濟合作框架協議) which permit Hong Kong, Macau and Taiwan banks to operate in China, have also increased competition in China's banking industry.

Moreover, the PRC government has, in recent years, implemented a series of measures designed to further liberalise the banking industry, including, among others, with respect to interest rates and non-interest-based products and services, which are changing the basis on which the Bank competes with other banks for customers.

The Bank competes with many of its competitors for substantially the same loan, deposit and fee-based business customers. Such competition may adversely affect the Bank's business and future prospects by, for example:

- reducing its market share in its principal products and services;
- slowing down the growth of its loan or deposit portfolios and other products and services;
- decreasing its interest income or increasing its interest expenses, thereby reducing its net interest income;
- reducing its fee and commission income;
- increasing its non-interest expenses, such as marketing expenses;
- adversely affecting its asset quality; and
- increasing competition for senior management and qualified professional personnel.

The Bank may also face competition from direct corporate financing, such as the issuance of securities in the domestic and international capital markets. The domestic securities markets have experienced, and are expected to continue to experience, expansion and growth. If a substantial number of its customers choose alternative financing to fund their capital needs, the Bank's interest income, financial condition and results of operations may be adversely affected.

Moreover, the Bank may face competition from other forms of investment alternatives as the PRC capital markets continue to develop. As the PRC equity and bond markets continue to develop and become more viable and attractive investment alternatives, the Bank's deposit customers may elect to transfer their funds into equity and bond investments, which may reduce its deposit base and adversely affect its business, financial condition and results of operations.

***The Bank's business and operations are highly regulated, and its business, financial condition, results of operations and future prospects may be materially and adversely affected by regulatory changes or other governmental policies, including their interpretation and application.***

The Bank's business and operations are directly affected by changes in China's policies, laws and regulations relating to the banking industry, such as those affecting the extent to which it can engage in specific businesses, as well as changes in other governmental policies. Since its establishment as the primary banking industry regulator assuming the majority of the bank regulatory functions from the PBOC in 2003, the CBRC has promulgated a series of banking regulations and guidelines. The banking regulatory regime in China is currently undergoing significant changes, most of which are applicable to



the Bank and may result in additional costs or restrictions on its activities. For instance, in March 2011, the CBRC, the PBOC and the NDRC jointly issued a notice stipulating the cancellation of 34 service fees classified under 11 categories of domestic commercial banks effective from 1 July 2011. There can be no assurance that the policies, laws and regulations governing the banking industry will not change in the future or that any such changes will not materially and adversely affect the Bank's business, financial condition and results of operations nor can the Bank assure you that it will be able to adapt to all such changes on a timely basis. In addition, there may be uncertainties regarding the interpretation and application of new policies, laws and regulations. Failure to comply with the applicable policies, laws and regulations may result in fines and restrictions on the Bank's activities, which could also have a significant impact on its business, financial condition and results of operation.

***The Bank is subject to changes in interest rates and other market risks, and the Bank's ability to hedge market risks is limited.***

As with most commercial banks, the Bank's results of operations depend to a great extent on its net interest income. For the years ended 31 December 2011, 2012 and 2013, the Bank's net interest income represented 80.9%, 80.4% and 80.8%, respectively, of its operating income. Interest rates in China historically were highly regulated but have been gradually liberalised in recent years. Under current PBOC regulations, commercial banks in China cannot set interest rates above 110% of the relevant PBOC benchmark rate for CNY-denominated deposits. There used to be restriction with respect to the lower limit of the interest rates for CNY-denominated deposits. However, PBOC promulgated the Notice on Further Promoting the Market-oriented Reform of Interest Rates 關於進一步推進利率市場化改革的通知 on 19 July 2013, eliminating such restriction on CNY-denominated loans, except for residential mortgage loans. The PBOC may further liberalise the existing interest rate restrictions on CNY-denominated loans and deposits. If the existing regulations were substantially liberalised or eliminated, competition in China's banking industry would likely intensify as China's commercial banks seek to offer more attractive rates to customers. Further liberalisation by the PBOC would result in the narrowing of the spread in the average interest rates between CNY-denominated loans and CNY-denominated deposits, thereby materially and adversely affecting the Bank's results of operations. Furthermore, the Bank cannot assure you that it will be able to adjust the composition of its asset and liability portfolios and its pricing mechanism to enable it to effectively respond to the further liberalisation of interest rates.

In recent years, the PBOC has adjusted the benchmark rates several times. Any adjustments by the PBOC in the benchmark interest rates on loans or deposits or changes in market interest rates may adversely affect the Bank's financial condition and results of operations in different ways.

For example, changes in the PBOC benchmark interest rates could affect the average yield on the Bank's interest-earning assets differently from the average cost on its interest-bearing liabilities and therefore may narrow its net interest margin and reduce its net interest income, which may materially and adversely affect its results of operations and financial condition. In addition, an increase in interest rates may result in increases in the finance costs of the Bank's customers and thus reduce overall demand for loans, and, accordingly, adversely affect the growth of the Bank's loan portfolio, as well as increase the risk of customer default. As a result, changes in interest rates may adversely affect the Bank's net interest income, financial condition and results of operations.

The Bank also undertakes trading and investment activities involving certain financial instruments both in China and abroad. The Bank's income from these activities is subject to volatilities caused by, among other things, changes in interest rates and foreign currency exchange rates. For example, increases in interest rates generally have an adverse effect on the value of the Bank's fixed rate securities portfolio, which may materially and adversely affect its results of operations and financial condition. Furthermore, as the derivatives market has yet to mature in China, there are limited risk management tools available to enable the Bank to reduce market risks.

***The growth rate of China's banking industry may not be sustainable.***

The Bank expects the banking industry in China to continue to grow as a result of anticipated growth in China's economy, increases in household income, further social welfare reforms, demographic changes

and the opening of China's banking industry to foreign participants. However, it is not clear how certain trends and events, such as the pace of China's economic growth, China's implementation of its commitment to WTO accession, the development of the domestic capital and insurance markets and the ongoing reform of the social welfare system will affect China's banking industry. In addition, there can be no assurance that the banking industry in China is free from systemic risks. Consequently, there can be no assurance that the growth and development of China's banking industry will be sustainable.

*Future amendments to IAS 39 and interpretive guidance on its application may require the Bank to change its provisioning practice.*

The Bank assesses its loans and investment assets for impairment under IAS 39, as amended from time to time. The International Accounting Standards Board, or IASB, which has the responsibility for developing and revising accounting standards under IFRS, issued an exposure draft open to comments in March 2013 on expected credit loss which, if adopted, will result in the replacement of the incurred loss model under IAS 39 with an expected loss model. In addition, IFRIC and other relevant accounting standard-setting bodies and regulators have been asked by their constituents to consider providing interpretive guidance relating to the application of IAS 39. Any future amendments to IAS 39 and interpretive guidance on the application of IAS 39 may require the Bank to change its current provisioning practice and may, as a result, materially and adversely affect its financial condition and results of operations.

*The effectiveness of the Bank's credit risk management is affected by the quality and scope of information available in China.*

The information infrastructure in China is relatively undeveloped. PRC national individual and corporate credit information databases developed by the PBOC commenced operation in 2006.

However, due to their short operational history, they can only provide limited information. Therefore, the Bank's assessment of the credit risk associated with a particular customer may not be based on complete, accurate or reliable information. Until these nationwide credit information databases become more fully developed, the Bank has to rely on other publicly available resources and its internal resources, which are not as extensive nor as effective as a unified nationwide credit information system. As a result, the Bank's ability to effectively manage its credit risk and in turn, its asset quality, financial condition and results of operations may be materially and adversely affected.

*The Bank cannot assure you of the accuracy or comparability of facts, forecasts and statistics contained in this Offering Circular with respect to China, its national or County Area economies or its banking industry.*

Facts, forecasts and statistics in this Offering Circular relating to China, its national or County Area economies and financial conditions and its banking industry, including the Bank's market share information, are derived from various sources which are generally believed to be reliable.

However, the Bank cannot guarantee the quality and reliability of such sources. In addition, these facts, forecasts and statistics have not been independently verified by the Bank and may not be consistent with the information available from other sources, and may not be complete or up to date. The Bank has taken reasonable caution in reproducing or extracting the information from such sources. However, because of potentially flawed methodologies, discrepancies in market practice and other problems, these facts, forecasts and other statistics may be inaccurate or may not be comparable from period to period or to facts, forecasts or statistics of other economies.

#### **Risks relating to China**

*China's economic, political and social conditions, as well as government policies, could affect the Bank's business, financial condition and results of operations.*

A substantial majority of the Bank's businesses, assets and operations are located in China. Accordingly, the Bank's financial condition, results of operations and business prospects are, to a significant degree,

subject to the economic, political and legal developments in China. China's economy differs from the economies of most developed countries in many respects, including, among other things, government involvement, level of development, growth rate, control of foreign exchange and allocation of resources.

China's economy was previously a planned economy, and a substantial portion of productive assets in China is still owned by the PRC government. The government also exercises significant control over China's economic growth by allocating resources, setting monetary policy and providing preferential treatment to particular industries or companies. Although the government has implemented economic reform measures to introduce market forces and establish sound corporate governance in business enterprises, such economic reform measures may be adjusted, modified or applied inconsistently from industry to industry, or across different regions of the country. As a result, the Bank may not benefit from certain of such measures. The PRC government has the power to implement macroeconomic control measures affecting China's economy. The government has implemented various measures in an effort to increase or control the growth rate and adjust the structure of certain industries. For example, in response to a decreased growth rate in part as a result of the global financial crisis and economic slowdown, beginning in September 2008, the PRC government began to implement a series of macroeconomic measures and the moderately loose monetary policy, which included announcing an economic stimulus package and reducing benchmark interest rates. Since 2010, the PRC government has begun to implement a number of macroeconomic measures and moderately tight monetary policies to curb inflation in China. The PRC government may continue to implement such policies to control inflation, which may in turn affect the Bank's ability to make loans to its customers. As a result, the Bank's financial condition, results of operation and prospect may be materially and adversely affected.

Certain of the PRC government's macroeconomic measures may materially and adversely affect the Bank's financial condition, results of operations and asset quality. For example, the decreases in the PBOC benchmark interest rates in the second half of 2008 have resulted in the narrowing of the Bank's net interest margin and a decrease in its net interest income in 2009 compared to 2008, which adversely affected its profitability. In addition, the PRC government has imposed macroeconomic control measures aimed at tempering the real estate market. In November 2009, the PRC government shortened the period in which the real estate developers make payments for the land premiums and increased the relevant down payment requirement on the real estate developers. In April 2010, the PRC government raised the down payment requirements for people buying their second homes to a minimum of 50% of the property value from 40% and this threshold was further raised to 60% in January 2011. Down payment requirements on first homes of more than 90 square meters rose to a minimum of 30% of the property value from 20%. In addition, the lowest interest rate that commercial banks are permitted to charge in respect of second-home residential mortgage loans has increased from 90% to 110% of the applicable PBOC benchmark rate. In early 2011, individual housing property tax was introduced in Shanghai and Chongqing on a trial basis. The PRC government's measures to cool down the housing market may adversely affect the growth and quality of the Bank's loans related to real estate and could also have a significant impact on its business, financial condition and results of operation. Furthermore, on 26 September 2009, the State Council approved the Notice of "Several Opinions on Suppressing Overcapacity and Repetitive Constructions in Certain Industries for Healthy Development" issued by the NDRC and other ministries (國務院批轉發展改革委等部門關於海峽兩岸經濟合作框架協議抑制部分行業產能過剩和重複建設引導產業健康發展若干意見的通知) to curb the expansion of certain sectors with overcapacity, such as iron and steel, cement, flat glass, coal chemical, polysilicon, wind power equipment, electrolysis aluminum, ship building and soybean oil extraction. This notice prohibits financial institutions from financing projects which do not meet specified requirements and requires those who have made such loans to take remedial measures. These requirements may adversely affect the condition of certain of the Bank's loans to the relevant industries.

China has been one of the world's fastest growing economies, as measured by GDP growth, in recent years. However, China may not be able to sustain such a growth rate. If China's economy experiences a decrease in growth rate or a significant downturn, the unfavourable business environment and economic condition for the Bank's customers could negatively impact their ability or willingness to repay the Bank's loans and reduce their demand for the Bank's banking services. The Bank's financial condition, results of operations and business prospects may be materially and adversely affected.

***The bankruptcy laws of the PRC may differ from those of other jurisdictions with which the holders of the Notes are familiar.***

The Bank is incorporated under the laws of the PRC. Any bankruptcy proceeding relating to the Bank would likely involve PRC bankruptcy laws, the procedural and substantive provisions of which may differ from comparable provisions of the local insolvency laws of jurisdictions with which the holders of the Notes are familiar.

***The PRC legal system could limit the legal protection available to you.***

The Bank is organised under the laws of the PRC. The PRC legal system is based on written statutes. The PRC government has promulgated laws and regulations dealing with economic matters as the issuance and trading of securities, shareholder rights, foreign investment, corporate organisation and governance, commerce, taxation and trade. However, many of these laws and regulations continue to evolve, may be subject to different interpretation and may be inconsistently enforced. In addition, there is only a limited volume of published court decisions which may be cited for reference, but such cases have limited precedential value as they are not binding on subsequent cases. These uncertainties relating to the interpretation of PRC laws and regulations can affect the legal remedies and protection that are available to you and can adversely affect the value of your investment.

***You may experience difficulties in effecting service of legal process and enforcing judgments against the Bank and the Bank's management.***

The Bank is a company incorporated under the laws of the PRC, and substantially all of its business, assets and operations are located in China. In addition, a majority of its directors, supervisors and executive officers reside in China, and substantially all of the assets of such directors, supervisors and executive officers are located in China. Therefore, it may not be possible for investors to effect service of process upon the Bank or those persons inside China.

Furthermore, China does not have treaties or agreements providing for the reciprocal recognition and enforcement of judgments awarded by courts of many jurisdictions, including Japan, the United States and the United Kingdom. Hence, the recognition and enforcement in China of judgments of a court in any of these jurisdictions in relation to any matter not subject to a binding arbitration provision may be difficult or even impossible.

***The Bank is subject to the PRC government controls on currency conversion and risks relating to fluctuations in exchange rates.***

The Bank receives a substantial majority of its revenues in Renminbi, which is currently not a freely convertible currency. A portion of these revenues must be converted into other currencies in order to meet the Bank's foreign currency obligations. For example, the Bank needs to obtain foreign currency to make payments of declared dividends, if any, on its H shares.

Under China's existing foreign exchange regulations, by complying with certain procedural requirements, the Bank will be able to undertake current account foreign exchange transactions, including payment of dividends without prior approval from the SAFE. However, in the future, the PRC government may, at its discretion, take measures to restrict access to foreign currencies for capital account and current account transactions under certain circumstances. In this case, the Bank may not be able to pay dividends in foreign currencies to holders of its H shares.

The value of the Renminbi against the U.S. dollar and other currencies fluctuates and is affected by, among other things, changes in China's and international political and economic conditions and the PRC government's fiscal and currency policies. Since 1994, the conversion of Renminbi into foreign currencies, including Hong Kong and U.S. dollars, has been based on rates set by the PBOC, which are set daily based on the previous business day's inter-bank foreign exchange market rates and current exchange rates on the world financial markets. From 1994 to 20 July 2005, the official exchange rate for the conversion of Renminbi to U.S. dollars was generally stable. On 21 July 2005, the PRC government adopted a more flexible managed floating exchange rate system to allow the value of the Renminbi to

fluctuate within a regulated band that is based on market supply and demand and reference to a basket of currencies. On the same day, the value of the Renminbi appreciated by approximately 2.1% against the U.S. dollar. In August 2008, China revised the PRC Foreign Exchange Administration Regulations (中國人民共和國外匯管理條例) to promote the reform of its exchange rate regime. In June 2010, PBOC decided to further reform China's exchange rate system in order to make it more flexible. Any appreciation of the Renminbi against the U.S. dollar or any other foreign currencies may result in the decrease in the value of the Bank's foreign currency-denominated assets. Conversely, any devaluation of the Renminbi may adversely affect the value of, and any dividends payable on, the Bank's H shares in foreign currency terms. As at 31 December 2013, 3.8% of the Bank's financial assets and 3.9% of its financial liabilities were denominated in foreign currencies. Although the Bank seeks to reduce its exchange rate risk through currency derivatives or otherwise, it cannot assure you that it will be able to reduce its foreign currency risk exposure relating to its foreign currency-dominated assets. In addition, there are limited instruments available for the Bank to reduce its foreign currency risk exposure at reasonable costs. Any appreciation of the Renminbi against the U.S. dollar or any other foreign currencies may materially and adversely affect the financial conditions of certain of the Bank's customers, particularly those deriving substantial income from exporting products or engaging in related businesses, and in turn affect their abilities to service their obligations to the Bank. Furthermore, the Bank is also currently required to obtain the approval of the SAFE before converting significant sums of foreign currencies into Renminbi. All of these factors could materially and adversely affect the Bank's financial condition, results of operations and compliance with capital adequacy ratios and operational ratios.

*Any future occurrence of natural disasters or outbreaks of contagious diseases in China may have a material adverse effect on the Bank's business operations, financial condition and results of operations.*

Any future occurrence of natural disasters or outbreaks of health epidemics and contagious diseases may materially and adversely affect the Bank's business and results of operations. Moreover, China has experienced natural disasters like earthquakes, floods and droughts in the past few years. For example, in May 2008 and April 2010, China experienced earthquakes with reported magnitudes of 8.0 and 7.1 on the Richter scale in Sichuan Province and Qinghai Province, respectively, resulting in the death of tens of thousands of people. The Bank suffered an adverse impact from the earthquake in Sichuan Province. The Bank also suffered the adverse impact from the earthquake in Qinghai Province, but the impact is not material because its operations in the locality affected by the earthquake are small. In 2010, there were severe droughts and flood in various parts of China, resulting in significant economic losses in these areas. Any future occurrence of severe natural disasters in China may adversely affect its economy and in turn the Bank's business, particularly in light of the substantial portion of the Bank's County Area Banking Business which is more vulnerable to natural disasters. There is no guarantee that any future occurrence of natural disasters or outbreaks of contagious diseases, or the response measures taken by the PRC government or other countries, will not seriously interrupt the Bank's operations or those of its customers, which may have a material and adverse effect on the Bank's results of operations.

#### **Risks relating to the Notes issued under the Programme**

##### *The Notes may not be a suitable investment for all investors*

Each potential investor in any Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the relevant Notes, the merits and risks of investing in the relevant Notes and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Notes and the impact such investment will have on its overall investment portfolio;

- have sufficient financial resources and liquidity to bear all of the risks of an investment in the relevant Notes, including where principal or interest is payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- understand thoroughly the terms of the relevant Notes and be familiar with the behaviour of any relevant indices and financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes may be complex financial instruments and such instruments may be purchased as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to the purchaser's overall portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact this investment will have on the potential investor's overall investment portfolio.

Additionally, the investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) Notes are legal investments for it, (ii) Notes can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

#### *Modification and waivers*

The Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

#### *A change in English law which governs the Notes may adversely affect Noteholders*

The Conditions of the Notes are governed by English law in effect as at the date of issue of the relevant Notes. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of issue of the relevant Notes.

#### *The Notes may be represented by Global Notes and holders of a beneficial interest in a Global Note must rely on the procedures of the relevant Clearing System(s)*

Notes issued under the Programme may be represented by one or more Global Notes. Such Global Notes will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg, or lodged with CMU (each of Euroclear, Clearstream, Luxembourg, and CMU, a "Clearing System"). Except in the circumstances described in the relevant Global Note, investors will not be entitled to receive Definitive Notes. The relevant Clearing System(s) will maintain records of the beneficial interests in the Global Notes. While the Notes are represented by one or more Global Notes, investors will be able to trade their beneficial interests only through the Clearing Systems. While the Notes are represented by one or more Global Notes, the Issuer will discharge its payment obligations under the Notes by making payments to the common depositary for Euroclear and Clearstream, Luxembourg, or, as the case may be, to the relevant paying agent, in the case of the CMU, for distribution to their account holders. A holder of a beneficial interest in a Global Note must rely on the procedures of the relevant Clearing System(s) to receive payments under the relevant Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes. Holders of beneficial interests in the Global Notes will not have a direct right to vote in respect of the relevant Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant Clearing System(s) to appoint appropriate proxies.

***Noteholders should be aware that Definitive Notes which have a denomination that is not an integral multiple of the minimum denomination may be illiquid and difficult to trade***

Notes may be issued with a minimum denomination. The Pricing Supplement of a Tranche of Notes may provide that, for so long as the Notes are represented by a Global Note and the relevant Clearing System(s) so permit, the Notes will be tradable in nominal amounts (i) equal to, or integral multiples of, the minimum denomination, and (ii) the minimum denomination plus integral multiples of an amount lower than the minimum denomination. Definitive Notes will only be issued if the relevant Clearing System(s) is/are closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announce(s) an intention to permanently cease business. The Pricing Supplement may provide that, if Definitive Notes are issued, such Notes will be issued in respect of all holdings of Notes equal to or greater than the minimum denomination. However, Noteholders should be aware that Definitive Notes that have a denomination that is not an integral multiple of the minimum denomination may be illiquid and difficult to trade. Definitive Notes will in no circumstances be issued to any person holding Notes in an amount lower than the minimum denomination and such Notes will be cancelled and holders will have no rights against the Issuer (including rights to receive principal or interest or to vote) in respect of such Notes.

***Foreign Account Tax Compliance withholding may affect payments on the Notes***

Whilst the Notes are in global form and held within Euroclear, Clearstream, Luxembourg, or the CMU, in all but the most remote circumstances, it is not expected that the U.S. Foreign Account Tax Compliance Act ("FATCA") will affect the amount of any payment received by the Clearing Systems. However, FATCA may affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It also may affect payment to any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose the custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA), provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. Investors should consult their own tax adviser to obtain a more detailed explanation of FATCA and how FATCA may affect them. The Issuer's obligations under the Notes are discharged once it has paid the common depository for Euroclear and Clearstream, Luxembourg or, as the case may be, the sub-custodian for the CMU (as registered holder of the Notes) and the Issuer has therefore no responsibility for any amount thereafter transmitted through hands of the Clearing Systems and custodians or intermediaries.

***Risks Relating to the Structure of a Particular Issue of Notes***

Unless in the case of any particular Tranche of Notes the relevant Pricing Supplement specifies otherwise, in the event that the Issuer would be obliged to increase the amounts payable in respect of any Notes due to any withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Hong Kong, PRC or any political subdivision thereof or any authority therein or thereof having power to tax, the Issuer may redeem all outstanding Notes in accordance with the Conditions. A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of certain such features:

***Notes subject to optional redemption by the Issuer may have a lower market value than Notes that cannot be redeemed***

An optional redemption feature is likely to limit the market value of Notes. During any period when the Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially

above the price at which they can be redeemed. This may also be true prior to any redemption period. The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At such times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

#### *Index linked Notes and dual currency Notes*

The Issuer may issue Notes with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a “**Relevant Factor**”). In addition, the Issuer may issue Notes with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

- the market price of such Notes may be volatile;
- they may receive no interest;
- payment of principal or interest may occur at a different time or in a different currency than expected;
- they may lose all or a substantial portion of their principal;
- a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable will likely be magnified; and
- the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

The historical experience of an index should not be viewed as an indication of the future performance of such index during the term of any index linked Notes. Accordingly, each potential investor should consult its own financial and legal advisers about the risk entailed by an investment in any index linked Notes and the suitability of such Notes in light of its particular circumstances.

#### *Failure by an investor to pay a subsequent instalment of partly-paid Notes may result in an investor losing all of its investment*

The Issuer may issue Notes where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in an investor losing all of its investment.

#### *The market price of variable rate Notes with a multiplier or other leverage factor may be volatile*

Notes with variable interest rates can be volatile securities. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

#### *Inverse floating rate Notes are typically more volatile than conventional floating rate debt*

Inverse floating rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as the London Interbank Offered Rate (“LIBOR”). The market values of such Notes are typically more volatile than market values of other conventional floating rate debt securities based on the



same reference rate (and with otherwise comparable terms). Inverse floating rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate of the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

*Notes carrying an interest rate which may be converted from fixed to floating interest rates and vice-versa, may have lower market values than other Notes*

Fixed or floating rate Notes may bear interest at a rate that the Issuer may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. The Issuer's ability to convert the interest rate will affect the secondary market and the market value of such Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate, the spread on the fixed or floating rate Notes may be less favourable than the then prevailing spreads on comparable floating rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate, the fixed rate may be lower than the then prevailing rates on its Notes.

*The market prices of Notes issued at a substantial discount or premium tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities*

The market values of securities issued at a substantial discount or premium to their nominal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

*Investors may lose part or all of their investment in any Index-Linked Notes issued*

If, in the case of a particular Tranche of Notes, the relevant Pricing Supplement specifies that the Notes are Index-Linked Notes or variable redemption amount Notes, there is a risk that the investor may lose the value of its entire investment or part of it.

#### **Risks Relating to the Market Generally**

Set out below is a brief description of certain market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

*Notes issued under the Programme have no current active trading market and may trade at a discount to their initial offering price and/or with limited liquidity*

Notes issued under the Programme will be new securities which may not be widely distributed and for which there is currently no active trading market (unless in the case of any particular Tranche, such Tranche is to be consolidated with and form a single series with a Tranche of Notes which is already issued). If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer. If the Notes are trading at a discount, investors may not be able to receive a favourable price for their Notes, and in some circumstances investors may not be able to sell their Notes at all or at their fair market value. Although an application will be made for the Notes issued under the Programme to be admitted to listing on the HKSE, there is no assurance that such application will be accepted, that any particular Tranche of Notes will be so admitted or that an active trading market will develop. In addition, the market for investment grade and crossover grade debt has been subject to disruptions that have caused volatility in prices of securities similar to the Notes issued under the Programme. Accordingly, there is no assurance as to the development or liquidity of any trading market, or that disruptions will not occur, for any particular Tranche of Notes.

This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a

more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have an adverse effect on the market value of the Notes.

***Exchange rate risks and exchange controls may result in investors receiving less interest or principal than expected***

The Issuer will pay principal and interest on the Notes in the currency specified in the relevant Pricing Supplement (the “Specified Currency”). This presents certain risks relating to currency conversions if an investor’s financial activities are denominated principally in a currency or currency unit (the “Investor’s Currency”) other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor’s Currency) and the risk that authorities with jurisdiction over the Investor’s Currency may impose or modify exchange controls. An appreciation in the value of the Investor’s Currency relative to the Specified Currency would decrease (i) the Investor’s Currency equivalent yield on the Notes, (ii) the Investor’s Currency equivalent value of the principal payable on the Notes and (iii) the Investor’s Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

***Changes in market interest rates may adversely affect the value of fixed rate Notes***

Investment in fixed rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of fixed rate Notes.

***Legal investment considerations may restrict certain investments***

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) the Notes are legal investments for it, (ii) the Notes can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

**Risks Relating to Renminbi-denominated Notes**

Notes denominated in RMB (“RMB Notes”) may be issued under the Programme. RMB Notes contain particular risks for potential investors.

***Renminbi is not freely convertible; there are significant restrictions on remittance of Renminbi into or out of the PRC***

Renminbi is not freely convertible at present. The PRC government continues to regulate conversion between Renminbi and foreign currencies, including the U.S. dollar, despite the significant reduction over the years by the PRC government of control over routine foreign exchange transactions under current accounts. Participating banks in Hong Kong have been permitted to engage in the settlement of RMB trade transactions under a pilot scheme introduced in July 2009. This represents a current account activity. The pilot scheme was extended in August 2011 to cover the whole nation and to make RMB trade and other current account item settlement available in all countries worldwide. On 7 April 2011, the SAFE promulgated the *Circular on Issues Concerning the Capital Account Items in connection with Cross-Border Renminbi* (國家外匯管理局綜合司關於規範跨境人民幣資本項目業務操作有關問題的通知) (the “SAFE Circular”), which became effective on 1 May 2011. According to the SAFE Circular, in the event that foreign investors intend to use cross-border Renminbi (including offshore Renminbi and onshore Renminbi held in the accounts of non-PRC residents) to make contribution to an onshore enterprise or make payment for the transfer of equity interest of an onshore enterprise by a PRC resident, such onshore enterprise shall be required to submit the relevant prior written consent from the MOFCOM to the relevant local branches of SAFE of such onshore enterprise and register for a foreign invested

enterprise status. Further, the SAFE Circular clarifies that the foreign debts borrowed, and the external guarantee provided, by an onshore entity (including a financial institution) in RMB shall, in principle, be regulated under the current PRC foreign debt and external guarantee regime.

On 13 October 2011, the PBOC issued the *Measures on Administration of the RMB Settlement in relation to Foreign Direct Investment* (外商直接投資人民幣結算業務管理辦法) (the “PBOC RMB FDI Measures”), to commence the PBOC’s detailed RMB FDI administration system, which covers almost all aspects of RMB FDI, including capital injection, payment of purchase price in the acquisition of PRC domestic enterprises, repatriation of dividends and distribution, as well as RMB denominated cross-border loans. Under the PBOC RMB FDI Measures, special approval for RMB FDI and shareholder loans from the PBOC which was previously required by the PBOC Circular (as defined in “PRC Currency Controls”) is no longer necessary. The MOFCOM RMB FDI Circular and the PBOC RMB FDI Measures, which are new regulations, will be subject to interpretation and application by the relevant PRC authorities. See “PRC Currency Controls”.

On 3 December 2013, MOFCOM promulgated the “Circular on Issues in relation to Cross-border Renminbi Foreign Direct Investment” (商務部關於跨境人民幣直接投資有關問題的公告) (the “MOFCOM RMB FDI Circular”), which became effective on 1 January 2014, to further facilitate FDI by simplifying and streamlining the applicable regulatory framework. The MOFCOM Circular replaced the “Notice on Issues in relation to Cross-border Renminbi Foreign Direct Investment” (商務部關於跨境人民幣直接投資有關問題的通知) promulgated by MOFCOM on 12 October 2011 (the “2011 MOFCOM Notice”). Pursuant to the MOFCOM RMB FDI Circular, written approval from the appropriate office of MOFCOM and/or its local counterparts specifying “Renminbi Foreign Direct Investment” and the amount of capital contribution is required for each FDI. Compared with the 2011 MOFCOM Notice, the MOFCOM RMB FDI Circular no longer contains the requirements for central level MOFCOM approvals for investments of RMB300 million or above, or in certain industries, such as financial guarantee, financial leasing, micro-credit, auction, foreign invested investment companies, venture capital and equity investment vehicles, cement, iron and steel, electrolyse aluminium, ship building and other industries under the state macro-regulation. Unlike the 2011 MOFCOM Notice, the MOFCOM RMB FDI Circular has also removed the approval requirement for foreign investors who intend to change the currency of their existing capital contribution from a foreign currency to Renminbi. In addition, the MOFCOM RMB FDI Circular also clearly prohibits FDI funds from being used for any investments in securities and financial derivatives (except for investments in PRC listed companies by strategic investors) or for entrustment loans in the PRC.

As the MOFCOM RMB FDI Circular and the PBOC RMB FDI Measures are relatively new circulars, they will be subject to interpretation and application by the relevant authorities in the PRC.

There is no assurance that the PRC government will continue to gradually liberalise the control over cross-border RMB remittances in the future, that the pilot scheme introduced in July 2009 will not be discontinued or that new PRC regulations will not be promulgated in the future which have the effect of restricting or eliminating the remittance of Renminbi into or outside the PRC.

***The availability of Renminbi outside the PRC may be limited, which may affect the liquidity of RMB Notes and the Issuer’s ability to source Renminbi outside the PRC to service such RMB Notes***

As a result of the restrictions by the PRC government on cross-border Renminbi fund flows, the availability of Renminbi outside the PRC is limited. Since February 2004, in accordance with arrangements between the PRC central government and the Hong Kong government, licensed banks in Hong Kong may offer limited Renminbi-denominated banking services to Hong Kong residents and specified business customers. Hong Kong residents are permitted to convert limited amounts of foreign currencies, including Hong Kong dollars, into Renminbi at such banks on a per-day basis. The PBOC has also established a Renminbi clearing and settlement system for participating banks in Hong Kong. On 19 July 2010, further amendments were made to the Settlement Agreement on the Clearing of RMB Business (the “Settlement Agreement”) between the PBOC and Bank of China (Hong Kong) Limited (the “RMB Clearing Bank”) to further expand the scope of RMB business for participating banks in

Hong Kong. Pursuant to the revised arrangements, all corporations are allowed to open RMB accounts in Hong Kong; there is no longer any limit on the ability of corporations to convert RMB; and there will no longer be any restriction on the transfer of RMB funds between different accounts in Hong Kong. However, the current size of Renminbi-denominated financial assets outside the PRC is limited. Renminbi business participating banks do not have direct Renminbi liquidity support from the PBOC. They are only allowed to square their open positions with the RMB Clearing Bank after consolidating the RMB trade position of banks outside Hong Kong that are in the same bank group of the participating banks concerned with their own trade position and the RMB Clearing Bank only has access to onshore liquidity support from the PBOC to square open positions of participating banks for limited types of transactions, including open positions resulting from conversion services for corporations relating to cross-border trade settlement and for individual customers of up to RMB20,000 per person per day and for the designated business customers relating to the RMB received in providing their services. The RMB Clearing Bank is not obliged to square for participating banks any open positions resulting from other foreign exchange transactions or conversion services and the participating banks will need to source Renminbi from the offshore market to square such open positions. Although it is expected that the offshore Renminbi market will continue to grow in depth and size, its growth is subject to many constraints as a result of PRC laws and regulations on foreign exchange. There is no assurance that new PRC regulations will not be promulgated or the Settlement Agreement will not be terminated or amended in the future which will have the effect of restricting availability of Renminbi offshore. The limited availability of Renminbi outside the PRC may affect the liquidity of the Issuer's RMB Notes. To the extent the Issuer is required to source Renminbi in the offshore market to service its RMB Notes, there is no assurance that the Issuer will be able to source such Renminbi on satisfactory terms, if at all. If the Issuer cannot obtain Renminbi to satisfy its obligation to pay interest and principal on its RMB Notes as a result of Inconvertibility, Non-transferability or Illiquidity (each, as defined in the Conditions), the Issuer shall be entitled, on giving not less than five or more than 30 days' irrevocable notice to the Noteholders prior to the due date for payment, to settle any such payment (in whole or in part) in U.S. dollars on the due date at the U.S. Dollar Equivalent (as defined in the Conditions) of any such interest or principal, as the case may be.

***Investment in RMB Notes is subject to exchange rate risks***

The value of the Renminbi against the U.S. dollar and other foreign currencies fluctuates and is affected by changes in the PRC and international political and economic conditions and by many other factors. The Issuer will make all payments of interest and principal with respect to the RMB Notes in Renminbi. As a result, the value of these Renminbi payments in U.S. dollar or other applicable foreign currency terms may vary with changes in the prevailing exchange rates in the marketplace. If the value of Renminbi depreciates against the U.S. dollar or other applicable foreign currency between then and when the Issuer pays back the principal of the RMB Notes in Renminbi at maturity, the value of a Noteholder's investment in U.S. dollar or other applicable foreign currency terms will have declined.

***Payments for the RMB Notes will only be made to investors in the manner specified in the RMB Notes***

All payments to investors in respect of the RMB Notes will be made solely (i) for so long as the RMB Notes are represented by a temporary Global Note or a permanent Global Note (as defined in the Conditions) held with the common depositary or common safekeeper, as the case may be, for Clearstream, Luxembourg and Euroclear Bank or with a sub-custodian for the CMU or any alternative clearing system by transfer to a Renminbi bank account maintained in Hong Kong, or (ii) for so long as the Notes are in definitive form, by transfer to a Renminbi bank account maintained in Hong Kong in accordance with the prevailing rules and regulations. The Issuer cannot be required to make payment by any other means (including in any other currency or by transfer to a bank account in the PRC).

## TERMS AND CONDITIONS OF THE NOTES

*The following is the text of the terms and conditions that, subject to completion and amendment and as supplemented or varied in accordance with the provisions of Part A of the relevant Pricing Supplement, shall be applicable to the Notes in definitive form (if any) issued in exchange for the Global Note(s) or the Global Certificate representing each Series. Either (i) the full text of these terms and conditions together with the relevant provisions of Part A of the Pricing Supplement or (ii) these terms and conditions as so completed, amended, supplemented or varied (and subject to simplification by the deletion of non-applicable provisions), shall be endorsed on such Bearer Notes or on the Certificates relating to such Registered Notes. All capitalised terms that are not defined in these Conditions will have the meanings given to them in Part A of the relevant Pricing Supplement. Those definitions will be endorsed on the definitive Notes or Certificates, as the case may be. References in the Conditions to "Notes" are to the Notes of one Series only, not to all Notes that may be issued under the Programme.*

The Notes are part of a Series (as defined below) of Notes issued by the issuer specified in the applicable pricing supplement (the "Issuer") and are issued pursuant to an agency agreement (as amended or supplemented as at the Issue Date, the "Agency Agreement") dated 3 July 2014 between Agricultural Bank of China Limited (the "Bank"), Agricultural Bank of China Limited Hong Kong Branch as fiscal agent and the other agents named in it and with the benefit of a Deed of Covenant (as amended or supplemented as at the Issue Date, the "Deed of Covenant") dated 3 July 2014 executed by the Bank in relation to the Notes. The fiscal agent, the CMU Lodging and paying agent, the other paying agents, the registrars, the transfer agents and the calculation agent(s) for the time being (if any) are referred to below respectively as the "Fiscal Agent", the "CMU Lodging and Paying Agent", the "Paying Agents" (which expression shall include the Fiscal Agent and the CMU Lodging and Paying Agent), the "Registrar", the "Transfer Agents" and the "Calculation Agent(s)". For the purposes of these terms and conditions (the "Conditions"), all references to the Fiscal Agent shall, with respect to a Series of Notes to be held in the CMU, be deemed to be a reference to the CMU Lodging and Paying Agent and all such references shall be construed accordingly. The Noteholders (as defined below), the holders of the interest coupons (the "Coupons") relating to interest bearing Notes in bearer form and, where applicable in the case of such Notes, talons for further Coupons (the "Talons") (the "Couponholders") and the holders of the receipts for the payment of instalments of principal (the "Receipts") relating to Notes in bearer form of which the principal is payable in instalments are deemed to have notice of all of the provisions of the Agency Agreement applicable to them.

As used in these Conditions, "Tranche" means Notes which are identical in all respects.

Copies of the Agency Agreement and the Deed of Covenant are available for inspection at the specified offices of each of the Paying Agents, the Registrar and the Transfer Agents.

### **1 Form, Denomination and Title**

The Notes are issued in bearer form ("Bearer Notes") or in registered form ("Registered Notes") in each case in the Specified Denomination(s) shown hereon.

This Note is a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, an Index Linked Redemption Note, an Instalment Note, a Dual Currency Note or a Partly Paid Note, a combination of any of the foregoing or any other kind of Note, depending upon the Interest and Redemption/Payment Basis shown hereon.

Bearer Notes are serially numbered and are issued with Coupons (and, where appropriate, a Talon) attached, save in the case of Zero Coupon Notes in which case references to interest (other than in relation to interest due after the Maturity Date), Coupons and Talons in these Conditions are not applicable. Instalment Notes are issued with one or more Receipts attached.

Registered Notes are represented by registered certificates ("Certificates") and, save as provided in Condition 2(c), each Certificate shall represent the entire holding of Registered Notes by the same holder.

Title to the Bearer Notes and the Receipts, Coupons and Talons shall pass by delivery. Title to the Registered Notes shall pass by registration in the register that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement (the "Register"). Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Note, Receipt, Coupon or Talon shall be deemed to be and may be treated as its absolute owner for all purposes, whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it (or on the Certificate representing it) or its theft or loss (or that of the related Certificate) and no person shall be liable for so treating the holder.

In these Conditions, "Noteholder" means the bearer of any Bearer Note and the Receipts relating to it or the person in whose name a Registered Note is registered (as the case may be), "holder" (in relation to a Note, Receipt, Coupon or Talon) means the bearer of any Bearer Note, Receipt, Coupon or Talon or the person in whose name a Registered Note is registered (as the case may be) and capitalised terms have the meanings given to them hereon, the absence of any such meaning indicating that such term is not applicable to the Notes.

## 2 No Exchange of Notes and Transfers of Registered Notes

- (a) **No Exchange of Notes:** Registered Notes may not be exchanged for Bearer Notes. Bearer Notes of one Specified Denomination may not be exchanged for Bearer Notes of another Specified Denomination. Bearer Notes may not be exchanged for Registered Notes.
- (b) **Transfer of Registered Notes:** One or more Registered Notes may be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate representing such Registered Notes to be transferred, together with the form of transfer endorsed on such Certificate, (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of Registered Notes represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfers of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Noteholders. A copy of the current regulations will be made available by the Registrar to any Noteholder upon request.
- (c) **Exercise of Options or Partial Redemption in Respect of Registered Notes:** In the case of an exercise of an Issuer's or Noteholders' option in respect of, or a partial redemption of, a holding of Registered Notes represented by a single Certificate, a new Certificate shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. In the case of a partial exercise of an option resulting in Registered Notes of the same holding having different terms, separate Certificates shall be issued in respect of those Notes of that holding that have the same terms. New Certificates shall only be issued against surrender of the existing Certificates to a Registrar or any other Transfer Agent. In the case of a transfer of Registered Notes to a person who is already a holder of Registered Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding.
- (d) **Delivery of New Certificates:** Each new Certificate to be issued pursuant to Conditions 2 (b) or (c) shall be available for delivery within three business days of receipt of the form of transfer or Exercise Notice (as defined in Condition 6(e)) and surrender of the Certificate for exchange. Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer, Exercise Notice or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the form of transfer, Exercise Notice or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such

address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Agent (as defined in the Agency Agreement) the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2(d), “business day” means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).

- (e) **Transfer Free of Charge:** Transfers of Notes and Certificates on registration, transfer, partial redemption or exercise of an option shall be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agents, but upon payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require).
- (f) **Closed Periods:** No Noteholder may require the transfer of a Registered Note to be registered (i) during the period of 15 days ending on the due date for redemption of, or payment of any Instalment Amount in respect of, that Note, (ii) during the period of 15 days before any date on which Notes may be called for redemption by the Issuer at its option pursuant to Condition 6(d), (iii) after any such Note has been called for redemption or (iv) during the period of seven days ending on (and including) any Record Date.

### 3 Status

The Notes and the Receipts and the Coupons relating to them constitute direct, unconditional, unsubordinated and (subject to Condition 4) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Notes and the Receipts and the Coupons relating to them shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4, at all times rank at least equally with all other unsecured and unsubordinated indebtedness and monetary obligations of the Issuer, present and future.

### 4 Negative Pledge

So long as any Note or Coupon remains outstanding (as defined in the Agency Agreement) the Bank will not, and will ensure that none of its Subsidiaries will create, or have outstanding any mortgage, charge, lien, pledge or other security interest, upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any Public External Indebtedness or to secure any guarantee or indemnity in respect of any Public External Indebtedness without at the same time or prior thereto according to the Notes and the Coupons the same security as is created or subsisting to secure any such Relevant Indebtedness, guarantee or indemnity or such other security as shall be approved by an Extraordinary Resolution (as defined in the Agency Agreement) of the Noteholders. This provision, however, will not apply to any (i) security interest on any property or asset existing at the time of acquisition of such property or asset or to secure the payment of all or any part of the purchase price or construction cost thereof or to secure any indebtedness incurred prior to, or at the time of, such acquisition or the completion of construction of such property or asset for the purpose of financing all or any part of the purchase price or construction cost thereof or (ii) lien arising by operation of law.

In this Condition:

- (i) “**Public External Indebtedness**” means any indebtedness of the Bank (or, for the purpose of Condition 9, any Subsidiary), or any guarantee or indemnity by the Bank of indebtedness, for money borrowed, which (i) is in the form of, or represented or evidenced by, bonds, notes, debentures, loan stock or other securities which for the time being are, or are intended to be or capable of being, quoted, listed or dealt in or traded on any stock exchange or in any securities market (including, without limitation, any over-the-counter market) outside the People’s Republic of China (for the purpose hereof not including the Hong Kong and Macau Special Administrative Regions or Taiwan) (the “PRC”) (without regard, however, to whether or not such instruments are sold through public offerings or private placements); and (ii) has an original maturity of more than 365 days; and

- (ii) “**Subsidiary**” means any entity whose financial statements at any time are required by law or in accordance with generally accepted accounting principles to be fully consolidated with those of the Issuer.

## 5 Interest and other Calculations

- (a) **Interest on Fixed Rate Notes:** Each Fixed Rate Note bears interest on its outstanding nominal amount from and including the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(h).
- (b) **Interest on Floating Rate Notes and Index Linked Interest Notes:**
  - (i) *Interest Payment Dates:* Each Floating Rate Note and Index Linked Interest Note bears interest on its outstanding nominal amount from and including the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(h). Such Interest Payment Date(s) is/are either shown hereon as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown hereon, Interest Payment Date shall mean each date which falls the number of months or other period shown hereon as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.
  - (ii) *Business Day Convention:* If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.
  - (iii) *Rate of Interest for Floating Rate Notes:* The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period shall be determined in the manner specified hereon and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified hereon.

### (A) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For the purposes of this sub-paragraph (A), “**ISDA Rate**” for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

- (x) the Floating Rate Option is as specified hereon
- (y) the Designated Maturity is a period specified hereon and



- (z) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified hereon.

For the purposes of this sub-paragraph (A), "Floating Rate", "Calculation Agent", "Floating Rate Option", "Designated Maturity", "Reset Date" and "Swap Transaction" have the meanings given to those terms in the ISDA Definitions.

**(B) Screen Rate Determination for Floating Rate Notes**

- (x) Where Screen Rate Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be either:

- (1) the offered quotation; or
- (2) the arithmetic mean of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at either 11.00 a.m. (London time in the case of LIBOR, Brussels time in the case of EURIBOR or Hong Kong time in the case of HIBOR) on the Interest Determination Date in question as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified hereon as being other than LIBOR, EURIBOR or HIBOR, the Rate of Interest in respect of such Notes will be determined as provided hereon.

- (y) if the Relevant Screen Page is not available or, if sub-paragraph (x)(1) applies and no such offered quotation appears on the Relevant Screen Page, or, if sub-paragraph (x)(2) applies and fewer than three such offered quotations appear on the Relevant Screen Page, in each case as at the time specified above, subject as provided below, the Calculation Agent shall request, if the Reference Rate is LIBOR, the principal London office of each of the Reference Banks or, if the Reference Rate is EURIBOR, the principal Euro-zone office of each of the Reference Banks, or, if the Reference Rate is HIBOR, the principal Hong Kong office of each of the Reference Banks, to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time), or if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) or, if the Reference Rate is HIBOR, at approximately 11.00 a.m. (Hong Kong time) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Accrual Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent; and
- (z) if paragraph (y) above applies and the Calculation Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) or, if the Reference Rate is HIBOR, at approximately 11.00 a.m. (Hong Kong time) on the relevant Interest Determination Date, deposits in the Specified Currency for a period

equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market or, if the Reference Rate is HIBOR, the Hong Kong inter-bank market, as the case may be, or, if fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) or, if the Reference Rate is HIBOR, at approximately 11.00 a.m. (Hong Kong time), on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for such purpose) informs the Calculation Agent it is quoting to leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market or, if the Reference Rate is HIBOR, the Hong Kong inter-bank market, as the case may be, provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Accrual Period).

- (iv) *Rate of Interest for Index Linked Interest Notes:* The Rate of Interest in respect of Index Linked Interest Notes for each Interest Accrual Period shall be determined in the manner specified hereon and interest will accrue by reference to an Index or Formula as specified hereon.
- (c) **Zero Coupon Notes:** Where a Note the Interest Basis of which is specified to be Zero Coupon is repayable prior to the Maturity Date and is not paid when due, the amount due and payable prior to the Maturity Date shall be the Early Redemption Amount of such Note. As from the Maturity Date, the Rate of Interest for any overdue principal of such a Note shall be a rate per annum (expressed as a percentage) equal to the Amortisation Yield (as described in Condition 6(b)(i)).
- (d) **Dual Currency Notes:** In the case of Dual Currency Notes, if the rate or amount of interest falls to be determined by reference to a Rate of Exchange or a method of calculating Rate of Exchange, the rate or amount of interest payable shall be determined in the manner specified hereon.
- (e) **Partly Paid Notes:** In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified hereon.
- (f) **Accrual of Interest:** Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (both before and after judgment) at the Rate of Interest in the manner provided in this Condition 5 to the Relevant Date (as defined in Condition 8).
- (g) **Margin, Maximum/Minimum Rates of Interest, Instalment Amounts and Redemption Amounts and Rounding:**
- (i) If any Margin is specified hereon (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with Condition 5(b) above by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin subject always to the next paragraph.

- (ii) If any Maximum Rate of Interest or Minimum Rate of Interest, Instalment Amount or Redemption Amount is specified hereon, then any Rate of Interest, Instalment Amount or Redemption Amount shall be subject to such maximum or minimum, as the case may be.
- (iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 of a percentage point being rounded up), (y) all figures shall be rounded to seven significant figures (provided that if the eighth significant figure is a 5 or greater, the seventh significant shall be rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with half a unit being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes "unit" means the lowest amount of such currency that is available as legal tender in the countries of such currency.
- (h) **Calculations:** The amount of interest payable per Calculation Amount in respect of any Note for any Interest Accrual Period shall be equal to the product of the Rate of Interest, the Calculation Amount specified hereon, and the Day Count Fraction for such Interest Accrual Period, unless an Interest Amount (or a formula for its calculation) is applicable to such Interest Accrual Period, in which case the amount of interest payable per Calculation Amount in respect of such Note for such Interest Accrual Period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable per Calculation Amount in respect of such Interest Period shall be the sum of the Interest Amounts payable in respect of each of those Interest Accrual Periods. In respect of any other period for which interest is required to be calculated, the provisions above shall apply save that the Day Count Fraction shall be for the period for which interest is required to be calculated.
- (i) **Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts and Instalment Amounts:** The Calculation Agent shall, as soon as practicable on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, determine such rate and calculate the Interest Amounts for the relevant Interest Accrual Period, calculate the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or Instalment Amount, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Accrual Period and the relevant Interest Payment Date and, if required to be calculated, the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or any Instalment Amount to be notified to the Fiscal Agent, the Issuer, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are listed on a stock exchange and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 5(b)(ii), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable under Condition 10, the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition but no publication of the Rate of Interest or the Interest Amount so calculated need be made. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

(j) **Definitions:** In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

**“Business Day”** means:

- (i) in the case of a currency other than euro and Renminbi, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency; and/or
- (ii) in the case of euro, a day on which the TARGET System is operating (a **“TARGET Business Day”**); and/or
- (iii) in the case of Renminbi, a day (other than a Saturday, Sunday or public holiday) on which commercial banks in Hong Kong are generally open for business and settlement of Renminbi payments in Hong Kong; and/or
- (iv) in the case of a currency and/or one or more Business Centres, a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Centre(s) or, if no currency is indicated, generally in each of the Business Centres.

**“Day Count Fraction”** means, in respect of the calculation of an amount of interest on any Note for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period or an Interest Accrual Period, the **“Calculation Period”**):

- (i) if **“Actual/Actual”** or **“Actual/Actual – ISDA”** is specified hereon, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365)
- (ii) if **“Actual/365 (Fixed)”** is specified hereon, the actual number of days in the Calculation Period divided by 365
- (iii) if **“Actual/365 (Sterling)”** is specified hereon, the actual number of days in the Calculation Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366
- (iv) if **“Actual/360”** is specified hereon, the actual number of days in the Calculation Period divided by 360
- (v) if **“30/360”**, **“360/360”** or **“Bond Basis”** is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

**“Y<sub>1</sub>”** is the year, expressed as a number, in which the first day of the Calculation Period falls;

**“Y<sub>2</sub>”** is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

**“M<sub>1</sub>”** is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“M<sub>2</sub>” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“D<sub>1</sub>” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D<sub>1</sub> will be 30; and

“D<sub>2</sub>” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D<sub>1</sub> is greater than 29, in which case D<sub>2</sub> will be 30.

- (vi) if “30E/360” or “Eurobond Basis” is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y<sub>1</sub>” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“Y<sub>2</sub>” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“M<sub>1</sub>” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“M<sub>2</sub>” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“D<sub>1</sub>” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D<sub>1</sub> will be 30; and

“D<sub>2</sub>” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D<sub>2</sub> will be 30.

- (vii) if “30E/360 (ISDA)” is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y<sub>1</sub>” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“Y<sub>2</sub>” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“M<sub>1</sub>” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“M<sub>2</sub>” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“D<sub>1</sub>” is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D<sub>1</sub> will be 30; and

“D<sub>2</sub>” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D<sub>2</sub> will be 30

(viii) if “Actual/Actual-ICMA” is specified hereon,

- (a) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and
- (b) if the Calculation Period is longer than one Determination Period, the sum of:
  - (x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and
  - (y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year

where:

“**Determination Period**” means the period from and including a Determination Date in any year to but excluding the next Determination Date.

“**Determination Date**” means the date(s) specified as such hereon or, if none is so specified, the Interest Payment Date(s).

“**Euro-zone**” means the region comprised of member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended.

“**Interest Accrual Period**” means the period beginning on and including the Interest Commencement Date and ending on but excluding the first Interest Period Date and each successive period beginning on and including an Interest Period Date and ending on but excluding the next succeeding Interest Period Date.

“**Interest Amount**” means:

- (i) in respect of an Interest Accrual Period, the amount of interest payable per Calculation Amount for that Interest Accrual Period and which, in the case of Fixed Rate Notes, and unless otherwise specified hereon, shall mean the Fixed Coupon Amount or Broken Amount specified hereon as being payable on the Interest Payment Date ending the Interest Period of which such Interest Accrual Period forms part; and
- (ii) in respect of any other period, the amount of interest payable per Calculation Amount for that period.

“**Interest Commencement Date**” means the Issue Date or such other date as may be specified hereon.

“**Interest Determination Date**” means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such hereon or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling or Hong Kong dollars or Renminbi or (ii) the day falling two Business Days in London for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is neither Sterling nor euro nor Hong Kong

dollars nor Renminbi or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro.

**“Interest Period”** means the period beginning on and including the Interest Commencement Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date.

**“Interest Period Date”** means each Interest Payment Date unless otherwise specified hereon.

**“ISDA Definitions”** means the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., unless otherwise specified hereon.

**“Rate of Interest”** means the rate of interest payable from time to time in respect of this Note and that is either specified or calculated in accordance with the provisions hereon.

**“Reference Banks”** means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market and, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market and, in the case of a determination of HIBOR, the principal Hong Kong office of four major banks in the Hong Kong inter-bank market, in each case selected by the Calculation Agent or as specified hereon.

**“Reference Rate”** means the rate specified as such hereon.

**“Relevant Screen Page”** means such page, section, caption, column or other part of a particular information service as may be specified hereon.

**“Specified Currency”** means the currency specified as such hereon or, if none is specified, the currency in which the Notes are denominated.

**“TARGET System”** means the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET2) System which was launched on 19 November 2007 or any successor thereto.

- (k) **Calculation Agent:** The Issuer shall procure that there shall at all times be one or more Calculation Agents if provision is made for them hereon and for so long as any Note is outstanding (as defined in the Agency Agreement). Where more than one Calculation Agent is appointed in respect of the Notes, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Accrual Period or to calculate any Interest Amount, Instalment Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, or to comply with any other requirement, the Issuer shall appoint a leading bank or financial institution engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

## 6 Redemption, Purchase and Options

### (a) Redemption by Instalments and Final Redemption:

- (i) Unless previously redeemed, purchased and cancelled as provided in this Condition 6, each Note that provides for Instalment Dates and Instalment Amounts shall be partially redeemed on each Instalment Date at the related Instalment Amount specified hereon. The outstanding

nominal amount of each such Note shall be reduced by the Instalment Amount (or, if such Instalment Amount is calculated by reference to a proportion of the nominal amount of such Note, such proportion) for all purposes with effect from the related Instalment Date, unless payment of the Instalment Amount is improperly withheld or refused, in which case, such amount shall remain outstanding until the Relevant Date relating to such Instalment Amount.

- (ii) Unless previously redeemed, purchased and cancelled as provided below, each Note shall be finally redeemed on the Maturity Date specified hereon at its Final Redemption Amount (which, unless otherwise provided, is its nominal amount) or, in the case of a Note falling within paragraph (i) above, its final Instalment Amount.

**(b) Early Redemption:**

*(i) Zero Coupon Notes:*

- (A) The Early Redemption Amount payable in respect of any Zero Coupon Note, the Early Redemption Amount of which is not linked to an index and/or a formula, upon redemption of such Note pursuant to Condition 6(c), Condition 6(d) or Condition 6(e) or upon it becoming due and payable as provided in Condition 10 shall be the Amortised Face Amount (calculated as provided below) of such Note unless otherwise specified hereon.

- (B) Subject to the provisions of sub-paragraph (C) below, the Amortised Face Amount of any such Note shall be the scheduled Final Redemption Amount of such Note on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield (which, if none is shown hereon, shall be such rate as would produce an Amortised Face Amount equal to the issue price of the Notes if they were discounted back to their issue price on the Issue Date) compounded annually.

- (C) If the Early Redemption Amount payable in respect of any such Note upon its redemption pursuant to Condition 6(c), Condition 6(d) or Condition 6(e) or upon it becoming due and payable as provided in Condition 10 is not paid when due, the Early Redemption Amount due and payable in respect of such Note shall be the Amortised Face Amount of such Note as defined in sub-paragraph (B) above, except that such sub-paragraph shall have effect as though the date on which the Note becomes due and payable were the Relevant Date. The calculation of the Amortised Face Amount in accordance with this sub-paragraph shall continue to be made (both before and after judgment) until the Relevant Date, unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Final Redemption Amount of such Note on the Maturity Date together with any interest that may accrue in accordance with Condition 5(c).

Where such calculation is to be made for a period of less than one year, it shall be made on the basis of the Day Count Fraction shown hereon.

- (ii) *Other Notes:* The Early Redemption Amount payable in respect of any Note (other than Notes described in (i) above), upon redemption of such Note pursuant to Condition 6(c), Condition 6(d) or Condition 6(e) or upon it becoming due and payable as provided in Condition 10, shall be the Final Redemption Amount unless otherwise specified hereon.

- (c) **Redemption for Taxation Reasons:** The Notes may be redeemed at the option of the Issuer in whole, but not in part, on any Interest Payment Date (if this Note is either a Floating Rate Note or an Index Linked Interest Note) or, at any time, (if this Note is neither a Floating Rate Note nor an Index Linked Interest Note), on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable), at their Early Redemption Amount (as described in Condition 6(b) above) (together with interest accrued to the date fixed for redemption), if (i) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 8 as a result of any change in, or amendment to, the laws or regulations of any Tax Jurisdiction or any political subdivision or any authority thereof or therein having power to tax, or any change in



the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes, and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due. Prior to the publication of any notice of redemption pursuant to this Condition 6(c), the Issuer shall deliver to the Fiscal Agent a certificate signed by two Directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment.

- (d) **Redemption at the Option of the Issuer:** If Call Option is specified hereon, the Issuer may, on giving not less than 15 nor more than 30 days' irrevocable notice to the Noteholders (or such other notice period as may be specified hereon) redeem, all or, if so provided, some, of the Notes on any Optional Redemption Date. Any such redemption of Notes shall be at their Optional Redemption Amount specified hereon (which may be the Early Redemption Amount (as described in Condition 6(b) above)), together with interest accrued to the date fixed for redemption. Any such redemption or exercise must relate to Notes of a nominal amount at least equal to the Minimum Redemption Amount to be redeemed specified hereon and no greater than the Maximum Redemption Amount to be redeemed specified hereon.

All Notes in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition.

In the case of a partial redemption the notice to Noteholders shall also contain the certificate numbers of the Bearer Notes, or in the case of Registered Notes shall specify the nominal amount of Registered Notes drawn and the holder(s) of such Registered Notes, to be redeemed, which shall have been drawn in such place and in such manner as may be fair and reasonable in the circumstances, taking account of prevailing market practices, subject to compliance with any applicable laws and stock exchange or other relevant authority requirements.

- (e) **Redemption at the Option of Noteholders:** If Put Option is specified hereon, the Issuer shall, at the option of the holder of any such Note, upon the holder of such Note giving not less than 15 nor more than 30 days' notice to the Issuer (or such other notice period as may be specified hereon) redeem such Note on the Optional Redemption Date(s) at its Optional Redemption Amount specified hereon (which may be the Early Redemption Amount (as described in Condition 6(b) above)), together with interest accrued to the date fixed for redemption.

To exercise such option the holder must deposit (in the case of Bearer Notes) such Note (together with all unmatured Receipts and Coupons and unexchanged Talons) with any Paying Agent or (in the case of Registered Notes) the Certificate representing such Note(s) with the Registrar or any Transfer Agent at its specified office, together with a duly completed option exercise notice ("Exercise Notice") in the form obtainable from any Paying Agent, the Registrar or any Transfer Agent (as applicable) within the notice period. No Note or Certificate so deposited and option exercised may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Issuer.

- (f) **Partly Paid Notes:** Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the provisions specified hereon.
- (g) **Purchases:** The Issuer and its Subsidiaries may at any time purchase Notes (provided that all unmatured Receipts and Coupons and unexchanged Talons relating thereto are attached thereto or surrendered therewith) in the open market or otherwise at any price.

- (h) **Cancellation:** All Notes purchased by or on behalf of the Issuer or any of its Subsidiaries may be surrendered for cancellation, in the case of Bearer Notes, by surrendering each such Note together with all unmatured Receipts and Coupons and all unexchanged Talons to the Fiscal Agent and, in the case of Registered Notes, by surrendering the Certificate representing such Notes to the Registrar and, in each case, if so surrendered, shall, together with all Notes redeemed by the Issuer, be cancelled forthwith (together with all unmatured Receipts and Coupons and unexchanged Talons attached thereto or surrendered therewith). Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Notes shall be discharged.

## 7 Payments and Talons

- (a) **Bearer Notes:** Payments of principal and interest in respect of Bearer Notes shall, subject as mentioned below, be made against presentation and surrender of the relevant Receipts (in the case of payments of Instalment Amounts other than on the due date for redemption and provided that the Receipt is presented for payment together with its relative Note), Notes (in the case of all other payments of principal and, in the case of interest, as specified in Condition 7(f)(vi)) or Coupons (in the case of interest, save as specified in Condition 7(f)(vi)), as the case may be:
- (i) in the case of a currency other than Renminbi, at the specified office of any Paying Agent outside the United States by a cheque payable in the relevant currency drawn on, or, at the option of the holder, by transfer to an account denominated in such currency with, a Bank; and
  - (ii) in the case of Renminbi, by transfer to a Renminbi account maintained by or on behalf of the Noteholder with a bank in Hong Kong.

In this Condition 7(a), “**Bank**” means a bank in the principal financial centre for such currency or, in the case of euro, in a city in which banks have access to the TARGET System.

### (b) Registered Notes:

- (i) Payments of principal (which for the purposes of this Condition 7(b) shall include final Instalment Amounts but not other Instalment Amounts) in respect of Registered Notes shall be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in paragraph (ii) below.
- (ii) Interest (which for the purpose of this Condition 7(b) shall include all Instalment Amounts other than final Instalment Amounts) on Registered Notes shall be paid to the person shown on the Register at the close of business on the fifth (in the case of Renminbi) and fifteenth (in the case of a currency other than Renminbi) day before the due date for payment thereof (the “**Record Date**”). Payments of interest on each Registered Note shall be made:
  - (x) in the case of a currency other than Renminbi, in the relevant currency by cheque drawn on a Bank and mailed to the holder (or to the first-named of joint holders) of such Note at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a Bank; and
  - (y) in the case of Renminbi, by transfer to the registered account of the Noteholder.

In this Condition 7(b)(ii), “**registered account**” means the Renminbi account maintained by or on behalf of the Noteholder with a bank in Hong Kong, details of which appear on the Register at the close of business on the fifth business day before the due date for payment.

- (c) **Payments in the United States:** Notwithstanding the foregoing, if any Bearer Notes are denominated in U.S. dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if (i) the Issuer shall have appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Notes in the manner provided above when due, (ii) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts and (iii) such payment is then permitted by United States law, without involving, in the opinion of the Issuer, any adverse tax consequence to the Issuer.
- (d) **Payments subject to Fiscal Laws:** Payments will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 8 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "Code") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 8) any law implementing an intergovernmental approach thereto.
- (e) **Appointment of Agents:** The Fiscal Agent, the CMU Lodging and Paying Agent, the Paying Agents, the Registrars, the Transfer Agents and the Calculation Agent initially appointed by the Issuer and their respective specified offices are listed below. The Fiscal Agent, the CMU Lodging and Paying Agent, the Paying Agents, the Registrars, Transfer Agents and the Calculation Agent(s) act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Noteholder or Couponholder. The Issuer reserves the right at any time to vary or terminate the appointment of the Fiscal Agent, the CMU Lodging and Paying Agent, any other Paying Agent, any Registrar, any Transfer Agent or any Calculation Agent and to appoint additional or other Paying Agents or Transfer Agents, provided that the Issuer shall at all times maintain (i) a Fiscal Agent, (ii) a Registrar in relation to Registered Notes, (iii) a Transfer Agent in relation to Registered Notes, (iv) a CMU Lodging and Paying Agent in relation to Notes accepted for clearance through the CMU, (iv) one or more Calculation Agent(s) where the Conditions so require, (v) Paying Agents having specified offices in at least two major European cities, (vi) such other agents as may be required by any other stock exchange on which the Notes may be listed and (vii) a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000, as amended from time to time.

In addition, the Issuer shall forthwith appoint a Paying Agent in New York City in respect of any Bearer Notes denominated in U.S. dollars in the circumstances described in Condition 7(c) above.

Notice of any such change or any change of any specified office shall promptly be given to the Noteholders.

(f) **Unmatured Coupons and Receipts and unexchanged Talons:**

- (i) Upon the due date for redemption of Bearer Notes which comprise Fixed Rate Notes (other than Dual Currency Notes or Index linked Notes), the Notes should be surrendered for payment together with all unexpired Coupons (if any) relating thereto, failing which an amount equal to the face value of each missing unexpired Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unexpired Coupon that the sum of principal so paid bears to the total principal due) shall be deducted from the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, due for payment. Any amount so deducted shall be paid in the manner mentioned above against surrender of such missing Coupon within a period of 10 years from the Relevant Date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 9).

- (ii) Upon the due date for redemption of any Bearer Note comprising a Floating Rate Note, Dual Currency Note or Index Linked Note, unmatured Coupons relating to such Note (whether or not attached) shall become void and no payment shall be made in respect of them.
  - (iii) Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.
  - (iv) Upon the due date for redemption of any Bearer Note that is redeemable in instalments, all Receipts relating to such Note having an Instalment Date falling on or after such due date (whether or not attached) shall become void and no payment shall be made in respect of them.
  - (v) Where any Bearer Note that provides that the relative unmatured Coupons are to become void upon the due date for redemption of those Notes is presented for redemption without all unmatured Coupons, and where any Bearer Note is presented for redemption without any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.
  - (vi) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, shall only be payable against presentation (and surrender if appropriate) of the relevant Bearer Note or Certificate representing it, as the case may be. Interest accrued on a Note that only bears interest after its Maturity Date shall be payable on redemption of such Note against presentation of the relevant Note or Certificate representing it, as the case may be.
- (g) **Talons:** On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Bearer Note, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Fiscal Agent in exchange for a further Coupon sheet (and if necessary another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 9).
- (h) **Non-Business Days:** If any date for payment in respect of any Note, Receipt or Coupon is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this Condition 7, “**business day**” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the relevant place of presentation, in such jurisdictions as shall be specified as “**Financial Centres**” hereon and:
- (i) (in the case of a payment in a currency other than euro and Renminbi) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency; or
  - (ii) (in the case of a payment in euro) which is a TARGET Business Day; or
  - (iii) (in the case of a payment in Renminbi) on which banks and foreign exchange markets are open for business and settlement of Renminbi payments in Hong Kong.

## 8 Taxation

All payments of principal and interest by or on behalf of the Issuer in respect of the Notes, the Receipts and the Coupons shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the PRC or the relevant tax jurisdiction of the Issuer specified in the relevant Pricing Supplement (a “**Tax Jurisdiction**”) or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer shall pay such additional amounts as shall result in receipt by the Noteholders and the

Couponholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable with respect to any Note, Receipt or Coupon:

- (a) **Other connection:** to, or to a third party on behalf of, a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note, Receipt or Coupon by reason of his having some connection with a Tax Jurisdiction other than the mere holding of the Note, Receipt or Coupon; or
- (b) **Presentation more than 30 days after the Relevant Date:** presented (or in respect of which the Certificate representing it is presented) for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on presenting it for payment on the thirtieth day; or
- (c) **Payment to individuals:** where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (d) **Payment by another Paying Agent:** (except in the case of Registered Notes) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note, Receipt or Coupon to another Paying Agent in a Member State of the European Union.

As used in these Conditions, "**Relevant Date**" in respect of any Note, Receipt or Coupon means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders that, upon further presentation of the Note (or relative Certificate), Receipt or Coupon being made in accordance with these Conditions, such payment will be made, provided that payment is in fact made upon such presentation. References in these Conditions to (i) "**principal**" shall be deemed to include any premium payable in respect of the Notes, all Instalment Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts, Amortised Face Amounts and all other amounts in the nature of principal payable pursuant to Condition 6 or any amendment or supplement to it, (ii) "**interest**" shall be deemed to include all Interest Amounts and all other amounts payable pursuant to Condition 5 or any amendment or supplement to it and (iii) "**principal**" and/or "**interest**" shall be deemed to include any additional amounts that may be payable under this Condition 8.

## 9 Prescription

Claims against the Issuer for payment in respect of the Notes, Receipts and Coupons (which for this purpose shall not include Talons) shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

## 10 Events of Default

If any of the following events ("**Events of Default**") occurs and is continuing, the holder of any Note may give written notice to the Fiscal Agent at its specified office that such Note is immediately repayable, whereupon the Early Redemption Amount of such Note together (if applicable) with accrued interest to the date of payment shall become immediately due and payable unless such event of default shall have been remedied prior to the receipt of such notice by the Fiscal Agent:

- (a) **Non-Payment:** the Issuer fails to pay the principal of or any interest on any of the Notes when due and such failure continues for a period of 30 days; or

- (b) **Breach of Other Obligations:** the Issuer does not perform or comply with any one or more of its other obligations in the Notes which default is incapable of remedy or is not remedied within 45 days after notice of such default shall have been given to the Fiscal Agent at its specified office by any Noteholder; or
- (c) **Cross-Default:** (A) any other present or future Public External Indebtedness of the Issuer or any of its Subsidiaries becomes due and payable prior to its stated maturity by reason of any actual default, event of default or the like (howsoever described), or (B) any such Public External Indebtedness is not paid when due or, as the case may be, within any originally applicable grace period, provided that the aggregate amount of the Public External Indebtedness in respect of which one or more of the events mentioned above in this Condition 10(c) have occurred equals or exceeds U.S.\$25,000,000 or its equivalent (on the basis of the middle spot rate for the relevant currency against the U.S. dollar as quoted by any leading bank on the day on which this paragraph operates); or
- (d) **Insolvency:** the Issuer or any of its Subsidiaries is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, stops, suspends or threatens to stop or suspend payment of all or a material part of (or of a particular type of) its debts, proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared in respect of or affecting all or any part of (or of a particular type of) the debts of the Issuer or any of its Subsidiaries; or
- (e) **Winding-up:** an order is made or an effective resolution passed for the winding-up or dissolution of the Issuer or any of its Subsidiaries, or the Issuer ceases or threaten to cease to carry on all or substantially all of its business or operations, in each case except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms approved by an Extraordinary Resolution (as defined in the Agency Agreement) of the Noteholders or (ii) in the case of a Subsidiary, whereby the undertaking and assets of the Subsidiary are transferred to or otherwise vested in the Issuer or another of its Subsidiaries; or
- (f) **Illegality:** it is or will become unlawful for the Issuer to perform or comply with any one or more of its obligations under any of the Notes.

## 11 Meeting of Noteholders and Modifications

- (a) **Meetings of Noteholders:** The Agency Agreement contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Agency Agreement) of a modification of any of these Conditions. Such a meeting may be convened by Noteholders holding not less than 10 per cent. in nominal amount of the Notes for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution shall be two or more persons holding or representing a clear majority in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting two or more persons being or representing Noteholders whatever the nominal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to amend the dates of maturity or redemption of the Notes, any Instalment Date or any date for payment of interest or Interest Amounts on the Notes, (ii) to reduce or cancel the nominal amount of, or any Instalment Amount of, or any premium payable on redemption of, the Notes, (iii) to reduce the rate or rates of interest in respect of the Notes or to vary the method or basis of calculating the rate or rates or amount of interest or the basis for calculating any Interest Amount in respect of the Notes, (iv) if a Minimum Rate of Interest and/or a Maximum Rate of Interest, Instalment Amount or Redemption Amount is shown hereon, to reduce any such Minimum Rate of Interest and/or Maximum Rate of Interest, (v) to vary any method of, or basis for, calculating the Final Redemption Amount, the Early Redemption Amount or the Optional Redemption Amount, including the method of calculating the Amortised Face Amount, or (vi) to

vary the currency or currencies of payment or denomination of the Notes, in which case the necessary quorum shall be two or more persons holding or representing not less than 75 per cent. or at any adjourned meeting not less than 25 per cent. in nominal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed) and on all Couponholders.

The Agency Agreement provides that a resolution in writing signed by or on behalf of the Noteholders of not less than 90 per cent. in nominal amount of the Notes outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

*These Conditions may be amended, modified or varied in relation to any Series of Notes by the terms of the relevant Pricing Supplement in relation to such Series.*

- (b) **Modification of Agency Agreement:** The Issuer shall only permit any modification of, or any waiver or authorisation of any breach or proposed breach of or any failure to comply with, the Agency Agreement, if to do so could not reasonably be expected to be prejudicial to the interests of the Noteholders.

## **12 Replacement of Notes, Certificates, Receipts, Coupons and Talons**

If a Note, Certificate, Receipt, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations and stock exchange or other relevant authority regulations, at the specified office of the Fiscal Agent (in the case of Bearer Notes, Receipts, Coupons or Talons) and of the Registrar (in the case of Certificates) or such other Paying Agent or Transfer Agent, as the case may be, as may from time to time be designated by the Issuer for the purpose and notice of whose designation is given to Noteholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, inter alia, that if the allegedly lost, stolen or destroyed Note, Certificate, Receipt, Coupon or Talon is subsequently presented for payment or, as the case may be, for exchange for further Coupons, there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Notes, Certificates, Receipts, Coupons or further Coupons) and otherwise as the Issuer may require. Mutilated or defaced Notes, Certificates, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

## **13 Further Issues**

The Issuer may from time to time without the consent of the Noteholders or Couponholders create and issue further notes having the same terms and conditions as the Notes (so that, for the avoidance of doubt, references in these Conditions to "Issue Date" shall be to the first issue date of the Notes) and so that the same shall be consolidated and form a single series with such Notes, and references in these Conditions to "Notes" shall be construed accordingly.

## **14 Notices**

Notices to the holders of Registered Notes shall be mailed to them at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing. Notices to the holders of Bearer Notes shall be valid if published in a daily newspaper of general circulation in Hong Kong. So long as the Notes are listed on The Stock Exchange of Hong Kong Limited and the rules of that Exchange so require, notices to holders of the Notes shall also be published in a daily newspaper with general circulation in Hong Kong (which is expected to be the South China Morning Post in Hong Kong). If any such publication is not practicable, notice shall be validly given if published in another leading daily English language newspaper with general circulation in Asia. Any such notice shall be deemed to

have been given on the date of such publication or, if published more than once or on different dates, on the date of the first publication as provided above.

Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the holders of Bearer Notes in accordance with this Condition 14.

#### **15 Currency Indemnity**

Any amount received or recovered in a currency other than the currency in which payment under the relevant Note, Coupon or Receipt is due (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the insolvency, winding-up or dissolution of the Issuer or otherwise) by any Noteholder or Couponholder in respect of any sum expressed to be due to it from the Issuer shall only constitute a discharge to the Issuer to the extent of the amount in the currency of payment under the relevant Note, Coupon or Receipt that the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If the amount received or recovered is less than the amount expressed to be due to the recipient under any Note, Coupon or Receipt, the Issuer shall indemnify it against any loss sustained by it as a result. In any event, the Issuer shall indemnify the recipient against the cost of making any such purchase. For the purposes of this Condition, it shall be sufficient for the Noteholder or Couponholder, as the case may be, to demonstrate that it would have suffered a loss had an actual purchase been made. These indemnities constitute a separate and independent obligation from the Issuer's other obligations, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any Noteholder or Couponholder and shall continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Note, Coupon or Receipt or any other judgment or order.

#### **16 Contracts (Rights of Third Parties) Act 1999**

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

#### **17 Governing Law and Jurisdiction**

- (a) **Governing Law:** The Notes, the Receipts, the Coupons and the Talons and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.
- (b) **Jurisdiction:** The Courts of England are to have jurisdiction to settle any disputes that may arise out of or in connection with any Notes, Receipts, Coupons or Talons and accordingly any legal action or proceedings arising out of or in connection with any Notes, Receipts, Coupons or Talons ("Proceedings") may be brought in such courts. The Issuer irrevocably submits to the jurisdiction of the courts of England and waives any objection to the Proceedings in such courts on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. This submission is made for the benefit of each of the holder of the Notes, Receipts, Coupons and Talons and shall not affect the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).
- (c) **Service of Process:** The Issuer irrevocably agrees to receive service of process at its subsidiary, Agricultural Bank of China UK Limited's registered office at 7th Floor, 1 Bartholomew Lane, London EC2N 2AX in any Proceedings in England. Such service shall be deemed completed on delivery to such process agent (whether or not, it is forwarded to and received by the Issuer). If for any reason such process agent ceases to be able to act as such or no longer has an address in London, the Issuer irrevocably agrees to appoint a substitute process agent and shall immediately notify Noteholders of such appointment in accordance with Condition 14. Nothing shall affect the right to serve process in any manner permitted by law.



## THE GLOBAL CERTIFICATE

### Initial Issue of Notes

Global Notes and Global Certificates may be delivered on or prior to the original issue date of the Tranche to a common depository for Euroclear and Clearstream, Luxembourg (the "Common Depository") or a sub-custodian for the HKMA as operator of the CMU.

Upon the initial deposit of a Global Note with the Common Depository or with a sub-custodian for the HKMA as operator of the CMU or registration of Registered Notes in the name of (i) any nominee for Euroclear and Clearstream, Luxembourg or (ii) the HKMA and delivery of the relative Global Certificate to the Common Depository or the sub-custodian for the HKMA as operator of the CMU (as the case may be), Euroclear or Clearstream, Luxembourg or the CMU (as the case may be) will credit each subscriber with a nominal amount of Notes equal to the nominal amount thereof for which it has subscribed and paid.

Notes that are initially deposited with the Common Depository may also be credited to the accounts of subscribers with (if indicated in the relevant Pricing Supplement) other clearing systems through direct or indirect accounts with Euroclear and Clearstream, Luxembourg held by such other clearing systems. Conversely, Notes that are initially deposited with any other clearing system may similarly be credited to the accounts of subscribers with Euroclear, Clearstream, Luxembourg or other clearing systems.

### Relationship of Accountholders with Clearing Systems

Save as provided in the following paragraph, each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or any other clearing system as the holder of a Note represented by a Global Note or a Global Certificate must look solely to Euroclear, Clearstream, Luxembourg or such clearing system (as the case may be) for his share of each payment made by the Issuer to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, and in relation to all other rights arising under the Global Notes or Global Certificates, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg or such clearing system (as the case may be). Such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are represented by such Global Note or Global Certificate and such obligations of the Issuer will be discharged by payment to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, in respect of each amount so paid.

If a Global Note or a Global Certificate is lodged with the CMU, the person(s) for whose account(s) interests in such Global Note or Global Certificate are credited as being held in the CMU in accordance with the CMU Rules as notified by the CMU to the CMU Lodging and Paying Agent in a relevant CMU Instrument Position Report or any other relevant notification by the CMU (which notification, in either case, shall be conclusive evidence of the records of the CMU save in the case of manifest error) shall be the only person(s) entitled (in the case of Registered Notes, directed or deemed by the CMU as entitled) to receive payments in respect of Notes represented by such Global Note or Global Certificate and the Issuer will be discharged by payment to, or to the order of, such person(s) for whose account(s) interests in such Global Note or Global Certificate are credited as being held in the CMU in respect of each amount so paid. Each of the persons shown in the records of the CMU, as the beneficial holder of a particular nominal amount of Notes represented by such Global Note or Global Certificate must look solely to the Fiscal Agent for his share of each payment so made by the Issuer in respect of such Global Note or Global Certificate.

### Exchange

#### *Temporary Global Notes*

Each temporary Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date:

- (i) if the relevant Pricing Supplement indicates that such Global Note is issued in compliance with the C Rules or in a transaction to which TEFRA is not applicable (as to which, see "Summary of the

*Programme – Selling Restrictions*”), in whole, but not in part, for the Definitive Notes defined and described below; and

- (ii) otherwise, in whole or in part upon certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement for interests in a permanent Global Note or, if so provided in the relevant Pricing Supplement, for Definitive Notes.

The CMU may require that any such exchange for a permanent Global Note is made in whole and not in part and in such event, no such exchange will be effected until all relevant account holders (as set out in a CMU Instrument Position Report (as defined in the rules of the CMU) or any other relevant notification supplied to the CMU Lodging and Paying Agent by the CMU) have so certified.

#### *Permanent Global Notes*

Each permanent Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date in whole but not, except as provided under “Partial Exchange of Permanent Global Notes” below, in part for Definitive Notes or, in the case of (i) below, Registered Notes:

- (i) if the permanent Global Note is held on behalf of Euroclear or Clearstream, Luxembourg or the CMU or any other clearing system (an “Alternative Clearing System”) and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or in fact does so or
- (ii) if principal in respect of any Notes is not paid when due, by the holder giving notice to the Fiscal Agent (or, in the case of Notes lodged with the CMU, the CMU Lodging and Paying Agent) of its election for such exchange.

In the event that a Global Note is exchanged for Definitive Notes, such Definitive Notes shall be issued in Specified Denomination(s) only. A Noteholder who holds a principal amount of less than the minimum Specified Denomination will not receive a Definitive Note in respect of such holding and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more Specified Denominations.

#### *Global Certificates*

If the relevant Pricing Supplement states that the Notes are to be represented by a Global Certificate on issue, the following will apply in respect of transfers of Notes held in Euroclear or Clearstream, Luxembourg or the CMU or an Alternative Clearing System. These provisions will not prevent the trading of interests in the Notes within a clearing system whilst they are held on behalf of such clearing system, but will limit the circumstances in which the Notes may be withdrawn from the relevant clearing system.

Transfers of the holding of Notes represented by any Global Certificate pursuant to Condition 2 may only be made in part:

- (i) if the relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so;
- (ii) if principal in respect of any Notes is not paid when due; or
- (iii) with the prior consent of the Issuer,

provided that, in the case of the first transfer of part of a holding pursuant to (i) or (ii) above, the Registered Holder has given the Registrar not less than 30 days’ notice at its specified office of the Registered Holder’s intention to effect such transfer.

### ***Partial Exchange of Permanent Global Notes***

For so long as a permanent Global Note is held on behalf of a clearing system and the rules of that clearing system permit, such permanent Global Note will be exchangeable in part on one or more occasions for Definitive Notes (i) if principal in respect of any Notes is not paid when due or (ii) if so provided in, and in accordance with, the Conditions (which will be set out in the relevant Pricing Supplement) relating to Partly Paid Notes.

### ***Delivery of Notes***

On or after any due date for exchange the holder of a Global Note may surrender such Global Note or, in the case of a partial exchange, present it for endorsement to or to the order of the Fiscal Agent (or, in the case of Notes lodged with the CMU, the CMU Lodging and Paying Agent). In exchange for any Global Note, or the part thereof to be exchanged, the Issuer will (i) in the case of a temporary Global Note exchangeable for a permanent Global Note, deliver, or procure the delivery of, a permanent Global Note in an aggregate nominal amount equal to that of the whole or that part of a temporary Global Note that is being exchanged or, in the case of a subsequent exchange, endorse, or procure the endorsement of, a permanent Global Note to reflect such exchange or (ii) in the case of a Global Note exchangeable for Definitive Notes or Registered Notes, deliver, or procure the delivery of, an equal aggregate nominal amount of duly executed and authenticated Definitive Notes and/or Certificates, as the case may be. Global Notes and Definitive Notes will be delivered outside the United States and its possessions. In this Offering Circular, "Definitive Notes" means, in relation to any Global Note, the definitive Bearer Notes for which such Global Note may be exchanged (if appropriate, having attached to them all Coupons and Receipts in respect of interest or Installment Amounts that have not already been paid on the Global Note and a Talon). Definitive Notes will be security printed and Certificates will be printed in accordance with any applicable legal and stock exchange requirements in or substantially in the form set out in the Schedules to the Agency Agreement. On exchange in full of each permanent Global Note, the Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with the relevant Definitive Notes.

### ***Exchange Date***

"Exchange Date" means (i) in relation to an exchange of a temporary Global Note to a permanent Global Note, the day falling after the expiry of 40 days after its issue date; or (ii) in relation to an exchange of a permanent Global Note to a Definitive Note, a day falling not less than 60 days or in the case of exchange following failure to pay principal in respect of any Notes when due 30 days, after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Fiscal Agent is located and in the cities in which the relevant clearing systems are located.

### ***Amendment to Conditions***

The temporary Global Notes, permanent Global Notes and Global Notes contain provisions that apply to the Notes that they represent, some of which modify the effect of the Conditions set out in this Offering Circular. The following is a summary of certain of those provisions:

### ***Payments***

No payment falling due after the Exchange Date will be made on any Global Note unless exchange for an interest in a permanent Global Note or for Definitive Notes or Registered Notes is improperly withheld or refused. Payments on any temporary Global Note issued in compliance with the D Rules before the Exchange Date will only be made against presentation of certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement. All payments in respect of Notes represented by a Global Note (except with respect to Global Note held through the CMU) will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of that Global Note to or to the order of the Fiscal Agent as shall have been notified to the Noteholders for such purpose. A record of each payment so made will be endorsed on each Global Note, which endorsement will be prima facie evidence that such payment has been made in respect of the Notes. Condition 7(e)(vii) and Condition 8(d) will apply to the Definitive Notes only.

All payments in respect of Notes represented by a Global Certificate will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the record date which shall be on the Clearing System Business Day immediately prior to the date for payment, where "Clearing System Business Day" means Monday to Friday inclusive except 25 December and 1 January.

In respect of a Global Note or Global Certificate held through the CMU, any payments of principal, interest (if any) or any other amounts shall be made to the person(s) for whose account(s) interests in the relevant Global Note are credited (as set out in a CMU Instrument Position Report or any other relevant notification supplied to the CMU Lodging and Paying Agent by the CMU) and, save in the case of final payment, no presentation of the relevant bearer Global Note or Global Certificate shall be required for such purpose.

#### *Prescription*

Claims against the Issuer in respect of Notes that are represented by a permanent Global Note will become void unless it is presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 8).

#### *Meetings*

The holder of a permanent Global Note or of the Notes represented by a Global Certificate shall (unless such permanent Global Note or Global Certificate represents only one Note) be treated as being two persons for the purposes of any quorum requirements of a meeting of Noteholders and, at any such meeting, the holder of a permanent Global Note or a Global Certificate shall be treated as having one vote in respect of each integral currency unit of the Specified Currency of the Notes. (All holders of Registered Notes are entitled to one vote in respect of each integral currency unit of the Specified Currency of the Notes comprising such Noteholder's holding, whether or not represented by a Global Certificate.)

#### *Cancellation*

Cancellation of any Note represented by a permanent Global Note or Global Certificate that is required by the Conditions to be cancelled (other than upon its redemption) will be effected by reduction in the nominal amount of the relevant permanent Global Note or Global Certificate.

#### *Purchase*

Notes represented by a permanent Global Note may only be purchased by the Issuer or any of its respective subsidiaries if they are purchased together with the rights to receive all future payments of interest and Installment Amounts (if any) thereon.

#### *The Option of the Issuer*

Any option of the Issuer provided for in the Conditions of any Notes while such Notes are represented by a permanent Global Note shall be exercised by the Issuer giving notice to the Noteholders within the time limits set out in and containing the information required by the Conditions, except that the notice shall not be required to contain, in the case of Bearer Notes, the certificate numbers of Notes drawn or, in the case of Registered Notes, the holder of the Notes in respect of a partial exercise of an option and accordingly no drawing of Notes shall be required. In the event that any option of the Issuer is exercised in respect of some but not all of the Notes of any Series, the rights of accountholders with a clearing system in respect of the Notes will be governed by the standard procedures of Euroclear, Clearstream, Luxembourg, the CMU or any other clearing system (as the case may be).

#### *Noteholders' Options*

Any option of the Noteholders provided for in the Conditions of any Notes while such Notes are represented by a permanent Global Note may be exercised by the holder of the permanent Global Note (in accordance with the standard procedures of the relevant clearing system) giving notice to the Fiscal Agent or (in respect of Notes represented by a Global Certificate) the Registrar or Transfer Agent or (in

respect of Notes lodged with the CMU) the CMU Lodging and Paying Agent within the time limits relating to the deposit of Notes with a Paying Agent set out in the Conditions substantially in the form of the notice available from any Paying Agent, except that the notice shall not be required to contain the serial numbers of the Notes in respect of which the option has been exercised, and stating the nominal amount of Notes in respect of which the option is exercised and at the same time presenting the permanent Global Note or Global Certificate to the Fiscal Agent, the relevant Registrar, a Transfer Agent or the CMU Lodging and Paying Agent (or, in each case, to a Paying Agent acting on their behalf), as the case may be, for notation.

#### ***Notices***

So long as any Notes are represented by a Global Note or Global Certificate and such Global Note or Global Certificate is held on behalf of (i) Euroclear and/or Clearstream, Luxembourg or any other clearing system (except as provided in (ii) below), notices to the holders of Notes of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions or by delivery of the relevant notice to the holder of the Global Note or Global Certificate or (ii) the CMU, notices to the holders of Notes of that Series may be given by delivery of the relevant notice to the persons shown in a CMU Instrument Position Report issued by the CMU on the second business day preceding the date of dispatch of such notice as holding interests in the relevant Global Note or Global Certificate.

#### **Partly Paid Notes**

The provisions relating to Partly Paid Notes are not set out in this Offering Circular, but will be contained in the relevant Pricing Supplement and thereby in the Global Notes or Global Certificates. While any instalments of the subscription moneys due from the holder of Partly Paid Notes are overdue, no interest in a Global Note representing such Notes may be exchanged for an interest in a permanent Global Note or for Definitive Notes (as the case may be). If any Noteholder fails to pay any instalment due on any Partly Paid Notes within the time specified, the Issuer may forfeit such Notes and shall have no further obligation to their holder in respect of them.

## FORM OF PRICING SUPPLEMENT

### Schedule C Form of Pricing Supplement

The form of Pricing Supplement that will be issued in respect of each Tranche, subject only to the deletion of non-applicable provisions, is set out below:

#### Pricing Supplement dated [•] Agricultural Bank of China Limited [[•] Branch]

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]  
under the U.S.\$15,000,000,000 Medium Term Note Programme

- |   |   |  |
|---|---|--|
| 1 | Issuer:   | Agricultural Bank of China Limited [[•] Branch]  |
| 2 | [(i)] Series Number:  | [•]  |
|   | [(ii)] Tranche Number   |  |
|   | (If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible.) | [•]  |
|   | [(iii)] Tax Jurisdiction  | [•]  |
| 3 | Specified Currency or Currencies:   | [•]  |
| 4 | Aggregate Nominal Amount:   |  |
|   | (i) Series:   | [•]  |
|   | [(ii)] Tranche:   | [•]  |
| 5 | [(i)] Issue Price:  | [•] per cent. of the Aggregate Nominal Amount [plus accrued interest from [insert date] (in the case of fungible issues only, if applicable)]  |
|   | [(ii)] Net proceeds:  | [•] (Required only for listed issues)]   |
| 6 | (i) Specified Denominations:  | [•] <sup>(1)</sup>   |
|   | (ii) Calculation Amount <sup>(4)</sup> :  | [•]  |
| 7 | (i) Issue Date:   | [•]  |
|   | (ii) Interest Commencement Date:  | [Specify/Issue date/Not Applicable]  |
| 8 | Maturity Date:  | [specify date (for Fixed Rate Notes) or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year] <sup>(2)</sup>   |
| 9 | Interest Basis:   | [[•] per cent. Fixed Rate]<br>[specify reference rate] +/- [•] per cent.<br>Floating Rate]<br>[Zero Coupon]<br>[Index Linked Interest]<br>[Other (specify)]<br>(further particulars specified below) |

- 10 Redemption/Payment Basis: [Redemption at par]  
[Index Linked Redemption]  
[Dual Currency]  
[Partly Paid]  
[Instalment]  
[Other (*specify*)]
- 11 Change of Interest or Redemption/ Payment Basis: [*Specify details of any provision for convertibility of Notes into another interest or redemption/payment basis*]
- 12 Put/Call Options: [Put]  
[Call]  
(NB: HKMA approval will be required in the case of Subordinated Notes)  
[(further particulars specified below)]
- 13 Status of the Notes: [Senior Notes/ Subordinated Notes]
- 14 Listing: [•]/Other (*specify*)/None]
- 15 Method of distribution: [Syndicated/Non-syndicated]

**PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

- 16 Fixed Rate Note Provisions [Applicable/Not Applicable]  
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (i) Rate [(s)] of Interest: [•] per cent. per annum [payable [annually/semi-annually/quarterly/monthly] in arrear]
- (ii) Interest Payment Date(s): [•] in each year<sup>(3)</sup> [adjusted in accordance with [*specify Business Day Convention and any applicable Business Centre(s) for the definition of "Business Day"*]/not adjusted]
- (iii) Fixed Coupon Amount[(s)]: [•] per Calculation Amount<sup>(4)</sup>
- (iv) Broken Amount: [•] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [•]  
  
[*Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount[(s)] and the Interest Payment Date(s) to which they relate*]
- (v) Day Count Fraction (Condition 5(j)): [30/360/Actual/Actual (ICMA/ISDA)/Other]  
(Day count fraction should be Actual/Actual-ICMA for all fixed rate issues other than those denominated in US dollars or Hong Kong dollars, unless the client requests otherwise)
- (vi) Determination Date(s) (Condition 5(j)): [•] in each year. [*Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon*]<sup>(5)</sup>

- (vii) Other terms relating to the method of calculating interest for Fixed Rate Notes: [Not Applicable/give details]
- 17 Floating Rate Note Provisions [Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Interest Period(s): [•]
- (ii) Specified Interest Payment Dates: [•]
- (iii) Business Day Convention: [Floating Rate Business Day Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other *(give details)*]
- (iv) Business Centre(s) (Condition 5(j)): [•]
- (v) Manner in which the Rate(s) of Interest is/are to be determined: [Screen Rate Determination/ISDA Determination/other *(give details)*]
- (vi) Interest Period Date(s): [Not Applicable/specify dates] *(Not applicable unless different from Interest Payment Date)*
- (vii) Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Calculation Agent): [•]
- (viii) Screen Rate Determination (Condition 5(b)(iii)(B)):
- Reference Rate: [•]
  - Interest Determination Date: *[[•] [TARGET] Business Days in [specify city] for [specify currency] prior to [the first day in each Interest Accrual Period/each Interest Payment Date]]*
  - Relevant Screen Page: [•]
- (ix) ISDA Determination (Condition 5(b)(iii)(A)):
- Floating Rate Option: [•]
  - Designated Maturity: [•]
  - Reset Date: [•]
  - ISDA Definitions: (if different from those set out in the Conditions) [2000/2006]
- (x) Margin(s): [+/-] [•] per cent. per annum
- (xi) Minimum Rate of Interest: [•] per cent. per annum
- (xii) Maximum Rate of Interest: [•] per cent. per annum



- (xiii) Day Count Fraction (Condition 5(j)): [•]
- (xiv) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions: [•]
- 18 Zero Coupon Note Provisions [Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Amortisation Yield (Condition 6(b)): [•] per cent. per annum
- (ii) Day Count Fraction (Condition 5(j)): [•]
- (iii) Any other formula/basis of determining amount payable: [•]
- 19 Index Linked Interest Note Provisions [Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Index/Formula: [Give or annex details]
- (ii) Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the [Agent]): [•]
- (iii) Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable: [•]
- (iv) Interest Period(s): [•]
- (v) Specified Interest Payment Dates: [•]
- (vi) Business Day Convention: [Floating Rate Business Day Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other *(give details)*]
- (vii) Business Centre(s) (Condition 5(j)): [•]
- (viii) Minimum Rate of Interest: [•] per cent. per annum
- (ix) Maximum Rate of Interest: [•] per cent. per annum
- (x) Day Count Fraction (Condition 5(j)): [•]
- 20 Dual Currency Note Provisions [Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Rate of Exchange/Method of calculating Rate of Exchange: [Give details]

- (ii) Party, if any, responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the [Agent]): [•]
- (iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: [•]
- (iv) Person at whose option Specified Currency(ies) is/are payable: [•]
- (v) Day Count Fraction (Condition 5(j)): [•]

**PROVISIONS RELATING TO REDEMPTION**

21 Call Option [Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*

- (i) Optional Redemption Date(s): [•]
- (ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s): [•] per Calculation Amount
- (iii) If redeemable in part:
  - (a) Minimum Redemption Amount: [•] per Calculation Amount
  - (b) Maximum Redemption Amount: [•] per Calculation Amount
- (iv) Notice period: [•]

22 Put Option [Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*

- (i) Optional Redemption Date(s): [•]
- (ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s): [•] per Calculation Amount
- (iii) Notice period: [•]

23 Final Redemption Amount of each Note [•] per Calculation Amount

24 Early Redemption Amount

- (i) Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons (Condition 6(c)) or Event of Default (Condition 10(a) or 10(b)) and/or the method of calculating the same (if required or if different from that set out in the Conditions): [•]

## GENERAL PROVISIONS APPLICABLE TO THE NOTES

- 25 Form of Notes: [Bearer Notes/Registered Notes]  
[Delete as appropriate]
- (i) [temporary Global Note exchangeable for a permanent Global Note which is exchangeable for Definitive Notes in the limited circumstances specified in the permanent Global Note] [temporary Global Note exchangeable for Definitive Notes on [•] days' notice] [permanent Global Note/Certificate exchangeable for Definitive Notes/Certificates on [•] days' notice/ at any time/in the limited circumstances specified in the permanent Global Note/ Certificate]
- 26 Financial Centre(s) (Condition 7[(h)]) or other special provisions relating to payment dates: [Not Applicable/Give details. Note that this item relates to the date and place of payment, and not interest period end dates, to which item 16(ii), 17(iv) and 19(vii) relate]
- 27 Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature): [Yes/No. If yes, give details]
- 28 Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment: [Not Applicable/give details]
- 29 Details relating to Instalment Notes: [Not Applicable/give details]
- (i) Instalment Amount(s): [•]
- (ii) Instalment Date(s): [•]
- (iii) Minimum Instalment Amount: [•]
- (iv) Maximum Instalment Amount: [•]
- 30 Redenomination, renominatisation and reconventioning provisions: [Not Applicable/The provisions annexed to this Pricing Supplement apply]
- 31 Consolidation provisions: [Not Applicable/The provisions annexed to this Pricing Supplement apply]
- 32 Other terms or special conditions: [Not Applicable/give details]<sup>(7)</sup>

## DISTRIBUTION

- 33 (i) If syndicated, names of Managers: [Not Applicable/give names]
- (ii) Stabilising Manager (if any): [Not Applicable/give name]

- 34 If non-syndicated, name of Dealer: [Not Applicable/give name]
- 35 U.S. Selling Restrictions Reg. S Category 2; TEFRA D/TEFRA C/TEFRA Not Applicable]
- 36 Additional selling restrictions: [Not Applicable/give details]

**OPERATIONAL INFORMATION**

- 37 ISIN Code: [•]
- 38 Common Code: [•]
- 39 CMU Instrument Number: [•]
- 40 Any clearing system(s) other than Euroclear, Clearstream, Luxembourg and the CMU Service and the relevant identification number(s): [Not Applicable/give name(s) and number(s)]
- 41 Delivery: Delivery [against/free of] payment
- 42 Additional Paying Agents (if any): [•]

**GENERAL**

- 43 The aggregate principal amount of Notes issued has been translated into US dollars at the rate of [•], producing a sum of (for Notes not denominated in US dollars): [Not Applicable/US\$[•]]
- 44 In the case of Registered Notes, specify the location of the office of the Registrar if other than Hong Kong: [Not Applicable/Luxembourg]
- 45 In the case of Bearer Notes, specify the location of the office of the Fiscal Agent if other than London: [Not Applicable/Hong Kong]

**[LISTING APPLICATION**

This Pricing Supplement comprises the final terms required to list the issue of Notes described herein pursuant to the US\$[•] Medium Term Note Programme of Agricultural Bank of China Limited [[•] Branch.]

**[STABILISING**

In connection with the issue of any Tranche of Notes, one or more of the Dealers named as Stabilising Manager (or persons acting on behalf of any Stabilising Manager(s)) in this Pricing Supplement may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail for a limited period after the closing date of the relevant Tranche of Notes. However, there is no obligation on the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager) to do this. Such stabilising if commenced may be discontinued at any time, and must be brought to an end after a limited period. Such stabilising shall be in compliance with all applicable laws, regulations and rules.]

## [MATERIAL ADVERSE CHANGE STATEMENT

[Except as disclosed in this document, there/There]<sup>(8)</sup> has been no significant change in the financial or trading position of the Issuer or of the Group since *[insert date of last audited accounts or interim accounts (if later)]* and no material adverse change in the financial position or prospects of the Issuer or of the Group since *[insert date of last published annual accounts].*]

## RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement.

[If the Issuer is not the Hong Kong branch of Agricultural Bank of China Limited, by signing this Pricing Supplement and delivering it to the Fiscal Agent, the Issuer agrees to become a party to the Agency Agreement in place of the Hong Kong Branch (as defined therein).]

Signed on behalf of the Issuer:

By: \_\_\_\_\_  
Duly authorised

Notes:

- (1) Notes (including Notes denominated in sterling) in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the FSMA and which have a maturity of less than one year must have a minimum redemption value of £100,000 (or its equivalent in other currencies).

If the specified denomination is expressed to be €100,000 or its equivalent and multiples of a lower principal amount (for example €1,000), insert the additional wording set out in the Guidance Note published by ICMA in November 2006 (or its replacement from time to time) as follows: "€100,000 and integral multiples of €1,000 in excess thereof up to and including €199,000. No notes in definitive form will be issued with a denomination above €199,000".

- (2) Note that for Renminbi or Hong Kong dollar denominated Fixed Rate Notes where the Interest Payment Dates are subject to modification it will be necessary to use the second option here.
- (3) Note that for certain Renminbi or Hong Kong dollar denominated Fixed Rate Notes the Interest Payment Dates are subject to modification and the following words should be added: "provided that if any Interest Payment Date falls on a day which is not a Business Day, the Interest Payment Date will be the next succeeding Business Day unless it would thereby fall in the next calendar month in which event the Interest Payment Date shall be brought forward to the immediately preceding Business Day."
- (4) For Hong Kong dollar denominated Fixed Rate Notes where the Interest Payment Dates are subject to modification the following alternative wording is appropriate: "Each Fixed Coupon Amount shall be calculated by multiplying the product of the Rate of Interest and the Calculation Amount by the Day Count Fraction and rounding the resultant figure to the nearest CNY0.01, CNY0.05 in the case of Renminbi denominated Fixed Rate Notes or to the nearest HK\$0.01, HK\$0.005 in the case of Hong Kong dollar denominated Fixed Rate Notes, being rounded upwards."
- (5) Only to be completed for an issue where the Day Count Fraction is Actual/Actual-ICMA.
- (6) If the temporary Global Note is exchangeable for definitives at the option of the holder, the Notes shall be tradeable only in amounts of at least the Specified Denomination (or if more than one Specified Denomination, the lowest Specified Denomination) provided in paragraph 6 and multiples thereof.
- (7) If full terms and conditions are to be used, please add the following here:

"The full text of the Conditions which apply to the Notes [and which will be endorsed on the Notes in definitive form] are set out in [the Annex hereto], which Conditions replace in their entirety those appearing in the Offering Circular for the purposes of these Notes and such Conditions will prevail over any other provision to the contrary."

The first set of bracketed words is to be deleted where there is a permanent global Note instead of Notes in definitive form. The full Conditions should be attached to and form part of the Pricing Supplement.

- (8) If any change is disclosed in the Pricing Supplement, it will require approval by the Stock Exchange(s). Consideration should be given as to whether or not such disclosure should be made by means of a supplemental Offering Circular rather than in a Pricing Supplement.

## CAPITALISATION AND INDEBTEDNESS

As at 31 December 2013, the Bank had an authorised share capital of CNY324,794,117,000 divided into 30,738,823,096 H shares of CNY1.00 each and 294,055,293,904 A shares of CNY1.00 each.

The following table sets out the Group's consolidated capitalisation and indebtedness as at 31 December 2013. This table should be read in conjunction with the audited financial statements of the Group as at 31 December 2013, including the notes thereto, included elsewhere in this Offering Circular.

	As at <u>31 December 2013</u> CNY in millions
<b>Debt</b>	
Debt securities issued .....	266,261
Other borrowings <sup>(1)</sup> .....	13,451,304
<b>Shareholders' Equity</b>	
Share capital .....	324,794
Capital reserve .....	98,773
Investment revaluation reserve .....	(22,772)
Surplus reserve .....	60,632
General reserve .....	139,204
Retained earnings .....	243,482
Foreign currency translation reserve .....	(1,005)
	1,429
Non-controlling interests .....	844,537
Total equity .....	14,562,102
<b>Total capitalisation</b> .....	

Note:

(1) Calculated as the difference between total liabilities and debt securities issued.

There has been no material change in the consolidated capitalisation and indebtedness of the Group since 31 December 2013.

## **USE OF PROCEEDS**

The net proceeds of any Notes issued under the Programme shall be used for the Issuer's working capital and general corporate purposes.



## DESCRIPTION OF THE BANK

### Overview

The Bank is a leading commercial bank in China in terms of total assets, total loans and total deposits. As at 31 December 2011, 2012 and 2013, the Bank had total assets of CNY11,677.6 billion, CNY13,244.3 billion and CNY14,562.1 billion, total gross loans of CNY5,639.9 billion, CNY6,433.4 billion and CNY7,224.7 billion. The Bank's total customer deposits amounted to CNY9,622.0 billion, CNY10,862.9 billion and CNY11,811.4 billion for the same periods respectively. From 31 December 2011 to 31 December 2013, the Bank's total assets, total gross loans and total customer deposits grew by a CAGR of 11.7%, 13.2% and 10.8%, respectively.

The Bank has one of the leading domestic distribution networks among the Large Commercial Banks in terms of the number of branch outlets. As at 31 December 2013, it had a total number of 23,547 domestic branches. Leveraging its extensive network, the Bank provides a wide range of banking products and services to its corporate and retail customers in China.

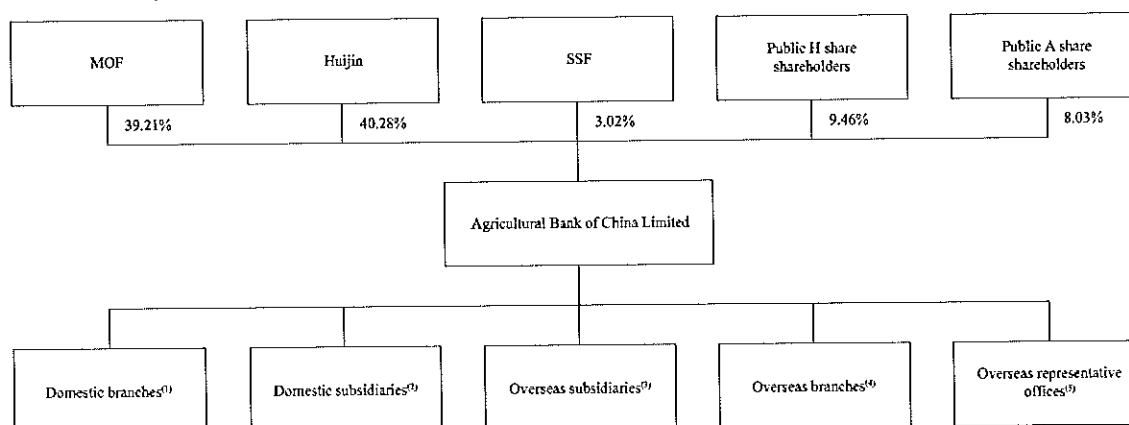
As a leading bank in China's Urban Areas, the Bank has benefited from China's strong economic growth in recent years, and by leveraging its extensive distribution network and large customer base, the Bank was able to further strengthen its market position in the Urban Areas. For the years ended 31 December 2011, 2012 and 2013, its deposits in the Urban Areas totalled CNY5,608.0 billion, CNY6,305.6 billion and CNY6,852.0 billion, representing a CAGR of 10.5% for the same period.

The Bank is a leading provider of financial services in China's vast, fast-developing County Areas, with the largest number of domestic branch outlets among the Large Commercial Banks. The Bank refers to such banking business as the "County Area Banking Business" or "Sannong Banking Business". It believes that the established market leadership and vast distribution network of its County Area Banking Business enable it to continue to take advantage of the various growth opportunities arising from the rapid urbanisation and favourable economic and policy developments in the County Areas. As at 31 December 2011, 2012 and 2013, the Bank's loans and advances in the County Areas totalled CNY1,751.5 billion, CNY2,049.2 billion and CNY2,348.0 billion, respectively. The deposits it takes in the County Areas totalled CNY4,014.0 billion, CNY4,557.3 billion and CNY4,959.4 billion for the same periods. From 31 December 2011 to 31 December 2013, the Bank's loans and advances and deposits in the County Areas grew by a CAGR of 15.8% and 11.2% respectively.

The Bank believes that "Agricultural Bank of China" ("中國農業銀行") is one of the most recognised financial services brands in China. In 2013, the Bank was recognised as "Top 3 Most Valuable Global Banking Brand in Asia" by Brand-Finance and awarded "Best Managed Banking and Finance Institution in Asia" by *Euromoney*. In 2012, the Bank was awarded "BrandZ Top 50 Most Valuable Chinese Brands" and the "Financial Platinum Corporate Award" by *The Asset*. In 2011, the Bank was recognised as "2011 Most Innovative Chinese Company" by *Fortune* and awarded "China's Most Promising Companies in 2011 Awards" by *The Asset*.

Headquartered in Beijing with a nationwide distribution network, as at 31 December 2013, the Bank had seven overseas branches in Hong Kong, Singapore, Seoul, New York, Dubai, Tokyo and Frankfurt and representative offices in Sydney, Vancouver and Hanoi. During 2013, the Bank's Dubai branch, Tokyo branch and Frankfurt branch commenced operation. The Bank has received approvals for its applications for the establishment of Hanoi branch, Luxembourg branch and Vancouver branch (approval obtained in January 2014). In addition, the Bank has a number of wholly-owned overseas subsidiaries, including ABC International Holdings Limited and China Agricultural Finance Co., Ltd.

The following chart sets out the Bank's group structure as at 31 December 2013 :



- (1) Includes the head office and its business department, three specialised institutions managed by the head office, 37 tier-1 branches (including branches directly managed by the head office), 351 tier-2 branches (including business departments of branches in provinces), 3,506 tier-1 sub-branches (including business departments in municipalities, business departments of branches directly managed by the head office and business departments of tier-2 branches), and 19,648 other establishments as at 31 December 2013.
- (2) The Bank's major domestic subsidiaries include ABC-CA Fund Management Co., Ltd., ABC Financial Leasing Co., Ltd., ABC Life Insurance Co., Ltd., ABC Hubei Hanchuan Rural Bank Limited Liability Company, ABC Hexigten Rural Bank Limited Liability Company, ABC Ansai Rural Bank Limited Liability Company, ABC Jixi Rural Bank Limited Liability Company, ABC Xiamen Tong'an Rural Bank Limited Liability Company and ABC Zhejiang Yongkang Rural Bank Limited Company.
- (3) The Bank's major overseas subsidiaries include Agricultural Bank of China (UK) Limited, ABC International Holdings Limited and China Agricultural Finance Co., Ltd.
- (4) Hong Kong, Singapore, Seoul, New York, Dubai, Tokyo and Frankfurt branches.
- (5) Sydney, Vancouver and Hanoi representative offices.

### Hong Kong Branch

The Hong Kong Branch was established in 22 November 1995 as the first overseas stronghold of the Bank. It holds a banking business license and focuses on corporate banking business, providing domestic and overseas companies with syndicate loans, working capital loans, bond underwriting and distribution, international settlement, trade finance and deposit-taking services.

The Hong Kong Branch has 12 departments: legal and compliance, internal audit, corporate affairs, finance, information technology, operations, trade finance, cash management, corporate banking, credit, financial markets, product development/personal banking. It has a 3 tier structure of frontline departments, middle and back offices which collaborate with each other to enhance operations.

### The Bank's competitive strengths

The Bank's principal competitive strengths include:

#### *Balanced Urban and Rural Growth Strategy*

With a significant market share and a broad presence in both Urban Areas and County Areas, the Bank is well-positioned to capitalise on China's future growth by providing comprehensive products and services to its customers through an integrated platform that covers both Urban Areas and County Areas.

For the year ended 31 December 2013, County Areas contributed to 40.0% of the Bank's operating income. The Bank endeavours to maintain balanced development in both Urban Areas and County Areas to minimise volatility to its business arising from potential asymmetric policies applying to Urban Areas and County Areas.

Rapid urbanisation, increasing business flows between the Urban Areas and the County Areas and the continued shift to a more consumption-driven economy have stimulated a strong growth in both Urban Areas and County Areas. In addition, as a key part of its future development strategy, the PRC government plans to continue to focus on promoting the economic development of the County Areas. One of the key focuses of the 12th Five-Year Plan (“十二五規劃”) announced in the National People’s Congress in March 2011 was the continuing development of the County Areas. The Bank believes that the continued trend of urbanisation will further increase the County Areas’ contribution to China’s GDP. The economic development in the County Areas has spurred rapid growth of the banking industry in these areas. Benefitting from its established leadership in both Urban Areas and County Areas, the Bank believes that it is well-positioned to capitalise on China’s future growth in both Urban Areas and County Areas.

*Extensive nationwide branch outlet network complemented by a multi-channel electronic banking system*

The Bank has a nationwide distribution network with a leading number of branch outlets among the Large Commercial Banks. As at 31 December 2013, the Bank had a total number of 23,547 domestic branch outlets, covering all of the provincial-level administrative regions, prefectural-level cities, and county-level administrative regions except Sansha. It maintains a strong presence and extensive network in economically developed areas. Such an extensive network adds risk diversification features into the Bank’s business and minimises potential adverse influence of regional economic risk on the overall business of the Bank. The Bank is well-positioned to benefit from lower penetration, less competition and larger loan pricing power in rural areas, which complements its urban banking business in economically developed areas.

As an important complement to and extension of its nationwide distribution network, the Bank has a multi-channel electronic banking transaction system consisting primarily of ATMs, Internet banking, telephone banking, mobile phone banking and non-cash transaction terminals. The Bank also has a leading electronic customer service system with Internet portals and a call centre which operates 24 hours a day, seven days a week.

The Bank’s extensive nationwide branch outlet network together with its multi-channel electronic banking system provides it with a strong sales platform, which enables it to cross-sell its products and deliver high-quality, convenient and comprehensive services. It has also allowed the Bank to establish a leading position in major product and service offerings including deposits, lending, settlement, custody, agency services and bank cards.

*Large and diversified customer base providing significant growth potential*

Through the Bank’s extensive multi-channel distribution network, the Bank serves a large and diversified corporate and retail customer base.

As at 31 December 2013, the Bank had approximately 3.3 million corporate banking customers, of which approximately 77,500 had outstanding loans from the Bank. As at the same date, the Bank also had approximately 4.0 million Renminbi-denominated corporate settlement accounts and approximately 254,000 cash management customers. In addition to expanding the Bank’s customer base, the Bank has focused on optimising its customer mix by developing relationships with large industry-leading companies, financial institutions and government agencies. Over the years, the Bank has established extensive strategic cooperation with the major enterprises of the leading sectors in China, including two major power grid companies, five major power generation companies, three major petroleum companies and three major telecommunication operators. Such cooperation substantially extended the Bank’s customer base to the leading enterprises of the energy, telecommunication, aviation, steel, automobile, chemical, electronic industries. The Bank has also established extensive strategic cooperation relationships with companies in the financial services sector as well as the central government departments and provincial governments. At the end of 2013, the Bank had established business cooperation with 112 banks and offered third-party depository services to 99 securities firms for their

transaction settlement fund and 13.9 million clients signed cooperation contracts with the Bank. The Bank continues to focus on expanding the institutional banking market and continued to deepen its cooperation with other banks, securities firms, futures brokerage companies, governments and insurance companies. As at 31 December 2013, the Bank had established agent cooperation relationships with 170 banks, 159 securities firms and 159 futures brokerage companies in China.

The Bank has established a large retail banking customer base in China with over 440 million retail customers and more than 19 million VIP customers as at 31 December 2013. The Bank's large and affluent retail customer base enables it to identify and introduce attractive new products and services. The Bank believes that the demand for emerging financial services, such as wealth management, bancassurance and investment, will increase significantly as its customers' personal wealth continues to grow. The Bank believes that its large and diversified customer base will provide significant business growth opportunities, which will in turn enhance its competitive position across various business segments.

#### ***Strong deposit base providing stable and low-cost funding***

The Bank believes that its large distribution network has enabled it to provide convenient services to its broad customer base across China and establish a strong brand recognition among its customers. The Bank has one of the largest customer deposit base among all commercial banks in China, amounting to CNY11,811.4 billion as at 31 December 2013, representing a substantial market share among all PRC banking institutions.

The Bank had CNY6,923.6 billion in domestic retail deposits as at 31 December 2013. At the same date, the Bank's domestic retail deposits accounted for 58.6% of its total deposits. This is a result of higher residential savings rate in the County Areas and the Bank's extensive branch network. The Bank believes its advantage in retail deposit base will be further strengthened from increasing wealth of population in the County Areas through enlarged government fiscal subsidies to support agricultural development. The Bank's large retail deposit base provides it with a stable source of funding. In addition, the Bank has a greater percentage of demand deposits within its deposit mix. Domestic demand deposits accounted for 54.6% of its total deposits at 31 December 2013. Having deposits primarily consisting of demand deposits enables the Bank to maintain a lower cost of deposits compared to other commercial banks in China. For the years ended 31 December 2011, 2012 and 2013, the Bank's average domestic cost of deposits was 1.5%, 1.8% and 1.7% respectively.

The Bank believes that its large deposit base provides it with access to stable source of funding at a relatively low cost, which enables it to grow its loan business and improve its financial results.

#### ***Fast growing fee- and commission-based business***

It has been an important strategic focus for the Bank to grow its fee- and commission-based business. The Bank's integrated branch and electronic banking network and increasingly diversified product and service portfolio have enabled it to successfully develop its fee- and commission-based business. For the year ended 31 December 2013, the Bank's net fee and commission income was CNY83.2 billion, representing a CAGR of 10.0% from 2011 to 2013. Through product innovation, resources sharing among the Bank's different business segments and cross-selling efforts, the Bank has been able to maintain its strengths in settlement, asset custody, bank cards and bancassurance businesses.

As at 31 December 2013, the Bank's assets under custody reached CNY3,585.9 billion, among which, the value of its insurance assets under custody was the highest among all commercial banks in China. In addition, the Bank had a consistently high ranking in terms of the total number of bank cards issued as at the end of each year from 2006 to 2013. The Bank had issued approximately 637 million debit cards as at 31 December 2013 and its "Kins Card" ("金穗卡") brand is widely recognised in the PRC. For the year ended 31 December 2013, the Bank maintained its leading position in the bancassurance market and collected CNY95.4 billion new premiums from its sales of insurance products, and earned CNY3.6 billion of fees and commissions from the Bank's bancassurance business, the highest among all commercial banks in China for four consecutive years.

Furthermore, given the Bank's large and diversified customer base, it has experienced a rapid growth in certain new business areas. For the year ended 31 December 2013, fees and commissions income from its bank card service and agency service reached CNY15.9 billion and CNY21.7 billion, respectively, representing an increase of 26.8% and 16.2% over the corresponding period in 2012. In addition, the Bank has also taken initiatives in new business areas that it believes present strong growth potential, such as asset management, wealth management and investment banking. The Bank was one of the first banks to offer CBRC-approved Renminbi-denominated wealth management products among approximately 100 banking institutions in China that currently offer such wealth management products. In addition, the Bank was one of the first banks licensed to provide custodian services to mutual funds.

#### *Continuously enhanced risk management and internal control capabilities*

In recent years, the Bank has strengthened its risk management and internal control capabilities by improving its policies and procedures and introducing advanced risk management tools. The Bank has adopted a prudent risk management strategy and continued to enhance its risk management organisational structure, in order to create a centralised risk management system and an independent and effective risk management function. The Bank has also continued to enhance its credit risk management system. In this context, the Bank has adopted industry-specific credit guidelines and a customer list-based management system, and implemented a standardised authorisation and credit approval process, where credit applications are reviewed by dedicated professionals. The Bank has further refined its risk management tools and systems by adopting credit limits with respect to its exposure to borrowers, developing a risk reporting system and implementing a 12-category loan classification system and adopting a customer credit rating system for corporate loans. The Bank has developed a plan to implement Basel II and upgrade its internal rating-based system for its customers. The Bank has also expanded the use of economic capital management tools from credit risk management to market risk and operational risk management.

The Bank has also started to implement a programme to appoint risk officers from tier-1 branches to tier-2 branches, and appoint risk managers from tier-2 branches to sub-branches. The Bank believes that its efforts in strengthening risk management have improved its asset quality. The downgrade migration ratios of the Bank's domestic loan portfolio classified as special mention loans decreased to 3.8%, as at 31 December 2013, from 4.6%, as at 31 December 2012.

The Bank has established and improved its internal control and compliance management system and internal audit system. These systems have enabled it to enhance its internal control and compliance management capabilities, strengthen its designated internal audit function and reduce operational risks and incidences of fraud and other non-compliance.

#### *Leading information technology platform*

The Bank believes that it has one of the most advanced information technology platforms among all commercial banks in China. The Bank accomplished data centralisation in 2006 and has gradually established a centralised computer network system which, through its national data centre, covers nationwide branch outlets and links teller terminals throughout China. In 2010, the Bank completed the construction project of a new-generation core banking system and IT infrastructure, core business system as well as basic data platform.

By establishing an information technology system which effectively integrates the Bank's customer service channels, including physical counters, internet banking, customer service system, phone banking, mobile phone banking and information platforms, the Bank is able to provide its management team with certain financial and operational data on a T+1 basis and better serve its customers in an efficient and effective manner. The Bank has also focused on calibrating its information systems to meet the requirements of its County Area Banking Business and strengthen its information technology capabilities in support of its continued expansion in the County Areas.

### ***Experienced management team with a proven track record***

The Bank has an energetic, experienced and entrepreneurial management team with an established proven track record in the financial services industry. The Bank's president, Mr. ZHANG Yun, has served the Bank for over 20 years and was previously the Bank's executive assistant president and executive vice president. The chairman of the Bank's Board of Supervisors, Mr. CHE Yingxin, has extensive experience in supervising financial institutions and was the assistant to chairman of the CBRC and chairman of the Board of Supervisors of Key State-owned Financial Institutions (國有重點金融機構監事會). The Bank's senior management team have on average over 20 years of professional experience in the financial industry. All members of the Bank's management team have in-depth knowledge of banking operations and management and, through their working experience with the Bank and at other Chinese financial institutions, have gained an in-depth understanding of China's macroeconomic environment, its banking industry and the financial system in China's County Areas in particular.

The Bank's experienced management team has demonstrated a track record of successfully implementing a series of transformational initiatives, including the Bank's financial restructuring and the improvement of the Bank's corporate governance and risk management. Under the leadership of its management team, the Bank has significantly improved its operations and financial results, and is moving toward its goal of becoming a world-class commercial bank.

### **The Bank's strategies**

By leveraging its leading positions in both Urban Areas and County Areas, the Bank believes it will become a world-class financial institution through the successful implementation of the following strategies.

#### ***Further strengthen the Bank's leadership in the Urban Areas***

The Bank plans to further strengthen its leadership in the Urban Areas by focusing on key customers and selected geographical regions and promoting innovative, high value-added products and services. Specifically:

- The Bank plans to further develop its business in the more economically developed regions, such as the Yangtze River Delta, Pearl River Delta and Bohai Rim, focusing on key cities and other areas with abundant financial resources, such as provincial capitals and regional centres.
- The Bank will continue to focus on large and high-quality customers in its corporate banking business, including industry leading companies, large state-owned enterprises and Chinese subsidiaries of global Fortune 500 companies, while maintaining its leadership in the SME segment. In addition, the Bank plans to tailor its sales and marketing efforts to industry sectors with significant growth potential.
- The Bank will further upgrade its outlets and strengthen its customer segmentation capabilities to enhance cross-selling in its retail banking business. The Bank aims to achieve higher returns through continued focus on high-growth business areas, such as wealth management and private banking.

#### ***Solidify the Bank's dominant position in the County Areas***

The Bank believes that China's vast, fast-growing County Areas present significant growth potential and will be a key driver for China's long-term economic growth. The Bank has a business unit dedicated to the County Area banking market. The Bank intends to leverage its dominant market position and its first-mover advantage, to strengthen its presence and customer penetration in the County Areas, which the Bank believes will deliver more significant profit contribution. Specifically:

- The Bank intends to capture opportunities arising from the urbanisation and industrialisation process to provide customers in the County Areas, particularly industry-leading companies in the County Areas as well as their suppliers, customers and distributors, with comprehensive financial products and services.

- The Bank aims to meet the needs of mid- to high-end retail customers in the County Areas, and to leverage its Huinong Card (惠穗卡) to develop businesses related to new rural pension insurance and new rural cooperative medical insurance schemes.
- The Bank plans to leverage its extensive electronic distribution channels to expand its coverage in the County Areas, provide its customers in the County Areas with more convenient and user-friendly services and increase its operational efficiency in the County Areas.
- The Bank will continue to allocate additional resources to selected sub-branches in the County Areas to drive the growth of its business in the County Areas.

***Diversify the Bank's revenue mix by expanding its product and service offerings***

The Bank intends to further diversify its revenue sources and increase its overall revenue by expanding its product and service offerings, particularly fee- and commission-based business, through the following efforts.

- The Bank aims to leverage its extensive distribution network to strengthen its leading position in bank cards, settlement, insurance agency and custody services.
- The Bank also intends to further expand emerging business areas, such as asset management, investment banking, financial leasing and rural insurance.

In addition to expanding its product and services portfolio, the Bank also intends to adopt a more sophisticated pricing mechanism by taking into account several factors, including market competition and customer risk profiles.

***Continuously upgrade the Bank's multi-channel distribution network***

The Bank aims to upgrade its multi-channel distribution network. The Bank believes that its upgraded outlets and improved electronic banking will enable it to further enhance its operational efficiency and profitability.

- The Bank plans to continue to upgrade its outlets, allocate separate space to different service functions and streamline the business operations to increase its operational efficiency and marketing capability.
- The Bank intends to continue its efforts to upgrade certain of its branch outlets, including establishing more high-end wealth management centres to develop its wealth management business, and provide a wider range of products and services to its customers.
- In electronic banking, the Bank intends to leverage its leading information technology platform to expand its service offerings and improve its service quality, while at the same time increasing efficiency.

***Continuously strengthen the Bank's risk management and internal control capabilities***

The Bank seeks to continue to enhance its risk management and internal control capabilities by:

- continuing to focus on implementing a comprehensive risk management strategy characterised by a sound governance structure, independent credit risk management and strong risk management culture shared by all its employees;
- proactively preparing for the implementation of Basel II guidelines, applying advanced risk management tools, upgrading related information technology system and continuously enhancing its risk identification, measurement, monitoring and control capabilities; and
- further streamlining its internal control organisation structure, continuously examining and improving its internal control policies and procedures and supervising and evaluating the implementation of such policies and procedures to enhance the effectiveness of its internal control system.

### *Attract, motivate and develop talented and experienced professionals*

The Bank believes that a key to its success is its ability to recruit, retain, motivate and develop talented and experienced professionals. The Bank intends to:

- continue to enhance its human resources management to meet its growth plans and its business needs;
- continue to focus on the recruitment and cultivation of a high-quality and professional workforce, provide training and development programmes for its employees to enhance their professional knowledge and capabilities, and create a collegial culture that promotes its employees' personal and professional development; and
- continue to improve its management and employee incentive programmes, including an enhanced economic value-added based incentive scheme, to align compensation with employee performance.

### **The Bank's principal businesses**

The Bank's business segments consist of corporate banking, retail banking, treasury operations and other operations. The following table sets forth, for the periods indicated, the Bank's operating income by business segments.

(in millions of CNY, except for percentages) Item	For the year ended 31 December					
	2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total
Corporate banking business .....	218,628	57.6	249,522	58.7	253,092	54.3
Retail banking business .....	137,383	36.2	149,398	35.2	180,223	38.7
Treasury operations .....	22,844	6.0	23,473	5.5	27,916	6.0
Other operations .....	901	0.2	2,571	0.6	4,540	1.0
<b>Total operating income .....</b>	<b>379,756</b>	<b>100.0</b>	<b>424,964</b>	<b>100.0</b>	<b>465,771</b>	<b>100.0</b>

### **Corporate banking**

Corporate banking constitutes the Bank's primary source of income and has consistently contributed more than 50% of its total operating income. The Bank offers a broad range of corporate banking products and services to corporations and other entities, including state-owned enterprises, private enterprises, foreign-invested enterprises and government agencies, which the Bank collectively refers to as its corporate banking customers. The Bank's corporate banking business consists primarily of corporate lending, discounted bills, corporate deposits, clearing and settlement services, cash management, investment banking, custody services, corporate treasury services, guarantee services, third-party depository and futures margin depository and other agency services. Corporate banking accounted for 57.6%, 58.7% and 54.3%, of its total operating income in 2011, 2012 and 2013, respectively. The Bank's domestic corporate loans accounted for 70.7%, 68.8% and 65.4% of its total loans, and its domestic corporate deposits accounted for 37.9%, 36.6% and 36.5% of its total deposits from customers as at 31 December 2011, 2012 and 2013, respectively.

### *Customer base*

As at 31 December 2013, the Bank had approximately 3.3 million corporate banking customers, of which approximately 77,500 had outstanding loans.

As at 31 December 2013, the Bank's major corporate loan customers were concentrated in (i) manufacturing; (ii) transportation, logistics and postal services; (iii) real estate; (iv) retail and wholesale and (v) production and supply of power, thermal power, gas and water; represented 29.0%, 12.8%, 11.3%, 11.0% and 10.3% of its total corporate loans outstanding, respectively.

In addition to expanding its customer base, the Bank has focused on optimising its customer mix by developing relationships with large state-owned enterprises, industry-leading companies and government agencies.



## *Major products and services*

### *Corporate loans*

Corporate loans have historically constituted the largest component of the Bank's loan portfolio. The Bank's corporate loans include working capital loans, real estate development loans, project loans, trade finance products, small business loans and syndicated loans. The Bank's corporate loans consist substantially all of its Renminbi-denominated loans. As at 31 December 2011, 2012 and 2013, the Bank had CNY3,989.6 billion, CNY4,428.0 billion and CNY4,728.9 billion in domestic corporate loans outstanding, respectively, accounting for 70.7%, 68.8% and 65.4% of its total loans for the same period.

From 31 December 2011 to 31 December 2013, the Bank's outstanding domestic corporate loans grew by a CAGR of 8.9%.

### *Discounted bills*

Discounted bills refer to the Bank's discounted purchase of bank acceptance bills and commercial acceptance bills with a remaining maturity of less than six months. Bill discounting is a form of short-term financing provided to corporate customers. The Bank may resell these bills to the PBOC or other financial institutions authorised to conduct bill discounting, providing it with additional liquidity and spread income. As at 31 December 2011, 2012 and 2013, the Bank had domestic discounted bills of CNY102.5 billion, CNY107.6 billion and CNY92.8 billion outstanding, respectively, representing 1.8%, 1.7% and 1.3% of its total loan portfolio for the same period.

### *Corporate deposits*

The Bank offers its corporate customers time and demand deposits in Renminbi and major foreign currencies. In addition, the Bank offers a call deposit product that bears a higher interest rate than those of demand deposits but also retains some of the flexibility of demand deposits by allowing its customers to withdraw money with one or seven days' prior notice. As at 31 December 2011, 2012 and 2013, the Bank had domestic total corporate deposits of CNY3,643.6 billion, CNY3,980.5 billion and CNY4,311.4 billion, respectively. From 31 December 2011 to 31 December 2013, the Bank's domestic total corporate deposits grew by a CAGR of 8.8%.

### *Fee- and commission-based products and services*

The Bank provides its corporate customers with a broad range of fee- and commission-based products and services, including settlement services, cash management, investment banking, custody services, corporate treasury services, guarantee services, agency services and depositary services for securities transaction clearing fund and futures margin. As the Bank has focused on developing and offering fee- and commission-based corporate banking products and services in recent years, this segment of its corporate banking business has grown significantly and generated net fee and commission income of CNY33.7 billion, CNY41.8 billion and CNY47.0 billion in 2011, 2012 and 2013, respectively. From 2011 to 2013, the Bank's net fee and commission income from corporate banking business grew by a CAGR of 18.1% over this period.

### *Settlement services*

The Bank offers broad and convenient settlement services through a wide range of channels such as bank counters, Internet banking, phone banking, ATMs and POS. By leveraging its strength in traditional settlement services, the Bank continues to promote the usage of electronic settlement accounts, through which its customers can settle payments online. As at 31 December 2013, the Bank had approximately 4.0 million Renminbi-denominated corporate settlement accounts with a settlement transaction volume of CNY387.0 trillion for the year ended 31 December 2013.

The Bank's international settlement services include documentary letters of credit, documentary collection, remittances and clean collection. The Bank has developed a centrally-managed global transaction system (GTS) for international settlement to further enhance its professional services. For the years ended 31 December 2011, 2012 and 2013, the international settlement volume of the Bank's domestic branches totalled U.S.\$592.1 billion, U.S.\$671.3 billion and U.S.\$781.1 billion, respectively.

The Bank has traditionally been a leading participant in cross-border trade settlement in Renminbi and was one of the first banks to introduce this service. For the year ended 31 December 2013, the Bank's transaction volume for cross-border Renminbi trade settlement rose to approximately CNY641.0 billion.

#### Cash management

The Bank provides integrated cash management services to its corporate customers for their liquidity management, including account management, information services, collection and disbursements, trade settlement, investment and financing services. Cash management services are particularly useful for large companies that need to centrally manage their cash flow across many locations or subsidiaries. For the years ended 31 December 2011, 2012 and 2013, the Bank had approximately 103,000, 162,000 and 254,000 cash management customers, respectively. From 31 December 2011 to 31 December 2013, the Bank's cash management customers grew by a CAGR of 57.0%. The total transaction volume processed by the Bank's cash management services reached CNY144.2 trillion for the year ended 31 December 2013 representing an increase of 33.3% compared to the same period of the previous year.

#### Investment banking

The Bank provides investment banking services to its corporate customers and engages in financial advisory services, restructuring and acquisition services, underwriting of debt instruments such as commercial paper and medium-term notes, fixed-income investment advisory services and asset securitisation advisory services.

Through its financial advisory service platform, the Bank provides its customers with financial advice, business plan formulation and in-depth industry and financial markets analysis. The Bank actively promotes product innovation in investment banking, such as the introduction in the PRC of the first foreign currency-denominated medium-term note, the first private company medium-term notes and the pilot test of collective notes for rural and agricultural small businesses. The Bank was awarded the "Best Bank on Syndicated Loans" in the election of "2011 Outstanding Investment Banks in China" by the *Securities Times*. It also received the "Best Management Award" and its "Zhenjiang 10,000 hectares Syndicated Loan Project" was awarded the "Best Deal" in the Outstanding Syndicated Loan Business Campaign by the China Banking Association in 2011. In 2012, the Bank was awarded the "Best Investment Bank", "Best Bank of Syndicated Financing", "Best Bank of Financial Advisory", "Best Debt Financing Project" and "Best Short-Term Commercial Paper Project" in the election of the best investment banks in China by *Securities Times*. The Bank also awarded "Best Syndicate Development" and "Best Deal of Syndicate" by China Banking Association in its Annual Award Selection Event. The Bank also awarded the "Best Investment Banking Business" in the sixth election of the Most Reliable Bank to CFO organised by *CFO World*. In 2013, the Bank was awarded as "The Outstanding Contribution Bank", "Best Syndicate Development" and "Best Deal of Syndicate" by the China Banking Association. The Bank was also selected as the "Best Investment Bank", "Best Bond Underwriting Bank", "Best Bank of Syndicated Financing", "Best Bank of Private Debt" and "Best Loans for Merger and Acquisition for the Year" by *Securities Times*. Further, the Bank was recognised as "Best Bond Underwriting Bank" by *Global Finance* and was awarded "Best Investment Banking Business" by *CFO World*.

#### Custody services

The Bank has one of the most comprehensive custody services among all commercial banks in China. Assets under custody primarily include assets of investment funds, insurance assets, corporate annuities, investments managed by QFIIs and QDIIs, certain customer assets of fund management companies, collective investment scheme funds managed by securities firms and private equity funds. The Bank's custody services include custody, fund clearing, asset valuation, investment monitoring and custody reporting services. In addition, the Bank offers value-added services, such as providing market information, research reports and tax consultation. The Bank seeks to continuously streamline the business process and enhances the effectiveness and soundness of its internal control systems in respect of custody services on an ongoing basis and has successfully passed SAS70 international authentication for internal control. The Bank has been awarded the "Most Outstanding Assets Custody Services Award"

by the *CFO World*, and it has also received the “Most Outstanding Custodian Bank Award” in its first session of election of the Top Ten Golden Wealth Management Institution organised by *Financial Money Magazine*.

The Bank is the largest insurance assets custodian in China. As at 31 December 2011, 2012 and 2013, the Bank had CNY2,080.0 billion, CNY2,973.8 billion and CNY3,585.9 billion in assets under custody, respectively, of which CNY1,147.0 billion, CNY1,345.0 billion and CNY1,707.0 billion was insurance assets. For the years ended 31 December 2011, 2012 and 2013, the Bank’s custodian and other fiduciary service fees amounted to CNY1,672 million, CNY2,495 million and CNY3,338 million, respectively. From the year ended 31 December 2011 to the year ended 31 December 2013, fees and commissions generated from custody and other fiduciary services grew by a CAGR of 41.3%.

#### Pension business

The Bank started its pension fund custody business in 2008, which has developed to cover corporate annuities, pension funds for farmers and social security funds. As at 31 December 2011, 2012 and 2013, pension funds under custody amounted to CNY133.1 billion, CNY167.9 billion and CNY208.2 billion respectively, representing a significant CAGR of 25.1% from 31 December 2011 to 31 December 2013.

#### Corporate wealth management

In 2013, the Bank issued corporate wealth management products of CNY1,534.1 billion. The Bank’s products such as “An Xin Kuai Xian” open-ended series products, “Ben Li Feng Corporate Series Products”, “An Xin De Li Corporate Series Products” and “Hui Li Feng Corporate Series Products” and “KaiYang” equity series products gained positive feedback from customers for their stable yields and flexible maturities. The number of contracted customers for wealth management further increased during 2013.

#### Guarantee services

The Bank provides surety services for its corporate banking customers primarily through performance guarantees, bid guarantees, prepayment guarantees and quality guarantees.

#### Third-party depository and futures margin depository

The Bank offers third-party depository services to securities firms in respect of settled funds for securities trading and to futures companies and exchanges in respect of futures margins. As at 31 December 2013, the Bank had offered third-party depository services to 99 securities firms. As at 31 December 2011, 2012 and 2013, the Bank’s contracted customers reached 12.4 million, 13.4 million and 13.9 million, respectively. For the years ended 31 December 2011, 2012 and 2013, the aggregate daily average balance of funds deposited from securities firms amounted to CNY97.3 billion, CNY69.7 billion and CNY66.6 billion, respectively.

The Bank has established business relationships with three major domestic commodities and futures exchanges as well as the China Financial Futures Exchange. As at 31 December 2013, the Bank had offered margin depository service to 159 domestic futures brokerage companies, and the outstanding margin deposit reached CNY28.7 billion.

#### Other products and services

In addition to the products and services described above, the Bank cooperates with other banks and non-banking institutions and participates in factoring, mutual and common entrustment.

#### Marketing

The Bank’s head office is responsible for formulating the Bank’s overall corporate business development plans and establishing the Bank’s general marketing guidelines based on industry, geographical region, customer and product considerations. The Bank’s tier-1 branches develop detailed marketing plans tailored to key regions, customers and businesses based on these guidelines.

The Bank conducts customer segmentation to implement differentiated marketing strategies. The Bank classifies its key customers into three categories and assigns them to the head office, tier-1 branches and tier-2 branches, respectively. The Bank employs marketing strategies customised for specific customers and markets. The Bank strategically allocates more resources to certain of its tier-1 and tier-2 branches and encourages them to grant more flexibility to their sales department catering to local market.

Marketing for corporate banking is conducted primarily by the Bank's relationship and product managers across different departments. The Bank promotes cooperation among the different departments and sets up matrix marketing and service programmes.

The Bank promotes individualised marketing and cross-selling to meet the specific needs of its customers. The Bank adopts a marketing model which focuses on using one principal product or service to drive the sales of additional products or services, namely a "1+N Model" to grow its business. Moreover, the Bank cooperates with securities firms, insurance companies and futures brokerage companies to develop third-party depository, bancassurance and fund transfer businesses with futures companies to strengthen the interaction between corporate and retail banking.

### **Retail banking**

The Bank provides its retail banking customers with a broad range of products and services, including retail loans, bank cards, retail deposits, settlement, bancassurance, personal wealth management and other fee- and commission-based products and services.

For the years ended 31 December 2011, 2012 and 2013, the Bank's retail banking business generated operating income of CNY137.4 billion, CNY149.4 billion and CNY180.2 billion, respectively, representing 36.2%, 35.2% and 38.7% of its total operating income for the same periods. The Bank had domestic retail deposits of CNY5,626.1 billion, CNY6,421.9 billion and CNY6,923.6 billion, representing 58.5%, 59.1% and 58.6% of its total deposits, and outstanding domestic retail loans of CNY1,430.5 billion, CNY1,707.3 billion and CNY2,093.3 billion, representing 25.4%, 26.5% and 29.0% of its total loans for the same periods.

From the year ended 31 December 2011 to the year ended 31 December 2013, operating income generated from retail banking business, domestic retail deposits and outstanding domestic retail loans grew by a CAGR of 14.5%, 10.9% and 23.5%, respectively.

As at 31 December 2013, the Bank had issued 637 million debit cards. The Bank maintained a consistently high ranking among all commercial banks in China in terms of the total number of bank cards issued from 2006 to the first half of 2014.

### ***Customer base***

As at 31 December 2013, the Bank had over 440 million retail banking customers and 19 million retail VIP customers.

### ***Major products and services***

#### ***Retail loans***

For the years ended 31 December 2011, 2012 and 2013, the Bank had a total of CNY1,430.5 billion, CNY1,707.3 billion and CNY2,093.3 billion, respectively, in domestic retail loans outstanding, which accounted for 25.4%, 26.5% and 29.0% of its total loans. This represented a CAGR of 21.0% from 31 December 2011 to 31 December 2013.

#### **Residential mortgage loans**

The Bank provides its customers with floating-rate residential mortgage loans, fixed-rate residential mortgage loans and hybrid-rate residential mortgage loans. The Bank's residential mortgage loans are generally secured by the underlying property being purchased. As at 31 December 2011, 2012 and 2013, the Bank's residential mortgage loans outstanding amounted to CNY891.5 billion, CNY1,051.0 billion

and CNY1,292.0 billion, respectively, which accounted for 62.3%, 61.5% and 61.7% of its total domestic retail loans outstanding for the same periods. This represented a CAGR of 20.4% from 31 December 2011 to 31 December 2013.

#### Personal consumption loans

The Bank provides a variety of personal consumption loans including personal credit lines, consumer auto loans, comprehensive consumer loans and retail loans secured by pledges. As at 31 December 2013, the Bank had CNY202.8 billion of personal consumption loans outstanding, representing 9.7% of its total domestic retail loans.

#### Loans to private businesses

Loans to private businesses are generally granted to private business owners to meet their funding needs arising from their operations, primarily including loans to finance the operations of private businesses, commercial mortgage loans to private businesses and auto loans to private businesses. As at 31 December 2011, 2012 and 2013, the Bank had CNY157.4 billion, CNY200.4 billion and CNY255.8 billion in loans to private businesses outstanding, respectively, which accounted for 11.0%, 11.7% and 12.2% of its total domestic retail loans outstanding for the same periods. This represented a CAGR of 27.5% from 31 December 2011 to 31 December 2013.

#### Overdraft on personal bank cards

The Bank's credit card and quasi-credit card customers are allowed to withdraw or overdraft through its credit consumption function. As at 31 December 2011, 2012 and 2013, the outstanding overdraft amounts for the Bank's personal bank cards totalled CNY100.4 billion, CNY149.1 billion and CNY194.3 billion respectively, which accounted for 7.0%, 8.7% and 9.3% of its total domestic retail loans outstanding for the same periods. This represented a CAGR of 39.1% from 31 December 2011 to 31 December 2013.

#### Other retail loans

The Bank offers other types of retail loans to customers, such as loans to rural households and education loans. As at 31 December 2011, 2012 and 2013, the Bank's outstanding amount for these types of retail loans was CNY137.1 billion, CNY136.4 billion and CNY148.4 billion, respectively, which accounted for 9.6%, 8.0% and 7.1% of its total domestic retail loans outstanding for the same periods. This represented a CAGR of 4.0% from 31 December 2011 to 31 December 2013.

#### Bank cards

The Bank offers integrated card products and services to personal customers under the brand name "Kins Card," which consists of Renminbi-denominated debit cards, credit cards and quasi-credit cards and dual-currency credit cards denominated in CNY and U.S. dollars.

As at 31 December 2013, the Bank had issued 637 million debit cards. In 2013, total transaction volume for the Bank's debit cards reached CNY55,180.6 billion. As at 31 December 2013, the Bank had issued 44.4 million credit cards. In 2013, total transaction volume for the Bank's credit cards reached CNY806.3 billion. The Bank's dedicated credit card merchants network has approximately 735,000 members. For the years ended 31 December 2011, 2012 and 2013, the total fees and commissions generated by the Bank's bank card business were CNY10.8 billion, CNY12.6 billion and CNY15.9 billion, respectively, representing a CAGR of 21.3% from 31 December 2011 to 31 December 2013.

The Bank is one of the founding members of China Unionpay, the Chinese bank card network organisation. The Bank's bank cards are accepted through its own network in China and the domestic and overseas network of China Unionpay. The Bank's dual-currency credit cards are also accepted outside of China through MasterCard and VISA networks.

#### *Retail deposits*

The Bank offers retail demand deposits and time deposits in Renminbi and foreign currencies to its retail banking customers. Retail demand deposits include general demand deposits and flexible-term deposits.

Retail time deposits consist of general time deposits, call deposits, education savings deposits, and deposits and withdrawals in lump sums, deposits in instalments while withdrawing in lump sums and time deposits with periodic interest payments that can be withdrawn on demand. The Bank currently offers regular time deposit products with terms ranging from three months to five years for Renminbi-denominated deposits and one month to two years for foreign currency-denominated deposits.

As at 31 December 2011, 2012 and 2013, the Bank had domestic retail deposits of CNY5,626.1 billion, CNY6,421.9 billion and CNY6,923.6 billion, which accounted for 58.5%, 59.1% and 58.6% of its total deposits, representing a CAGR of 10.9% from 31 December 2011 to 31 December 2013. The Bank is one of the leading commercial banks in China in terms of market share expansion.

#### *Fee- and commission-based products and services*

The Bank offers retail banking customers products and services, such as bancassurance, personal wealth management, personal settlement and agency sales of PRC government bonds, fund products and physical gold. For the years ended 31 December 2011, 2012 and 2013, the Bank's net fee and commission income relating to its retail banking business amounted to CNY35.0 billion, CNY32.2 billion and CNY35.1 billion, representing a CAGR of 0.1% from 31 December 2011 to 31 December 2013.

#### *Bancassurance*

The Bank distributes insurance policies as an agent for insurance companies. The Bank has been actively expanding its relationships with insurance companies, which has enabled it to maintain a leading position among all commercial banks in China. As at 31 December 2013, the Bank had signed cooperation agreements with 72 insurance companies, including the main members of the insurance industry in China. As at 31 December 2013, the number of insurance companies utilised the Bank's bancassurance system reached 55 (49 of which are online).

In 2013, the Bank collected CNY95.4 billion new insurance premiums and CNY3.6 billion in total income from its bancassurance business. The Bank has maintained a leading position in terms of market share for four consecutive years among all commercial banks in China.

On 11 February 2011, the Board of Directors resolved to subscribe for 1,036,653,061 new shares in Jiahe Life Insurance Co., Ltd., a Beijing based insurance company which offers life, health, medical and accident insurance to consumers in China, at CNY2.5 per share with a total consideration of approximately CNY2.592 billion and such subscription was approved by the regulatory authorities in 2012. The Bank holds a 51% interest in the share capital of Jiahe Life Insurance Co., Ltd. (which has been renamed ABC Life Insurance Co., Ltd.).

#### *Distribution of fund products*

In collaboration with over 70 fund management companies and securities firms, the Bank distributes various fund products as an agent. In 2013, the Bank acted as an agent for the issuance of 44 funds under its custody, representing an increase of 16 compared to the previous year and the proceeds amounted to CNY36.3 billion. In 2013, the Bank distributed fund products with a total transaction volume of CNY275.6 billion.

#### *Personal wealth management services*

The Bank has a comprehensive portfolio of products for its personal wealth management services. As at 31 December 2013, the Bank issued retail wealth management products of CNY4,095.9 billion. The Bank's wealth management product "An Xin Express", was awarded the "2010 Best Ten Bank Wealth Management Products in China" by *Moneyweek*. The Bank's "Golden Key" series of products was awarded "Best Banking Wealth Management Brand 2011" in the 4th Golden Wealth Management Contest sponsored by *Shanghai Securities News*, the wealth management product "An Xin De Li" was awarded "Best Banking Wealth Management Product in China 2011" by *Moneyweek*, and the Bank has been awarded "Best Risk Control" prize under the Golden Shell Prize for Wealth Management in China by *21st Century Business Herald*.

#### Agency sales of PRC government bonds

In 2013, the Bank acted as an agent for the issuance of 14 batches of saving treasury bonds, among which, 4 batches of certificated saving treasury bonds with actual sales of CNY14.2 billion and 10 batches of electronic saving treasury bonds with actual sales of CNY24.9 billion. The Bank was granted the award of “Outstanding Underwriters of PRC Government Bonds in Book Entry Form” by the MOF and the PBOC in 2012.

#### Settlement services

The Bank offers settlement services to its retail banking customers, including CNY- and foreign currency-denominated money transfer and remittance services, collection services and settlement of cashier’s checks, bank drafts and checks. The Bank also provides settlement services to merchants in respect of payments made with debit cards, credit cards and quasi-credit cards. As at 31 December 2013, the Bank provided such settlement services to approximately 735,000 merchants.

#### Physical gold trading agency

As an agent of gold business, the Bank is engaged in physical gold trading at designated outlets. The Bank is one of the first banks in the PRC to provide physical gold trading services to retail banking customers.

#### Treasury operations

The Bank’s treasury operations consist primarily of (i) money market activities, (ii) investment and trading activities, (iii) treasury transactions on behalf of customers, and (iv) gold trading and other businesses. In conducting its treasury operations, the Bank seeks to ensure its liquidity and achieves a balance between returns and risks on its investment portfolio, taking into consideration various factors including the market and macroeconomic conditions. As at 31 December 2013, operating income from the Bank’s treasury operations was CNY27.9 billion, representing 6.0% of its total operating income.

#### *Money market activities*

The Bank’s money market activities primarily consist of (i) inter-bank money market activities, repurchase and reverse repurchase transactions and (ii) public market bidding, including bidding for repurchase and reverse repurchase transactions by the PBOC, PBOC bills and national treasury cash administration. The securities underlying the Bank’s inter-bank repurchase and reverse repurchase transactions are predominantly Renminbi-denominated PRC government and policy bank bonds, bank acceptance bills and PBOC bills, with a portion of foreign currency-denominated bonds primarily issued by foreign governments and agencies.

The Bank was one of the first banks to be approved by the PBOC to provide SHIBOR quotes. As one of the SHIBOR-quoting banks, the Bank provides daily quotes based on its own liquidity and capital supply and demand. In 2013, the Bank’s Renminbi-denominated financing volume was CNY10,499.5 billion.

#### *Investment and trading activities*

As at 31 December 2013, the Bank’s net investment securities and other financial assets amounted to CNY3,220.1 billion, representing an increase of CNY364.0 billion compared to the end of the previous year.

#### *Trading activities*

The Bank purchases and sells various highly-liquid debt securities and bills for trading purposes, from which the Bank seeks to obtain short-term profits. The Bank primarily invests in debt securities issued by the PRC government, PBOC bills and debt securities issued by foreign governments. The Bank classifies such trading securities as financial assets at fair value through profit or loss, and the Bank employs strict stop-loss and other limits for such trading transactions.

In addition, the Bank hedges its investment risks through the purchase of derivative financial instruments, such as interest rate swap contracts.

### *Investment activities*

The Bank sets the target returns on available-for-sale financial assets, held-to-maturity investments and receivables, principally through its assessment of the interest rate, exchange rate, credit, liquidity, macroeconomic trends and other risks associated with the investment. In the domestic market, the Bank primarily invests in debt securities issued by the PRC government, PBOC bills, debt securities issued by the policy banks and, to a lesser extent, debt securities issued by other financial institutions and non-financial institutions. In light of the global macroeconomic environment, a substantial portion of the Bank's debt securities denominated in foreign currencies are short-term.

### *Treasury transactions on behalf of customers*

The Bank is one of the first commercial banks in China approved to provide forward settlement services and other financial derivative products. The Bank also engages in a broad range of treasury transactions on behalf of its corporate and retail banking customers. In addition, the Bank primarily provides settlement, foreign currency trading, foreign currency derivatives trading and treasury services on behalf of its customers through its treasury operations. The Bank actively developed Renminbi settlement services to capitalise on the appreciation of RMB. In 2013, the transaction volume of the Bank's Renminbi exchange settlement on behalf of customers reached USD292.0 billion, and that of foreign exchange trading on behalf of customers amounted to USD13.3 billion.

### *Precious metal business*

As at 31 December 2013, the Bank recorded domestic and overseas transactions of gold and silver of 722.1 tons and 12,433.9 tons, respectively. The Bank also steadily developed its precious metal agency business. To meet the demands of different customers for risk hedging and investments, the Bank introduced precious metal forward business and precious metal leasing business to its customers, accelerated the research and development of agency retail spot deferred trading system and gold passbook product, and launched the system development for retail paper gold (silver) business. Targeting at retail, corporate and institutional customers, the Bank sped up the establishment of precious metal business system, focusing on the development of products, financing and services. In 2013, the Bank won the Outstanding Member Award, the Outstanding Award of Statistics and Supervision on Gold Market by the Shanghai Gold Exchange and "Enterprises with Top 10 Gold Trading Volumes" by the China Gold Association.

### **Overseas operations**

The Bank conducts its overseas operations through its overseas branches and representative offices. As at the end of 2013, we had seven overseas branches and three overseas representative offices, namely the Hong Kong, Singapore, Seoul, New York, Dubai, Tokyo and Frankfurt branches and the Sydney, Vancouver and Hanoi representative offices. The applications for the establishment of Hanoi branch, Luxembourg branch were approved by the CBRC in 2013 and the application for the establishment of the Vancouver branch was approved by the CBRC in January 2014. As at 31 December 2013, total assets of the Bank's overseas branches and subsidiaries reached USD58.1 billion, and the net profit was USD362 million in 2013.

ABC International Holdings Limited and China Agriculture Finance Co., Ltd. are among the Bank's wholly-owned subsidiaries incorporated in Hong Kong. ABC International Holdings Limited engages in investment banking activities through its operating subsidiaries, primarily corporate finance, securities brokerage, principal investments and fund management.

The Bank's overseas representative offices do not conduct business operations, and they primarily carry out liaison and information collection activities.

### **Products and services pricing policy**

The interest rates the Bank charges on its Renminbi-denominated loans are generally regulated by the PBOC. Effective on 20 July 2013, the PBOC removed the lower limit for new loans provided by commercial banks, except for new residential mortgage loans. With respect to interest rates for



residential mortgage loans, the lowest interest rates the Bank can charge on residential mortgage loans is 70% of the PBOC benchmark interest rate of the same term. Interest rates for foreign currency-denominated loans are generally not subject to PRC regulatory restrictions, and the Bank is permitted to negotiate the interest rates on such loans.

Effective on 7 June 2013, the interest rates for the Bank's Renminbi-denominated demand and regular time deposits cannot be higher than 110% of the applicable PBOC benchmark rate. However, the Bank is permitted to provide negotiated time deposits to insurance companies, the National Council for Social Security Fund and Postal Savings Bank of China under certain circumstances. The Bank is permitted to negotiate the interest rates on foreign currency deposits other than those denominated in U.S. dollars, Euros, Japanese Yen and HK dollars in an amount less than U.S.\$3 million or equivalent.

With respect to fee- and commission-based business, certain services are subject to government guideline prices, such as basic Renminbi settlement services specified by the CBRC and the PBOC. The Bank's Asset and Liability Management Committee is responsible for determining its pricing policies. In compliance with the provisions of applicable regulatory requirements, the Bank prices its products based on various criteria, such as the risk profile of its assets, an individual customer's contribution to its business, its costs, the expected risk- and cost-adjusted returns and its internal fund pricing benchmarks. In addition, the Bank considers general market conditions and prices for similar products and services offered by its competitors.

Currently, the Bank's tier-1 branches have implemented centralised treasury operations. Subject to the approval of the Bank's Asset and Liability Management Committee, the Bank's Asset and Liability Management Department determines the Bank's internal transfer pricing benchmarks based on a number of factors, including prevailing interest rate trends in the China's capital markets, the interest rate structure of the Bank's deposits and loans, and the strategies and objectives set by the Bank's Asset and Liability Management Committee.

The Bank's Fee- and Commission-based Business Management Committee is responsible for the development of, and pricing policies applicable to, the Bank's fee- and commission-based business. In principle, the Bank's Fee- and Commission-based Business Management Committee adjusts the prices of fee-and commission-based products annually based on several factors, such as the Bank's fee collection rate and changing market conditions.

#### **Distribution channels**

The Bank's distribution network consisted of 23,547 domestic branch outlets nationwide as at 31 December 2013 and is complemented by comprehensive electronic banking channels. The Bank provides its customers with convenient services through its multi-channel distribution network.

#### **Branch outlets**

As at 31 December 2013, the Bank had 23,547 domestic branch outlets, including the head office, the business department of the head office, three specialised institutions managed by the head office, 37 tier-1 branches (including branches directly managed by the head office), 351 tier-2 branches (including business departments of branches in provinces), 3,506 tier-1 sub-branches (including business departments in municipalities, business departments of branches directly managed by the head office and business departments of tier-2 branches), and 19,648 other establishments. The Bank's head office is located in Beijing, and is responsible for the overall decision-making and management of the Bank. The Bank's tier-1 branches are located in capital cities of provinces, autonomous regions and directly- controlled municipalities in China. The tier-1 branches serve as the regional head office managing all the branch outlets in the respective regions and directly report to the Bank's head office. The Bank's tier-2 branches are generally located in prefectural-level cities within the provinces and autonomous regions. The tier-2 branches report to the respective tier-1 branches in each of the regions. In addition to carrying out their own operations, the Bank's tier-2 branches are also responsible for the management of lower-tier branch outlets. The Bank's tier-1 sub-branches are primarily responsible for the business operations and management of outlets and report to the tier-2 branches directly above them. The Bank's other establishments are primarily branch outlets that provide financial services directly to customers but are not classified as any of the above categories.

The Bank's branch outlets cover all of the provincial-level administrative regions, prefectural-level cities, and county-level administrative regions except Sansha. The Bank believes the Bank is the only Large Commercial Bank to have branch outlets covering all of the cities and most of the counties in China.

Area	For the year ended 31 December					
	2011		2012		2013	
	Number	Percentage %	Number	Percentage %	Number	Percentage %
Head Offices <sup>(1)</sup> .....	7	0.0	8	0.0	8	0.00
Yangtze River Delta .....	3,106	13.2	3,101	13.2	3,102	13.2
Pearl River Delta .....	2,559	10.9	2,560	10.9	2,575	10.9
Bohai Rim .....	3,321	14.2	3,329	14.2	3,344	14.2
Central China .....	5,203	22.2	5,214	22.2	5,233	22.2
Northeastern China .....	2,230	9.5	2,233	9.5	2,247	9.6
Western China .....	7,035	30.0	7,027	30.0	7,038	29.9
Total .....	23,461	100.0	23,472	100.0	23,547	100.0

Notes:

(1) Includes Head Office, business departments and credit card centre serving VIP customers and major customers respectively.

The Bank accelerated the upgrade project of branch outlets, standardised the image of branch outlets, pushed forward the establishment of model branch outlets and wealth management centre and launched the new standard for branches' image. The Bank has optimised the management procedures for the classification, arrangements and standardised establishment of branches outlets. The Bank accelerated the development and promotion of information management, management system of intelligent service and other transformation application systems. In 2013, the Bank had completed relocation of 1,200 branch outlets and standardised branch outlets amounted to 80% of the total branch outlets as at 31 December 2013. As at 31 December 2013, the Bank had established 18,786 branch outlets with specific functional zones.

### Electronic banking

The Bank provides its customers with secure, fast, flexible and efficient electronic banking services, including account management, cash deposit and withdrawal, money transfer and settlement, fee payment and investment and wealth management. The Bank offers these services 24 hours a day, seven days a week through Internet banking, phone banking, mobile phone banking and self-service banking.

In 2013, the Bank completed approximately 44.6 billion electronic transactions, representing an increase of 40.9% compared to the same period of 2013. The Bank received numerous awards in 2013, including "Top Ten Innovative Cases of the China Internet Banking Award" by *Securities Times* and the "Best Online Merchant in the Banking Industry in 2013".

### Internet banking

The Bank's Internet banking platform consists of both retail Internet banking and corporate Internet banking systems. The Bank's retail Internet banking products and services include retail account management, money transfer and remittance, fee payment, investment and wealth management, credit card, retail loans and online shopping.

The Bank's corporate Internet banking products and services include account management, money transfer and remittance, group treasury services, loans, foreign currency business, investment and treasury services and cash management.

As at 31 December 2013, the Bank had 110.9 million retail Internet banking customers and 2.6 million corporate Internet banking customers. In 2013, the total transaction volume for the Bank's retail Internet banking and corporate Internet banking was CNY92.8 trillion and CNY77.4 trillion, representing a year-on-year increase of 27.8% and 42.6%, respectively. In 2013, the click-through rate of the Bank's portal websites was approximately 5.3 billion, ranking first among banking websites in China.

### *Telephone banking*

The Bank has set up a 3+3 customer service system consisting of three customer service centres at the head office level in Tianjin, Chengdu and Shanghai plus three customer service centres at the provincial level in Jiangsu, Zhejiang and Guangdong provinces. In 2013, the Bank accelerated the establishment of its centralised customer service system. In order to increase customer service channels, the Bank explored channels such as online customer services, Weibo customer services and Wechat customer services. The Bank also optimized functions, including the synchronized the manual lost card report hotline and the private banking customers services and conducted customer satisfaction surveys. In 2013, phone-ins to the Bank's 95599 customer service centre reached 410 million.

### *Mobile banking*

The Bank's mobile phone banking service was officially launched nationwide in April 2008, providing services such as account inquiry, money transfer, fee payment and credit card repayment. In 2013, the Bank established an open platform for mobile banking and focused on developing four major product series of mobile customer services, explorers, smart chips and short messages to fully capitalise on each channel. In the same period, the iPad version and WP version of mobile customer services were launched to further upgrade customer services and other value-added services, including lottery inquiry, outlet inquiry and hospital link. As at 31 December 2013, the Bank had 83.0 million retail customers using its mobile phone banking business. In 2013, the total transaction volume for the Bank's mobile phone banking business was CNY1.6 trillion, representing a year-on-year increase of CNY1.1 trillion.

The Bank provides short messaging services (SMS) to its contracted customers, including sending short messages relating to bank account transactions, customer care and safety verification. As at 31 December 2013, the Bank had 197 million customers contracted for the Bank's SMS banking services. In 2013, the Bank sent a total number of 9.4 billion text messages to its contracted customers.

### *Self-service banking*

In 2013, the Bank accelerated the establishment of our self-service platform and upgraded various services, including the application approval procedures for financial IC cards through the self-service terminal system. As at 31 December 2013, the Bank had 98,545 cash-related self-service banking facilities, ranking first among Large Commercial Banks, with a total transaction volume of CNY13.4 trillion in 2013. As at 31 December 2013, the Bank had 44,285 self-services terminal facilities, with a total transaction volume of CNY6.6 trillion in 2013 and 3.0 million Zhifutong machines, with a total transaction volume of CNY8.6 trillion in 2013.

### *E-Commerce*

The Bank has a leading E-Commerce payment platform. The Bank's electronic payment product line includes B2C, B2B, credit payment platforms, and it has formed an E-Commerce model to sell funds directly. In 2010 the Bank rolled out E-commerce payment solutions to a number of major industries including agricultural, forestry, husbandry and fishery industries, fund management and insurance, transportation and public utilities. As at 31 December 2013, the Bank's merchant network had a total of 8,212 members with a total transaction volume of CNY828.0 billion.

### *Information technology*

Information technology is at the core of the Bank's competitiveness. The Bank focuses on the development of its information technology capabilities and has established an Information Technology Development Committee under its senior management. The Bank has also developed an IT development decision-making system to meet its operational needs as well as the IT management system and capabilities to provide comprehensive support to its business operations.

The Bank developed a centralised computer network system in 2006 which, through the Shanghai data centre, covers all of the Bank's domestic branch outlets except a small number of branch outlets in the

Tibet Autonomous Region and links teller terminals throughout China. Only a small number of branch outlets located in the Tibet Autonomous Region have not been linked to the central network system due to a number of constraints including the lack of sufficient power and telecommunication infrastructure at these remote locations. Transactions at these branch outlets, typically small in volume, are manually recorded and then the financial accounts of these branch outlets are entered into the system on a monthly basis.

### **Information system**

The Bank's information system covers all aspects of its business. It consists of six application systems, including its core business system, front office application system, channel application system, internal management system, marketing analysis system and office automation system.

*Core business system.* BoEing is a new generation of core business system developed by the bank. BoEing currently covers more than 10,000 products across six product lines, including corporate and retail loans, corporate deposits, cash management, investment and wealth management, intra-bank transfer and trade finance. BoEing operates with flexibility, determining different rates according to each customer's profile. It integrates the Bank's leading technical and business systems, standardising data measurements, and creating a centralised customer profile, allowing for accurate and seamless use of the Bank's services. This system improved the quality of the Bank's database, allowing for a more practical and efficient teller experience. The system also reduces operation risks by enhancing the automated control of business processes, eliminating risks in operation processes and strengthening the automated control. BoEing focuses on improving customer services and product innovation, as well as providing meaningful data for management.

*Front office application system.* The Bank's front office application system is anchored on its Application Integrated Preconsole System (AIPS), financial services platform named "TULIP," investment platform, Bank International Business System (BIBS) and other IT application platforms and supports the Bank's derivatives, fee- and commission-based and localized businesses, such as distribution of funds and bonds, third-party depository, treasury, custody and other emerging lines of business. In addition, through its front office application system, the Bank has developed a banking service platform to support its business growth and product development and integrate its various functions such as management, research and development, operation, maintenance and statistical analysis.

*Channel application system.* The Bank's channel application system forms the basis of its Advanced Client Browser System (ACBS), Internet banking, customer service system, telephone banking and mobile phone banking platforms and provides comprehensive support to its various banking service channels and banking services to its customers for 24 hours a day, seven days a week. The Bank relies on the advanced ".Net" platform and has developed its proprietary Internet banking system. The Bank has established a 95599 telephone banking system and an IT system for its three customer service centres in Tianjin, Chengdu and Shanghai.

*Internal management system.* The Bank's internal management system includes credit management, financial management and assets and liabilities management. It is capable of meeting the Bank's needs relating to risk control, internal management, decision-making analysis and information disclosure.

The Bank's credit management system supports the routine processing, evaluation and approval of loans, post-disbursement management, risk alert, loan classifications, loan and customer information administration as well as data-mining.

The Bank's financial management information system supports cost management, financial budgets, financial settlements and performance evaluations.

The Bank's assets and liabilities management information system provides technological support to its bank-wide assets and liabilities management and capital management.

*Marketing analysis system.* The Bank's customer relationship management system provides market analysis to support its marketing efforts. This system allows the Bank to manage its individual customers and group customers by performing market segmentation and customer ranking analysis, retrieving information on customer defaults and conducting marketing performance evaluations.

*Office automation system.* The Bank's office automation system includes an e-mail system and a documentation system. The e-mail system allows internal and external communication by the Bank's employees. The documentation system allows certain workflows to be automated and completed electronically. The office automation system enhances the Bank's operating efficiency by increasing communication efficiency and enabling long-term record-keeping.

### **IT risk management**

The Bank's IT risk management is coordinated by an operational risk management committee, with responsibilities allocated to the information technology department, risk management department, audit office and internal compliance department. The scope of the Bank's IT risk management also covers security, personnel, network, research and development, operation and maintenance, emergency response and outsourcing.

The Bank has adopted IT safety security measures, including firewalls, transmission encryption, intrusion detection and centralised authentication. The Bank's Shanghai branch and the IT management department and the software R&D centre of the Bank's head office obtained the Information Safety Administration International Certification (ISO 27001), which evidenced the enhanced safety of the Bank's IT system.

In addition, the Bank has established a dedicated disaster recovery management unit and constructed a comprehensive disaster recovery management system to protect its data centre, tier-1 branches and tier-2 branches. The Bank's core production system is located at the Shanghai data centre, with the disaster recovery testing centre at Beijing serving as a disaster recovery function for the core production system and core operating data. The Bank's disaster recovery system enables its branches to link smoothly to its Beijing disaster recovery testing centre if a disaster occurs at the Shanghai data centre.

In 2013, the Bank launched a number of key IT projects to improve its financial services and delicacy financial management, including establishing additional channels for mobile banking and increasing the functionality of the mobile banking, corporate Internet banking and retail Internet banking platforms. The Bank supported the globalization strategy by completing the integration of core overseas business systems of its overseas institutions and launching an online USD settlement service through its New York branch. Various systems were installed to improve the management of operation, finance, risk, assets and liabilities, including the second generation of centralised operation platform, centralised operation management platform, phase II of online account management, risk management system 2.0 and the enhanced asset-liability management system.

### **Information technology research and operational ability**

*Software research and development capability.* The Bank's software research and development centre located at the Bank's head office is responsible for the implementation of major IT projects and the research and development of IT software, and has the capability to carry out demand analysis, process design, project implementation and promotion for large-scale projects.

The Bank has managed to continue streamlining its software development procedures, improving IT product quality and enhancing its IT risk management. The Bank's software research and development centre obtained the level-3 CMMI certification at the end of 2008.

*Production and operation capability.* The Bank's data centre in Shanghai is responsible for the support of its business operations and production of its management information, technology and business security, production data management, trading supervision and back-end processing for the Bank's overall operation and data administration. In 2009, the available rate of the Bank's data production system reached 99.9%. In 2013, the Bank further promoted the full integration of its operation system, fully

implemented the responsibility system for production safety, improved the production run evaluation mechanism, and production operations was further improved in terms of standardisation, automation and intelligence. The Bank continued to integrate and improve its IT infrastructure by completing the compliance project related to server rooms of the domestic branches and upgrading the core systems and the network of Beijing's data centre. The Bank's disaster recovery testing centre in Beijing provides long-distance backup and emergency recovery for the core operational data in the Bank's Shanghai data centre. The Bank currently plans to establish a third data centre in northern China. In May 2009, the Bank's data centre in Shanghai obtained the ISO 20000 IT service management system certification.

### **IT planning**

During 2013, the Bank formulated the 2013-2015 IT development plan and continued to improve IT management. The Bank established a pricing model and verification system to improve the application of information technology in cost delicacy management. In 2013, the Bank implemented the "technology first" strategy, focused on the research and development of IT products, strengthened the management of information systems and continued to enhance the level of its IT governance to provide a solid technology support to develop the Bank's businesses.

### **Capital management**

The Bank has adhered to the basic principles of capital management and the objectives of capital adequacy ratio management in accordance to its capital planning for 2013 to 2015 and the capital adequacy ratio plan for 2013 to 2018. In 2013, the Bank further improved the allocation of economic capital and focused on the strategic objectives of value creation and structural optimisation. In addition, the Bank has assessed the impact of the implementation of the Capital Rules for Commercial Banks (Provisional) and refined on- and off-balance sheet asset structures.

### **Key principles of the Bank's capital management**

- Continue to satisfy the regulatory requirements, maintain a reasonable capital level, and align the Bank's capital adequacy level with the maximisation of shareholders' value;
- Continue to refine the Bank's economic capital-based value management system, optimise the Bank's asset mix, reasonably allocate economic capital, cover all types of risks and ensure a sustainable business growth; and
- Utilise various capital instruments, refine the Bank's capital base and structure, enhance capital quality and reduce capital costs.

### **Targets for the Bank's capital adequacy ratio management**

The Bank has developed its capital adequacy ratio targets under the general principles of the Bank's capital management and based on an analysis of the macroeconomic and financial environment, various regulatory requirements, the Bank's business strategy and risk preferences. Assuming that, among other things, there will be no material deterioration in the economic and financial environment, the Bank's core capital adequacy ratio and capital adequacy ratio targets are no less than 11.5%, respectively, from 2013 to 2015.

In accordance with the Capital Rules for Commercial Banks (Provisional) the Core Tier-one capital adequacy ratio, Tier 1 capital adequacy ratio and capital adequacy ratio were 9.25%, 9.25% and 11.86%, respectively, as at 31 December 2013.

### **Capital enhancement mechanism**

The Bank's priority approach to enhance its capital base will be through retention of profits. The Bank may also enhance its capital base through various external alternatives, including, but not limited to, issuances of subordinated bonds, convertible bonds or hybrid capital bonds, conducting rights offerings or private placements, and certain other alternatives acknowledged by the CBRC.

## Capital management measures

- *Strengthen Profitability and Improve Internal Capital Generation Capability.* The Bank plans to enhance its profitability through various measures including accelerating business operations transformation, promoting revenue diversification and increasing operating efficiencies. In addition, the Bank seeks to strengthen internal capital generation capability through setting a reasonable dividend payout ratio.
- *Explore Capital Enhancement Tools and Expand Capital Enhancement Channels.* The Bank seeks to utilise the various types of tools and channels under current regulatory framework, and continue to explore new capital enhancement tools and expand capital enhancement channels.
- *Refine Capital Control Mechanism and Enhance Capital Allocation Efficiency.* The Bank seeks to strengthen capital budgeting management, increase its focus on performance evaluation based on economic capital metrics such as Economic Value Added (“EVA”) and Risk-adjusted Return on Economic Capital (“RAROC”), promote awareness of capital constraints and control the growth of risk-weighted assets through economic capital management. The Bank also plans to refine economic capital allocation management, guides the adjustment of its business and asset mix, prioritises the development of business that provides higher overall return and requires lower capital, in order to reduce capital consumption.
- *Enhance Risk Management Capability and Establish Capital Adequacy Assessment Procedures.* The Bank seeks to establish and continues to refine its capital adequacy assessment procedures, which form an important component of the Bank’s internal management and decision-making. The Bank plans to accelerate its utilisation of quantitative risk management measurement techniques, refine economic capital measurement. Adequate capital will be held against its major risk exposures and hold.
- *Strengthen Capital Planning Management and Maintain Adequate Capital Base.* Based on changes in the macroeconomic and regulatory environment, as well as the progress of its implementation of Basel II and its business development needs, the Bank plans to actively adjust its capital planning to ensure that the size of its capital base is commensurate with the future growth of its business and its risk exposure.

## Competition

The Bank faces significant competition in the Bank’s principal areas of business from other commercial banks and other financial institutions in China. The Bank currently competes primarily with the Large Commercial Banks and National Joint Stock Commercial Banks. The Bank also faces increasing competition from other financial institutions, including city commercial banks and foreign banks operating in China. The Bank’s competition with other commercial banks and financial institutions in China primarily focuses on the variety, pricing and quality of products and services, convenience of banking facilities, reach of distribution network and brand recognition as well as information technology capabilities.

In the County Areas, the Bank’s competitors vary across geographical regions as a result of the differences among regions in terms of economic development and maturity of the financial market. In addition to other Large Commercial Banks, National Joint Stock Commercial Banks, city commercial banks and foreign-invested bank operating in China, the Bank primarily competes with local rural cooperatives, rural commercial banks, Postal Savings Bank of China and other agriculture-related financial institutions in the County Areas. With the easing of regulatory restrictions on access to the County Area banking market, an increasing number of township banks, loan companies, rural mutual cooperatives and other new types of rural financial institutions have been established in the County Areas. In addition, various financial institutions have strengthened their penetration in the County Area banking market. As a result, the Bank faces increasingly intense competition in the County Areas.

In addition, the Bank faces competition from non-banking institutions such as securities firms and insurance companies in providing financing services to the Bank’s customers.

The Bank's competition with foreign-invested financial institutions will likely intensify in the future. In 2006, pursuant to its WTO commitment, the PRC government eliminated measures restricting the geographic presence, customer base and operational licenses of foreign-invested banks operating in China. In addition, China's Closer Economic Partnership Arrangement with Hong Kong and Macau allows smaller banks from those jurisdictions to operate in the PRC, which has also increased competition in the PRC banking industry.

See "Risk Factors – Risks Relating to the Banking Industry in China – The Bank faces intense competition in China's banking industry as well as competition from alternative corporate financing and investment channels".

In response to the competitive environment, the Bank intends to continue to implement its strategies to differentiate itself from its competitors and compete effectively in the PRC commercial banking industry.

### **Employees**

The Bank had 478,980 employees<sup>2</sup> as at 31 December 2013. The number of the Bank's employees as at 31 December 2013 included 5,214 employees at its major domestic subsidiaries and 504 local employees at its overseas branches, subsidiaries and representative offices.

The Bank contributes to its employees' social insurance, provident housing fund and certain other employee benefits in accordance with PRC laws and regulations.

The Bank has established a performance-based compensation system whereby an employee's compensation is determined based on his position and performance review.

The Bank provides training programmes to its employees to improve their professional competence and skills.

The Bank's training programmes mainly include:

- management training programmes for senior management of the Bank's head office, tier-1 branches and tier-2 branches;
- professional training programmes for professionals in areas such as investment and asset management, risk management, financial accounting, product development, legal and compliance and information technology;
- overseas training programmes for employees to gain exposure to international practice; and technical training programmes for skilled employees.

The Bank has also been developing its job qualification system whereby the Bank will define the required qualifications for each position throughout the Bank's operational processes and arrange respective trainings. The Bank's labour union represents the interests of the employees and works closely with the Bank's management on labour-related issues. The Bank has not experienced any strikes or other material labour activities that have interfered with its operations, and the Bank believes that the relationship between the Bank's management and the labour union has been good.

### **Properties**

The Bank is headquartered in Beijing, PRC.

For some of the properties it holds and occupies in the PRC, the Bank has not obtained title certificates. The Bank is in the process of applying for the relevant land use rights and building ownership certificates that it has not yet obtained, and it plans to cooperate closely with the local land and property management authorities to expedite such applications and obtain the relevant valid title certificates as soon as practicable. The Bank has been unable to obtain certain of these title certificates due to various title

<sup>2</sup> The Bank had additional contracted employees of 34,770.



defects or for other reasons. While there may be legal impediments to its obtaining certain of these title certificates as a result of these title defects, the aggregate gross floor area of these properties with defective titles is immaterial comparing to all of the properties it owns. The Bank believes that since the relevant properties are situated in different provinces in the PRC, the risk of losing the ability to use all of such properties at one time is comparatively low. It also believes that it will be able to obtain replacements in nearby locations, and accordingly, it is not expected that any relocation will have any material adverse impact on the operations and financial position of the Group as a whole.

For the leased properties in the PRC, the relevant lessors have not provided valid title certificates or consent to lease some of the properties, which are mainly served for commercial uses including outlets, offices and ATM. As the owner of the properties, the lessors are responsible for applying relevant valid title certificates or providing the Bank the consent to lease properties. In respect of this, the Bank has pro-actively procured these lessors to apply for the relevant valid title certificates or provide the Bank the consent to lease properties. The Bank is of the view that most of these leased properties occupied can, if necessary, be replaced by other comparable alternative premises without any material adverse effect on its operations.

### **Legal and regulatory proceedings**

#### **Licensing requirements**

As at 31 December 2013, the Bank had obtained the financial operating licenses required for conducting its current businesses.

#### **Legal proceedings**

The Bank is involved in certain legal proceedings in the ordinary course of its business. Most of these proceedings involve enforcement claims initiated by the Bank to recover payments on its non-performing loans. The legal proceedings against the Bank include actions relating to customer disputes and claims brought by its counterparties on contracts related to its banking operations.

As at the date of this Offering Circular, the Bank was not involved in any litigation, arbitration or administrative proceedings, and was not aware of any such litigation, arbitration or administrative proceedings, whether pending or threatened, which are or might be material in the context of the issuance of the Notes.

#### **Regulatory reviews and proceedings**

The Bank is subject to inspections and examinations by the relevant PRC regulatory authorities, including the PBOC, CBRC, MOF, CSRC, CIRC, SAIC, SAFE, NAO and SAT, and their respective local offices. These audits and examinations have previously resulted in findings of incidents of non-compliance and the incurrence of certain penalties. Although these incidents and penalties did not have any material adverse effect on the Bank's business, financial condition and result of operations, the Bank has implemented improvement and remedial measures to prevent the reoccurrence of such incidents. The Bank's directors believe that, save as disclosed in this Offering Circular, there were no other material breaches and material incidents of regulatory non-compliance.

## RISK MANAGEMENT

### Overview

The Bank has adopted a prudent risk management strategy, seeking to balance risks and returns with sustainable growth and sound asset quality to achieve an appropriate level of risk-adjusted returns and capital adequacy.

The objectives of the Bank's risk management are:

- continuously enhancing its corporate governance and risk management to ensure that its Board of Directors and senior management as well as its risk management personnel throughout its organisational structure follow its risk management strategies and implement comprehensive risk management;
- establishing a comprehensive, independent and vertically-integrated risk management organisational framework and developing a risk management organisational structure with clearly- defined division of responsibilities;
- implementing robust risk policies and procedures to ensure that its risk management function covers all of its business lines, products and personnel;
- developing and applying advanced risk management tools and methodologies to accurately identify and measure risks and to ensure the prompt communication of information throughout various levels of its organisational structure; and
- cultivating a sound risk management culture through continuous management reinforcement, rigorous implementation of risk management policies and management accountability, and bank-wide in-depth employee training.

### Risk management initiatives in recent years

Prior to 1996, the Bank was a state-owned specialised bank and the Bank's risk management capabilities were limited. In the middle to late 1990s, the Bank began to operate on a commercial basis and started to manage the Bank's risks more proactively.

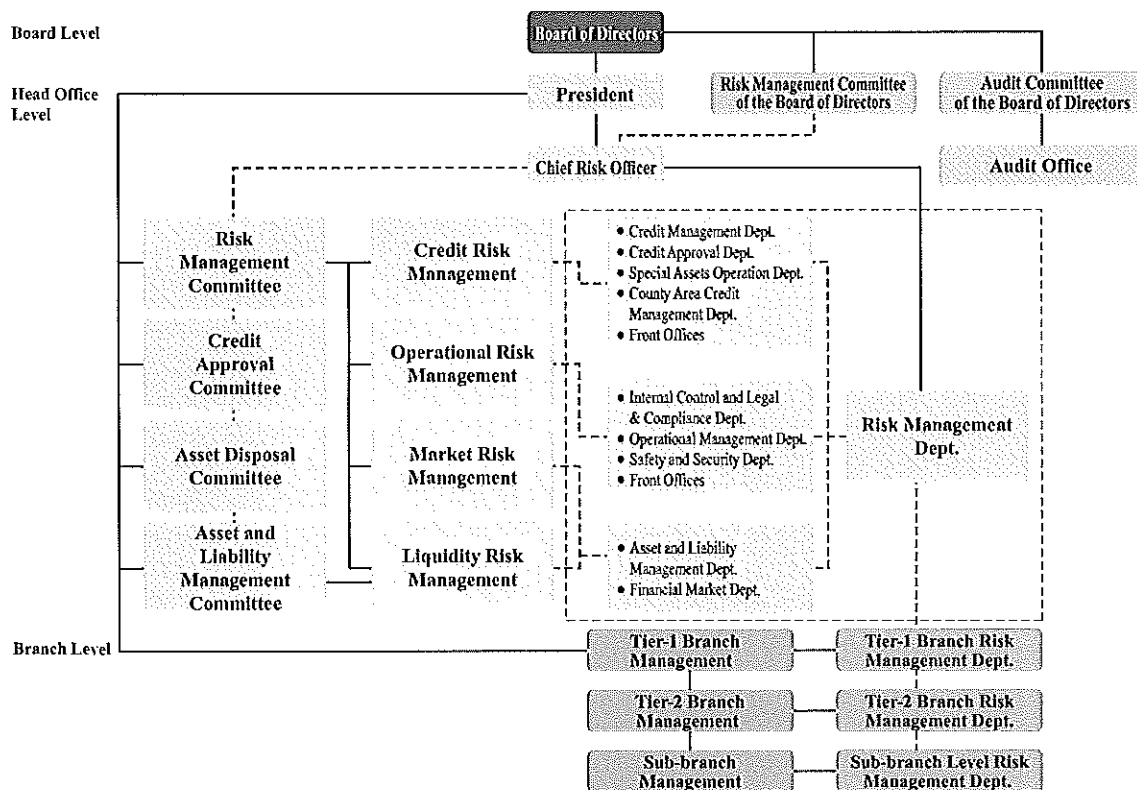
In 2007, the Bank established the Risk Management Department at its head office and began to implement its centralised risk management strategy. In 2009, the Bank established a comprehensive risk management organisational structure. Under the principle of separating the supervision function from the formulation and implementation of risk management policies, the Bank has defined risk management responsibilities and related reporting lines of its Board of Directors and its specialised committees, senior management and the specialised committees under their supervision, as well as its various departments with risk management responsibilities.

In 2013, the Bank continued to refine its risk management policy system. The Bank formulated the risk management plan for 2013 to 2015 and revised the risk evaluation method, as well as the working rules of the Risk Management Committee. The Bank also strengthened its risk management systems in various specific aspects, and developed or revised policies and measures such as procedures for loan defaults identification, risk assessment on County Area credit products, market risks monitoring and reporting, risk classification in the wealth management business and country risk management. In addition, the Bank formulated the objectives and implementation plans for the three pillars under the Capital Rules for Commercial Banks (Provisional) and the administrative measures for Internal Capital Adequacy Assessment Process (ICAAP), and conducted its 2013 internal capital adequacy assessment.

The Bank believes the implementation of the foregoing risk management strategy and initiatives has led to an enhanced operating framework, improved risk management capabilities and a rigorous risk management culture.

## Risk management structure

The chart below illustrates the Bank's risk management structure:



### Board of Directors and board committees

The Bank's Board of Directors bears the ultimate responsibility for risk management. It performs risk management functions through the Risk Management Committee and the Audit Committee under the Board of Directors.

The Risk Management Committee of the Board of Directors is primarily responsible for reviewing the Bank's risk management strategies, policies and procedures, assessing the Bank's risk management and internal control efforts, evaluating the organisational framework, operating procedures and effectiveness of the Bank's risk management and internal control departments and making recommendations to the Bank's Board of Directors accordingly.

The Audit Committee of the Board of Directors is primarily responsible for monitoring the Bank's internal control function, reviewing and overseeing the implementation of the Bank's critical accounting policies, overseeing and evaluating the Bank's internal audit operations and external auditors, reviewing annual audit reports and annual financial statements and making recommendations to the Bank's Board of Directors accordingly.

### Senior management and special committees

The Bank's senior management assumes the highest level of execution power in risk management.

#### President

The Bank's president manages risks associated with the Bank's business operations, formulates risk management policies and procedures, determines economic capital allocation and makes recommendations and reports the Bank's overall risk management operations to the Bank's Board of Directors. The Bank's president is also responsible for the implementation of risk management strategies, plans, policies and systems as determined by the Bank's Board of Directors.

### *Special committees under senior management*

The Bank has four special committees under its senior management, namely, the Risk Management Committee, the Credit Approval Committee, the Asset Disposal Approval Committee and the Asset and Liability Management Committee, which are responsible for organising, coordinating and reviewing various risk management tasks.

- Risk Management Committee. The Risk Management Committee has three specialised sub-committees, namely, the Credit risk management committee, the Market risk management committee and the Operational risk management committee. The Risk Management Committee is responsible for analysing and assessing the Bank's bank-wide risk profile, reviewing and formulating the Bank's bank-wide risk management plans and risk exposure limits, determining and adjusting the Bank's risk management measures, reviewing, coordinating and supervising the implementation of policies, procedures and methodologies relating to credit, market and operational risk management as well as significant risk management initiatives, and leading the Bank's bank-wide risk management efforts.
- Credit Approval Committee. The Credit Approval Committee is responsible for reviewing the credit applications which exceed a certain amount and with higher levels of complexity. It also reviews special authorisations and special credit extensions as well as certain other credit risk management operations. It also oversees customer credit rating.
- Asset Disposal Approval Committee. The Asset Disposal Approval Committee reviews the disposal of the Bank's non-performing loans and other impaired assets which exceed certain amounts as well as write-offs, loan restructuring, waivers of interest and foreclosure on repossessed assets.
- Asset and Liability Management Committee. The Asset and Liability Management Committee is responsible for formulating the Bank's strategies for balance sheet management and capital management. It reviews the Bank's medium- to long-term business plans and annual business plans and conducts periodic examinations of the Bank's business operations. It is also a decision-making body in the Bank's liquidity risk management.

### *Chief risk officer*

The primary responsibility of the Bank's chief risk officer is to assist the Bank's president in risk management.

### *Head office risk management departments*

#### *Risk Management Department*

The Risk Management Department coordinates the Bank's bank-wide risk management efforts and carries out risk management responsibilities, including the formulation and implementation of the risk management strategies, policies and procedures, the coordination on the implementation of Basel II and the development of risk measurement tools meeting the applicable regulatory requirements. The Risk Management Department is also responsible for conducting customer credit ratings, supervising asset classification, assessing the Bank's assets for impairment, measuring the Bank's bank-wide economic capital, monitoring key risk indicators and issues and organising risk reporting. It also coordinates the determination of risk exposure limits, formulates risk portfolio management plans and assesses the Bank's risk exposure levels. In addition, it coordinates risk management functions across all branches and business lines.

#### *Credit Management Department*

The Credit Management Department is responsible for establishing and strengthening the Bank's credit risk management system. It develops industry-specific credit guidelines, determines customer admission criteria and organises and implements customer list-based management. It reviews and approves credit

extensions in accordance with the Bank's policies and procedures, and evaluates counterparty risks. It is also responsible for refining the Bank's credit management system to improve the Bank's credit risk identification, measurement and mitigation capabilities.

#### *Credit Administration Department*

The Credit Administration Department is primarily responsible for risk management in connection with loan disbursements. It coordinates and oversees disbursement of loan funds and post-disbursement management, conducts on-site inspections of significant risks identified through online supervision, and organises compliance review of the Bank's credit review and approval personnel.

#### *Asset Disposal Department*

The Asset Disposal Department is responsible for formulating the policies and procedures in respect of disposal of non-performing assets and coordinating the implementation efforts. It also conducts on-site inspections of large-amount or cross-regional non-performing asset disposals, monitors the implementation of specific asset disposal projects, and manages books for large-amount non-performing assets. It also coordinates the Bank's asset preservation efforts and manages foreclosures and write-offs of non-performing assets.

#### *County Area Credit Management Division*

The County Area Credit Management Division is responsible for establishing and strengthening the Bank's credit risk management system specific to County Area. It develops County Area credit guidelines, explore innovative post-disbursement management of the County Area banking business, determines customer admission criteria, sets classification of loans to rural households, determines treatment of impairment allowance and implements specific risk allowance and write-offs policies for County Area banking business.

#### *Front Offices*

##### *Asset and Liability Management Department*

The Asset and Liability Management Department is responsible for formulating and implementing risk management policies and procedures in respect of liquidity risk as well as interest rate risk and exchange rate risk arising from the Bank's banking book.

##### *Financial Market Department*

Pursuant to the risk preferences determined by the Bank's head office, the Financial Market Department manages market risk arising from the Bank's investment and trading portfolios both for the Bank's own account and on behalf of the Bank's customers, within the respective transaction authorisations and market risk exposure limits.

##### *Internal Control and Compliance Department*

The Internal Control and Compliance Department oversees and monitors the implementation of risk management policies and procedures, rectifies deficiencies and conducts internal control and compliance inspections and assessments. It manages compliance risks, conducts compliance evaluations and tests on the Bank's business procedures and new product and service offerings and monitors authorisations.

##### *Operational Management Department*

The Operational Management Department is responsible for managing the bank-wide back office operational risks, formulating and implementing policies and procedures relating to operational management, establishing and refining the operational risk management system, streamlining the back office procedures for various business lines and products and deterring operational risk through centralised management.

### *Legal Affairs Department*

The Legal Affairs Department is responsible for the bank-wide legal risk management, ensuring the legality and thoroughness of the Bank's risk policies and managing risks associated with litigation, contract disputes and intellectual property.

### *Branch level and sub-branch level risk management structure*

#### *Branch and sub-branch management*

The heads of the Bank's branches or sub-branches are the primary responsible persons for the Bank's risk management operations at their respective branches or sub-branches. The deputy heads in charge of risk management organise and coordinate risk management operations. Meanwhile, risk management at the Bank's tier-2 branches and sub-branches is also supervised by risk officers and risk managers, respectively, appointed by the higher-tier branches. As a further check and balance, the regional offices of the Bank's Audit Office conduct periodic review of branch-level risk exposures.

#### *Risk management committees and risk management departments at branch and sub-branch levels*

The Bank has established risk management committees at its tier-1 and tier-2 branches under their respective management. The branch-level risk management committees are responsible for reviewing the risk exposure limits and risk portfolios within their respective jurisdictions, reviewing and organising the implementation of risk management objectives and procedures, and reviewing risk management issues within their authorisation. The branch-level risk management committees conduct periodic analysis and review of the overall risk exposure and supervise risk management functions.

At the Bank's tier-1 branches, the Bank has established risk management departments that are responsible for setting forth comprehensive risk management measures and supervising the implementation of various risk management strategies and policies. The departments also supervise asset classification and impairment tests, formulate and supervise the implementation of risk exposure limits and portfolio management plans. In addition, they manage and organise trainings to the risk managers within their respective jurisdictions and evaluate their performance. These risk management departments also examine, analyse and evaluate the risk management functions of the relevant departments and lower tier branches.

The credit management departments at the Bank's tier-2 branches or the risk management department at its sub-branches perform risk management functions.

#### *Risk officers and risk managers*

As part of its risk management initiatives targeting at strengthening risk management at its lower-tier branches and sub-branches, the Bank has started a pilot programme to appoint risk officers from tier-1 branches to tier-2 branches as well as risk managers from tier-2 branches to sub-branches. The risk officers and risk managers supervise and assess risk management functions at the branches or sub-branches where they are stationed. They report to the management team of the branches that appointed them.

### **Credit risk management**

Credit risk is the risk of loss from the default by an obligor or counterparty when payments fall due. The Bank is exposed to credit risk primarily through its loan portfolio, investment portfolio, guarantees and various other on- and off-balance sheet credit risk exposures.

The Bank manages credit risk through a variety of methods, including streamlining its credit approval process, establishing bank-wide standardised authorisation and credit extension management system, monitoring risk exposure and borrower concentrations and mitigating credit risk through the use of collateral and other arrangements.

The Bank has increased efforts to prepare for the implementation of Basel II and its adoption of industry-specific credit guidelines and customer list-based management to improve credit risk management capabilities and refine its credit asset profiles.

## *Credit risk management for corporate loans*

### *Credit guidelines*

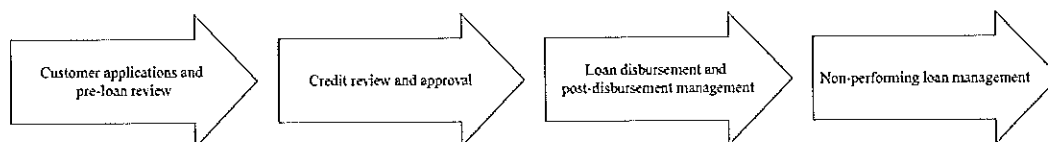
The Bank is focused on the development and implementation of its credit guidelines and is seeking to achieve a balance between loan growth and a prudent risk management culture. The Bank formulates credit guidelines on an annual basis to streamline its credit business procedures, adjust its loan portfolio compositions and prioritise its lending to the key regions, industries and customers.

The Bank's industry-specific credit guidelines consist primarily of industry-specific customer admission policies, authorisation policies and post-disbursement management requirements. The Bank adjusts its credit guidelines based on a number of considerations such as changes in the PRC government's industry policies and the developments of various industries as well as the overall effectiveness of its existing credit guidelines. The Bank has developed industry-specific credit policies for 41 industries and, in industries for which a credit policy has not been introduced, implemented a customer list-based credit management system that divides its loan customers into "support," "maintenance," "reduction" and "termination" categories. The Bank periodically imposes credit exposure limits and releases recommended credit limits in respect of industries with relatively large exposure and higher risk to adjust and control the total credit exposure to specific industries and refine the mix of its loan portfolio based on industry prospects, the overall credit quality of individual industries and regulatory changes.

The Bank also proactively adjusts its credit guidelines in line with the PRC government's macroeconomic control policies. For example, the PRC government has implemented certain restrictive measures with respect to the real estate and steel industries in recent years. Also see "Risk Factors – Risks Relating to The Bank's Loan Portfolio – If the Bank is unable to effectively maintain the quality of its loan portfolio, its financial condition and results of operations may be materially and adversely affected." In light of these measures, the Bank has adjusted its credit guidelines with a more prudent view to extending credit to borrowers in the real estate industry and the steel industry and set target limits on the growth in its loans to these industries. The Bank has further clarified its customer admission criteria and prioritised its lending to key cities and high quality customers. With respect to borrowers in the steel industry, the Bank has tightened credit approval authorisations and limited new credit extensions to its valued customers.

In lending to government financing vehicles, the Bank applies the same review, approval and monitoring criteria to these loans as it does to loans to other corporate customers. The Bank has clearly defined the admission standards for loans to government financing vehicles, and it seeks to focus on government-sponsored projects with sufficient cash flows and secured sources for loan repayments as well as the projects sponsored by the governments of provincial, provincial capital-levels and above. The Bank's tier-1 branches implement customer list-based management of government-sponsored projects within their respective jurisdictions and determine admission criteria for non-commercial projects sponsored by local governments of city level or lower. For these projects, the Bank requires that equity investments in these projects be in place prior to its loan disbursements, or simultaneously with its loan disbursements on a proportional basis. Loans to financing vehicles for local governments below the city level must be fully secured by land or building.

The following flow chart illustrates the basic process for the Bank's credit business.



### *Customer applications and pre-loan review*

The Bank conducts pre-loan review under a policy of two-person investigation and review. Pre-loan review is carried out by a primary reviewer (generally, a customer manager) and an assistant reviewer (for example, a business manager) at a branch or sub-branch. For large loans to a single borrower and loans for medium- and long-term projects, reviewers from the corporate banking business departments at

higher-tier branches conduct independent customer reviews. To avoid conflicts of interest, the Bank requires a reviewer to refrain from participating in any credit review relating to a company controlled by the reviewer or the reviewer's close relatives. The Bank conducts pre-loan review and customer information verification through both on-site visits and circumstantial investigations. When necessary, the Bank uses a third-party credit agency to verify customer information.

The Bank conducts pre-loan review to: (i) collect basic information such as the compliance track record, shareholders and managers, industry, growth prospects and business of the applicant; (ii) analyse the use of the loan proceeds and sources for repayment; (iii) study the applicant's financial statements, cash flows and request additional information (such as evidence of tax payments and utilities bills) from the applicant if the Bank believes that the financial data collected do not fully reflect the applicant's financial condition; (iv) assess the creditworthiness of the applicant and its management, its loan repayment history and its ability to fulfil contractual obligations; (v) review the collateral provided by the applicant and guarantees provided by the guarantor; and (vi) examine the loan application pursuant to the Bank's credit policies. Upon the completion of the pre-loan review, the reviewers prepare a written report, which serves as one of the main bases for the Bank's credit decision. The primary reviewer and the assistant reviewer are jointly accountable for the conclusion of their pre-loan review.

#### *Customer credit rating*

The Bank maintains a ten-grade rating system, namely, AAA+, AAA, AA+, AA, A+, A, B, C, D and Rating Exempted, and assign a credit rating to a customer based on its scale of operation, competitiveness, growth prospects, quality of management, net cash flow, debt repayment ability, profitability, contribution to the Bank's business, creditworthiness and other factors.

In principle, the Bank rates all customers that have outstanding loans with it and that have provided guarantees to secure the Bank's loans on a periodic basis, and the credit ratings assigned are generally valid for no more than one year. The Bank assigns a credit rating to a new customer before granting credit to such customer. If there is a material change affecting a customer's repayment ability or creditworthiness, the Bank re-rates the customer. The customer credit rating results have been widely used in the Bank's credit approvals, loan classifications, loan loss provisioning, management of exposure limits, risk reporting and economic capital management.



### *Collateral appraisal*

For loans secured with collateral, the Bank conducts collateral appraisals prior to loan approval either internally or through external appraisers. The Bank requires a final confirmation of the appraised value from an appraiser within the Bank regardless whether the appraisal was performed by an external appraiser or by the Bank's own employees. Loans secured by collateral are generally subject to the following loan-to-value ratio limits, depending on the type of collateral:

<u>Type of Collateral</u>	<u>Maximum Loan-to-Value Ratio</u>
<b>Properties</b>	
Land use rights and buildings	70%
Manufacturing equipment	Up to 40% for manufacturing equipment for general use; up to 20% for manufacturing equipment for specialised use
Inventories	Generally up to 50%, maximum limit 70%
<b>Monetary assets</b>	
Government bonds and financial bonds	If in the same currency as the Bank's loans, the amount of collateral shall be no less than the loan amount; if in a different currency, up to 90%
Corporate bonds	Up to 80% for listed corporate bonds; up to 50% for other corporate bonds
Warehouse receipts	Up to 85% for exchange standard warehouse receipts; up to 70% for other warehouse receipts

The Bank generally requires regular reappraisal of collateral. In respect of a third-party guarantor, the Bank assesses the guarantor's financial condition, credit history and ability to meet its obligations to determine the appropriate guarantee amount.

### *Credit review and approval*

The Bank's credit approval function for corporate loans is performed primarily by authorised approval officers, credit review and approval centres and credit approval committees.

- *Authorised approval officers.* Authorised approval officers consist of the president and the vice president in charge of credit approval at the Bank's head office and, at the branch level, the heads and deputy heads (including assistants to branch heads) in charge of credit approval at their respective branches and independent credit approval officers who are entitled to approve credit. Independent credit approval officers are authorised to make loan approval decisions based on their independent investigation, review and evaluation. Independent credit approval officers at branch level typically consist of credit approval officers at the same branch or at the higher-tier branch depending on which branch appointed them. The independent credit approval officer appointed by the same branch reports to his own branch and receives his approval authorisation from the branch head, while an independent credit approval officer appointed by the higher-tier branch reports to the higher-tier branch that appointed him and receives his authorisation approval from the head of that higher-tier branch. The independent credit approval officers approve loans according to their specific areas of expertise and are organised into groups focusing on different business lines such as corporate banking, retail banking and County Area Banking Business, respectively.
- *Credit review and approval centres.* The Bank has set up credit review and approval centres at its head office and branches. Applications for loans exceeding the authorisation limits of the respective independent approval officers are submitted to the credit review and approval centres for approval.

- *Credit approval committees.* The Bank has set up credit approval committees at its head office and branches. A credit approval committee consists of chairman of the committee, credit risk department members, expert members and independent credit approval officers. The credit approval committee at the head office reviews applications for fixed asset loans with principals above certain specified amount, credit limit approval and other tasks. It currently consists of 11 members, including four expert members, one independent credit approval officer and one vice president from the Bank's head office who acts as the chairman of the committee. Sub-branches located in counties generally have no credit approval committee. Credit approval officers designated by branches of higher-tier are primarily responsible for review and approval of credit applications made through the sub-branches.

#### *Customer credit limit approval*

The Bank determines a customer's total credit limit based on a comprehensive analysis of the customer's credit rating, net assets, cash flows, collateral offered and financing needs. The Bank's different tiers of branches may approve credit line applications within their specific authorisation limits in accordance with its customer segmentation-based management system. A customer's credit limit is generally valid for no longer than one year and is subject to annual review. Even if a credit application is within the customer's credit limit, the originating branch still must carry out the required loan review and approval procedures according to its authorisation limit. Credit line applications that exceed the authorisation limits of the originating branches must be submitted to a higher-tier branch with requisite authorisation or, if necessary, to the Bank's head office.

The entire process of credit reporting, review and approval has been automated and is managed by the CMS. The system automatically controls the authorisation levels of the Bank's approval officers. If a loan application is approved, the Bank's legal departments will review the agreements on non-standard forms and correspondences and other documents for its credit extension business.

The Bank seeks to manage credit extension to group borrowers on a consolidated basis. Its credit administration departments are responsible for reviewing, approving and allocating credits made to group customers.

#### *Loan disbursement and post-disbursement management*

The Bank disburses loans upon the completion of review of disbursement-related criteria by its credit administration departments. The Bank's business units and credit administration departments are responsible for post-disbursement management. The Bank's post-disbursement management includes fund account monitoring, on-site examination, monitoring of the borrower, monitoring of collateral and guarantor, risk alert and management, credit asset risk classification, record-keeping and recovery of loans.

#### *Management of drawdown*

Before signing a credit agreement, the business department in the originating branch is responsible for ensuring the satisfaction of the conditions precedent specified in the agreement for loan disbursements and drawdowns. The Bank has designated disbursement review personnel at its tier-1 and tier-2 branches and its credit administration departments to review the application of conditions for loan disbursement and usage and the compliance with the credit agreement, collateral arrangement and other loan disbursement procedures.

#### *Post-disbursement monitoring*

The Bank undertakes initial and follow-on monitoring at the post-disbursement stage. The Bank generally conducts initial monitoring within 15 days from the disbursement of project loans, the credit lines for new customers and incremental credit lines for existing customers. The frequency of the Bank's regular postloan monitoring varies depending on whether a customer is new or existing, the importance of the customer to its business, its credit rating and the loan product. The Bank employs a variety of methods for conducting post-disbursement monitoring, including assigning a dedicated professional for each loan;

monitoring the borrower's cash flows; conducting regular on-site visits to examine collateral; generating early alerts through IT platform; proactively notifying borrowers of due dates and maturity dates; regularly visiting the borrower; and terminating loan exposure to delinquent customers.

***Risk alert***

The Bank has set up a risk alert mechanism at all tiers of its branches and sub-branches. The Bank aims to promptly detect and mitigate risks by monitoring a customer's account information, financial reports, information of suppliers and customers, and industry and macroeconomic policies.

Customer managers and designated risk management personnel are required to report to the heads of their respective departments on a timely basis upon the receipt of a risk alert signal. The business department of the branch that manages the relevant customer account, the credit administration department and others with risk management responsibilities in turn are required to formulate risk mitigation solutions. Upon authorisation from relevant branch heads, the business department involved at the branch is required to start implementing the risk mitigation measures. If the originating branch is of a higher tier than the branch that manages the customer accounts, such lower tier branch is required to report the resolution to the credit administration department of the originating branch, which will supervise the implementation.

***Loan classification***

The Bank classifies a loan according to its five-category loan classification criteria, which include a comprehensive assessment of various factors such as the borrower's repayment ability and track record, its willingness to perform repayment obligations, the profitability of the project financed by the loan and the collateral provided.

The Bank's designated loan classification officer may adjust the classification assigned to a loan in accordance to prescribed procedures in the event that there is a mismatch between a classification assigned and the criteria for such classification. The classification of a loan must be adjusted on a timely basis if a change in its risk profile is identified. Solely for risk management purposes, the Bank adopted a 12-category classification system, which refined the five-category loan classification system, to classify its corporate loans. Classification of such loans is conducted at least on a quarterly basis. The following table illustrates the Bank's 12-grade loan classification system:

<u>Normal</u>				<u>Special Mention</u>			<u>Substandard</u>		<u>Doubtful</u>		<u>Loss</u>
Normal One	Normal Two	Normal Three	Normal Four	Special Mention One	Special Mention Two	Special Mention Three	Substandard One	Substandard Two	Doubtful One	Doubtful Two	Loss

Through this loan classification system, the Bank determines the classification of a corporate loan on the basis of both quantitative and qualitative factors through analysing default risk of a corporate borrower and transaction risk arising from the loan and considering the estimated impairment losses. When analysing a borrower's default risk, the Bank considers the credit rating of the borrower and the risk factors relating to the borrower's industry, operations, management and willingness to repay the loan. When analysing the transaction risk relating to a loan, the Bank considers the existence, validity, adequacy and liquidity of collateral and the length of the period by which the principal or interest is overdue. The system utilises a quantitative scoring model, through which the Bank's loan classification personnel confirms loan classification results.

The Bank's 12-grade loan classification system is designed to enable the Bank to better monitor changes in its asset quality, detect potential credit risks and more effectively conduct post-disbursement management of its loan portfolio. The Bank believes that this system has helped it strengthen its loan monitoring capabilities.

The Bank applies a five-category classification system for retail loans and certain corporate loans in countries which satisfied the small business standards required by the CBRC.

### *Termination of customers with potential risks*

The Bank has established an exit management mechanism in order to optimise its portfolio of borrowers and prevent potential risks from materialising. Customers with potential risks refer to those who are currently experiencing or are expected to experience adverse changes in their business or financial condition in the near future that may affect their loan repayments. For these customers, the Bank may demand repayment of loans ahead of their contract maturities or it may reduce their respective credit lines.

The Bank identifies customers with potential risks among those whose loans are originally classified as “normal” or “special mention.” The Bank’s head office adjusts, on a timely basis, the parameters and indicators for identifying customers with potential risks, in accordance with macroeconomic condition, industry policies and the Bank’s business strategies. The Bank’s branches and sub-branches develop annual customer exit plans and compile exiting customer lists.

### *Non-performing loan management*

The Bank proactively manages non-performing loans to reduce risks relating to its loan portfolio and improve its recovery on disposals. The Bank is committed to continuously improving its ability to manage non-performing loan disposals and establishing and refining its management system for non-performing loan disposals. The Bank has undertaken various initiatives such as customer list-based management, information technology system upgrade and performance-based compensation.

The Bank’s asset disposal departments are responsible for managing the Bank’s non-performing loans. The Bank seeks to recover its non-performing loans through various means, including collection, foreclosure on collateral, legal or arbitration proceedings, third-party agent collection, waiver of interest or principal, loan restructuring and write-offs.

### *Credit risk management for retail loans*

#### *Pre-loan review*

Once a retail loan application is received by the originating branch, a retail loan reviewer at that branch will conduct due diligence on the loan applicant by checking relevant databases and holding in-person meetings with the applicant. For applications involving large amounts or posing high risk, two retail loan reviewers generally conduct on-site visits. For retail loans secured by collateral, the reviewers are required to conduct appraisal of the collateral. Recommendations of the reviewers are submitted to the retail loan officers, who will review and confirm before submitting the conclusions and recommendations to the appropriate credit review approval centres.

#### *Credit review and approval*

The Bank’s designated teams at its credit review and approval centres review retail loan applications based on their evaluation of the completeness of the application package and the applicant’s risk profile. They submit their recommendations to the appropriate personnel with approval authority for final review. Applications for large loans or loans involving higher risks are required to be reviewed and approved by a credit approval committee and also approved by an authorised credit approval officer.

#### *Loan disbursement and post-disbursement management*

After a loan application is approved, the originating branch assigns designated personnel to ensure the satisfaction of the conditions precedent for loan disbursement, register and record collateral, execute loan agreements and disburse loan proceeds to the borrower. The Bank’s post-disbursement management of retail loans is conducted by both the business departments in the originating branch and the risk management departments at its different tiers of branches through the post-disbursement management system, a sub-system of the CMS. The Bank monitors retail loan risks through measures, including daily post-disbursement monitoring, post-disbursement inspections (site visits), account monitoring, online monitoring and a centralised collection platform. Once a risk alert signal is identified, the Bank takes immediate actions to prevent and mitigate the associated risk and control potential losses.

The CMS automatically classifies the Bank's retail loans into five categories based on the number of days by which the payment of principal or any interest is overdue as well as types of collateral provided. The Bank's business departments and risk management departments may jointly adjust the classification in response to risk data gathered through loan monitoring.

#### *Credit card risk management*

The Bank manages credit risk arising from its credit card business through the following measures:

- setting credit limits according to the risk profiles of each credit card customer to mitigate risks at preliminary stage;
- strengthening its statistical analysis capabilities, the development of credit rating data modelling and continuing to adjust its risk management policies;
- implementing a risk alert system to detect and prevent credit card fraud;
- optimising its risk monitoring system to enhance its capabilities to monitor and mitigate risks on a real-time basis; and
- carrying out centralised investigation into new e-commerce merchants and implementing a merchant risk alert system including off-site monitoring and on-site inspection.

#### *Credit risk management for County Area Banking Business*

Risk management in the Bank's County Area Banking Business falls under the Bank's overall bank-wide risk management framework and follows its bank-wide risk management system and procedures. In addition to these standardised credit policies and procedures, the Bank has also implemented differentiated risk management policies for its County Area Banking Business.

- The Bank has established a Credit Management Department of County Area Banking Business at the head office level and a Risk Management Centre of County Area Banking Business under the Risk Management Department. The Bank has started to appoint risk officers from its tier-1 branches to tier-2 branches and risk managers from tier-2 branches to sub-branches. The Bank has established a dual reporting risk management structure at its branches and sub-branches in the County Areas.
- In conducting performance evaluation, the Bank has focused on applying economic capital indicators to its branches and sub-branches in the County Areas. The Bank has included the risk-adjusted returns as one of the key indicators to assess the performance of these branches or sub-branches.
- To balance risk and return, the Bank is in the process of implementing a multi-channel risk mitigation mechanism where appropriate loan pricing is adopted to cover potential risk exposure. For example, the Bank cooperates with credit guaranty companies in the County Areas to share risk exposure; in addition, the Bank has rolled out certain products, such as forest-ownership-pledged loans, to tackle the inadequacy of collateral securing loans in the County Areas.
- The Bank has focused on risk disciplines and set maximum non-performing loan ratios and minimum recovery ratios for loans beyond their maturities. If a sub-branch exceeds the pre-set risk control targets or there have occurred significant risk events, the Bank may impose deadlines for remediation actions, investigate and hold the responsible parties accountable and suspend authorisations.
- In balancing risk and efficiency, the Bank has established credit review and approval centres to strengthen its credit risk management in the County Areas. In addition, the Bank has introduced an online information platform to speed up communications with remote areas and leverage local information sources to achieve efficiency in its risk management.
- The County Area Banking Business has been a focus of the Bank's internal review and audits. The Bank has strengthened its internal review and audits in respect of the identity of the borrowers of its small-amount rural household loans and the performance of the departing senior management of its sub-branches in the County Areas through both on-site and off-site review and audits.

#### *Credit origination and review*

Based on the Bank's bank-wide risk management strategy and risk preferences and taking into consideration of the characteristics of the Bank's County Area Banking Business, the Bank focuses on the following measures. In customer identification, the Bank focuses on leading agriculture industrialisation enterprises and other quality corporate customers as well as mid- to high-end retail customers. In product offerings, the Bank focuses on rural infrastructure project loans, urbanisation loans, loans for County Area merchandise distributions and County Areas SME loans. In addition, the Bank leverages its Huinong Cards to grow its small-amount rural household loans. Geographically, the Bank focuses on business development in the areas where the local economy is relatively more developed, such as the top ten counties of each province.

The Bank has developed a score card system and designed rating indicators tailored for its County Area customer base, which consists mostly of small enterprises, private businesses and rural households. The Bank has largely completed the development of its County Area customer rating system and expects to achieve automatic rating to further improve the accuracy of its rating system.

#### *Credit approval*

The Bank has established review and approval policies specifically designed for its County Area Banking Business. Higher-tier branches appoint independent credit approval officers, who are familiar with the County Area Banking Business and designated to review and approve loan applications submitted by the Bank's branch outlets in the County Areas. The Bank has established credit review and approval centres at its tier-2 branches to ensure a centralised and efficient review and approval process. The Bank has further improved its review and approval procedures and promoted online review and approval, to improve overall efficiency of its review and approval procedures without compromising its risk control.

The Bank has structured multiple types of security interest such as joint household guarantees, "company + farmer" guarantees and guarantees by farmers' cooperatives. Moreover, the Bank has further strengthened its cooperation with insurance companies to combine loan origination with the offering of insurance products that are designed to reduce its risk exposure. The Bank strives to streamline its procedures for processing credit applications in its County Area Banking Business and reduce associated cost, without compromising its risk management. For example, for small business customers in the County Areas, the Bank consolidates credit rating, approval and drawdowns into one step.

#### *Loan classification and monitoring*

The Bank's bank-wide policies and procedures for loan classification apply to its County Area Banking Business. The Bank is developing an automated loan classification system for retail loans, supplemented by manual checks. Considering such factors as the impact of natural disaster on its County Area customers' repayment ability, the Bank has sought to refine its loan classification criteria for loans to rural households and agriculture-related businesses and adopted more stringent loan classification criteria strictly based on the number of days by which the payment of interest or principal of a loan is overdue.

The Bank has established an online monitoring and risk alert system for its County Area loans to monitor the risk profile of its County Area loan businesses and identify non-compliance with its policies and procedures, issue alerts, and take precautionary and corrective measures on a timely basis.

#### *Post-disbursement management*

The Bank conducts post-disbursement reviews and management of delinquent customers in the County Areas in substantially the same manner as it does for its Urban Area customers. The Bank conducts post disbursement monitoring and tracking of loans of its County Area Banking Business through CMS, with a focus on the borrower's business fundamentals and financial condition, especially cash flows. The Bank also tracks non-financial information such as tax receipts and utilities bills to better understand the real business operations and fundamentals of the borrowers. The Bank reviews rural household loans through, for example, spot checking Huinong Card transaction records.

### *Credit risk management for treasury operations*

The Bank's treasury operations involve investments in treasury bonds, government bonds, financial institution bonds, corporate bonds, commercial paper, medium-term notes, and asset-backed securities. The Bank conducts credit risk management in respect of its treasury operations primarily through managing credit lines for counterparties. The Bank assigns the total credit limit for domestic and foreign financial institutions and set sub-limits for various business lines. Its head office reviews the Bank's annual credit limits on exposure to financial institutions, determines authorisation limits for the Bank's various departments at its head office and domestic and overseas branches, and engages in dynamic risk classification and adjustment in response to changes in counterparty risk.

### *Internal rating based system (IRBS) for credit risks*

The Bank launched an internal rating-based system in 2007 in order to improve its ability to measure credit risks and to comply with Basel II and the regulatory requirements of the CBRC. The Bank developed its internal rating framework in three stages, with the adoption of a non-retail Foundation Internal Ratings-Based (FIRB) approach being the first stage, the adoption of a retail Advanced Internal Ratings-Based (AIRB) approach being the second stage and the adoption of a non-retail AIRB approach being the third stage. In 2013, we applied to the CBRC for the implementation of advanced capital management methodology, including the non-retail IRB approach, retail exposures IRB approach and standardised approach for operational risk.

### *Information technology in credit risk management*

The CMS is the Bank's primary IT platform for credit business operations as well as the primary tool for credit risk management. For details of the Bank's CMS, see "Description of the Bank – Information Technology – Information System."

The Bank's CMS enables the Bank to integrate the management of its corporate and retail customers. It covers loans, discounted bills, acceptances, letters of credit, letters of guarantee and other main credit products the Bank offers. It also supports online management of the Bank's entire credit management process from loan application, review and approval to disbursement and post-disbursement management. It has the capability to conduct customer credit ratings automatically based on quantitative indicators and credit risk classification and determine market risk-related asset value markdowns. The Bank's CMS allows speedy data retrieval and customised reporting. The Bank is in the process of upgrading its CMS, which is expected to improve its credit risk management capability through a more automated system.

Moreover, to support the development of a new customer rating model, the Bank has completed the development of IRBS. The IRBS has been in operation since June 2009.

### **Market risk management**

Market risk arises from movements in exchange rates, interest rates and other market changes that affect market risk-sensitive instruments.

The Bank is exposed to market risk primarily through the assets and liabilities on its balance sheet, as well as its off-balance sheet commitments and guarantees. The major types of market risk that may impact the Bank's business are interest rate risk and exchange rate risk. Interest rate risk refers to the risk of losses in a bank's income or economic value arising from adverse movements in statutory or market interest rates. Exchange rate risk means that a bank may experience losses because of mismatches in the currency denomination of the Bank's assets and liabilities, or from the exposure of the Bank's foreign exchange derivative transactions.

The Bank's market risk management covers the entire process of identifying, measuring, monitoring and controlling market risk and aims to maximise its returns within the limit of its well-defined risk tolerance. The Bank primarily conducts market risk management through exposure limit management, authorisation management and counter-party credit extension management. Exposure limit management

refers to the control over the level of market risk that the Bank's head office, branches and overseas operations are facing. The Risk Management Department at the Bank's head office sets exposure limit authorisations in respect of the Bank's various business departments which are subject to the approval of the Board of Directors. There are two types of limits, namely, mandatory limits and recommended limits. A mandatory limit places a strict ceiling on the amount of market risk the Bank is willing to accept on the relevant business or products; by contrast, a recommended limit provides a relatively flexible constraint on the market risk and is geared more toward providing risk guidance and warning. In the case of a breach of a recommended limit, the Bank takes measures to reduce its risk exposure. In the case of a breach of a mandatory limit, the business unit bearing the market risk is required to take remedial measures unless there are justifiable reasons or circumstances that warrant the exposure temporarily exceeding the limit. The organisational unit is required to specify the reasons for such breaches and the time needed for resolving the situation in a report to be reviewed by the Risk Management Department at the Bank's head office, which in turn will report the situation to the Bank's senior management. Absent approval by the Bank's head office senior management, the unit that breached the mandatory limit must take appropriate measures to ensure that the limit is restored. Market risk limits include, but are not limited to, exposure, loss, risk and stress testing limits. Exposure limits include limits on positions for transactions in total or for net transactions, and limits related to the Bank's business targets. Loss limits refer to limits on loss in the mark-to-market value of asset portfolios. Risk limits refer to the limits set for indicators for measuring market risk. Stress testing limits refer to limits for losses that occurred in a stress scenario.

The Bank closely monitors market risk exposure limits through both the Risk Management Department and the risk management divisions of the Asset and Liability Management Department and the Financial Market Department. For a mandatory limit, an early warning is activated once a threshold of 80% of the limit is reached; for a recommended limit, the threshold is 90%. The Bank's trading management system allows the Bank to monitor and analyse data for the entire transaction process. Market risk reports consist of market risk analysis reports, market risk event reports and market risk management reports. The Bank plans to continue to institutionalise and standardise its market risk monitoring and reporting policies and procedures to further improve its ability to monitor and mitigate market risk.

The Bank separates its banking book and trading book. The Bank's trading book covers the financial instruments and commodities positions the Bank holds for trading or hedging purposes. The Bank's banking book covers all of its on- and off-balance sheet assets and liabilities and off-balance sheet positions not covered in the trading book.

#### **Market risk management for the Bank's banking book**

##### ***Interest rate risk management***

The major source of interest rate risk in the Bank's banking book is the mismatch of the maturity or repricing dates of the Bank's interest rate-sensitive assets and liabilities. Due to the mismatch, the Bank's net interest income and economic value may be affected by changes in interest rates. The Bank currently manages the interest rate risk in its banking book primarily through managing its assets and liabilities mix. The general strategy of interest rate risk management is to identify interest rate risk, adjust assets and liabilities pricing in a timely manner and control interest rate sensitivity exposure. Applying interest rate sensitivity analysis, gap analysis, scenario analysis and stress testing, the Bank conducts static measurements of the repricing characteristics of its assets and liabilities and evaluates the potential impact of changes in interest rates. Based on the results of such analysis, the Bank adjusts the maturity structure of its assets and liabilities and improve the management of the interest rate risk exposure in its banking book.

##### ***Exchange rate risk management***

Exchange rate risk refers to the risk due to mismatches in the currency denominations of the Bank's assets and liabilities. Through exposure limit management and the management of the currency structure of its assets and liabilities, the Bank seeks to ensure that the adverse impact of exchange rate fluctuations falls within an acceptable range.



### ***Market risk management for the Bank's trading book***

Market risk arising from the Bank's trading book primarily comes from fluctuations in the value of the Bank's financial instruments on the trading book resulting from changes in exchange rates and interest rates. The Bank utilises interest risk sensitivity indicators such as duration and basis point value and applies analytical tools to monitor the market risks of the Bank's trading accounts and improve the interest rate risk management of the financial instruments in the Bank's trading book. In addition, the Bank strictly segregates the trading from non-trading functions and responsibilities, monitors and ensures the compliance of the Bank's trading positions with its policies. Moreover, the Bank's Audit Office conducts regular audits on the implementation of the Bank's internal procedures for the management of the Bank's trading book in accordance with requirements by the regulators and the Bank's own policies.

### ***Liquidity risk management***

Liquidity risk refers to the risk of being unable to liquidate a position in a timely manner to acquire sufficient funds or failing to acquire sufficient funds at a reasonable cost in response to asset growth or to fulfil payment obligations. Factors affecting the Bank's liquidity include the term structure of the Bank's assets and liabilities and changes to banking industry policies, such as changes in the requirements relating to loan-to-deposit ratio and statutory deposit reserve ratio. The Bank is exposed to liquidity risk primarily in the funding of its lending, trading and investment activities, as well as in the management of its liquidity positions. The primary objective of the Bank's liquidity risk management is to ensure that the Bank are able to meet its payment obligations and fund its lending and investment operations on a timely basis. The Bank seeks to improve its liquidity management through various measures, including:

- focusing on maintaining stable sources of funding and increasing its core deposits;
- enhancing its marketing efforts, increasing its total deposit amount, securing the continued growth in deposits to meet its liquidity needs and maintaining its capital raising capabilities; and
- improving the diversity of assets and maintaining an appropriate mix of short-, medium- or long-term assets.

### **Operational risk management**

Operational risk refers to the risk resulting from inadequate or failed internal control procedures, from human or information system related factors, or from external events. The operational risk that the Bank faces primarily includes, among others, internal fraud, external fraud, damages to property, disruptions to the Bank's operations or information technology system and problems associated with transaction execution and closing as well as business processes. Since 2009, the Bank has implemented initiatives to streamline its business and operational processes and centralise its back office management to enhance its capabilities in the identification, measurement, reporting and control of operational risks. In 2013, the Risk Management Committee of the Bank approved the internal trial application of Advanced Measurement Approach for operational risk. The Bank believes that these measures will strengthen its operational risk management.

The Bank has established three lines of defence against operational risk. The first line is risk management by business units. The second line is the Bank's risk management departments and internal control and compliance departments. Led by the Bank's senior management, the Bank's risk management departments are responsible for implementing operational risk management strategies, policies and procedures; developing and promoting operational risk management instruments; monitoring and reporting operational risks; and deploying economic capital measurement tools. The Bank's internal control and compliance departments supervise and evaluate compliance with the Bank's operational risk management policies and applicable laws and regulations. The third line is the Bank's internal audit function, which is responsible for supervising and evaluating the Bank's operational risk management system, evaluating the adequacy and effectiveness of the Bank's operational risk management policies and procedures and supervising and assessing the Bank's internal control system and compliance.

Since 2008, the Bank has conducted a comprehensive review of a number of areas of its business including its credit business, retail banking, operations management, e-banking and information technology. Through such review, the Bank has identified risk factors and risk indicators, developed operational risk identification procedures, and established procedures for monitoring and assessing key risk areas as well as a dynamic mechanism for continuous risk identification. The Bank identifies operational risk through the process analysis methodology, which identifies the business areas that may be subject to operational risk, and locates potential risk factors and the relevant risk indicators based on its past experience. The Bank's head office and its tier-1 branches carry out, at least once a year, a comprehensive operational risk identification process and systematically review risk factors and risk indicators that have emerged in the Bank's operations.

The Bank has established a bottom-up reporting system for operational risk. Once an operational risk occurs, the Bank's branches at or above the county level are required to report the operational risk in a timely manner through the Bank's operational risk reporting lines.

### **Compliance**

Compliance risk refers to the risk of regulatory or legal breaches that may result in potential legal sanctions, regulatory penalties, significant financial losses and reputational harm. Compliance management is an important part of the Bank's risk management activities. To strengthen its compliance management capabilities, the Bank has established, and is committed to continuing to strengthen, its bank-wide compliance management framework.

#### ***Organisational structure of the Bank's compliance function***

The Bank's Internal Control and Compliance Department leads the Bank's compliance risk management efforts. It is responsible for the Bank's bank-wide compliance risk management, including identifying compliance risks, tracking and analysing control weaknesses and deficiencies, monitoring and assessing the Bank's risk exposures and implementing preventative and corrective measures. The Bank has internal control and compliance management teams at its tier-1 and tier-2 branches and has launched a pilot programme to appoint compliance managers to selected sub-branches. The compliance managers under the pilot programme do not report to the sub-branches where they work; instead, they are under the direct supervision of the higher-tier branches that appointed them and report directly to the management of their respective higher-tier branches.

The Bank seeks to improve its compliance reporting mechanism and its database for non-compliance incidents. The Bank has established internal reporting procedures for employee misconduct. Significant cases of employee misconduct are required to be escalated through the higher-tier branches to the Bank's head office within 24 hours of the discovery of these cases. In addition, the Bank is also required to report to the CBRC significant cases of employee misconduct. To promote compliance awareness of its employees, the Bank has adopted a points programme to deter incidents of non-compliance. In addition, the Bank has started to compile a comprehensive compliance handbook to describe and refine its business and operational process.

#### ***Anti-money laundering***

In 2002, the Bank established a steering group responsible for anti-money laundering management. In 2003, the Bank formed an anti-money laundering division at its head office. Currently, the Internal Control and Compliance Department leads the Bank's bank-wide anti-money laundering efforts.

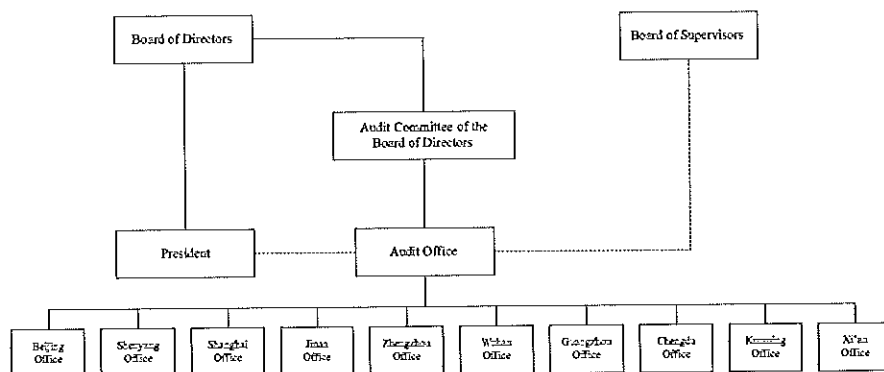
The Bank has developed and refined anti-money laundering policies, clearly defining the duties and responsibilities, working procedures, and authorisations of the Bank's various departments and branches. The Bank invests heavily in its anti-money laundering compliance efforts and provides regular training to its employees to strengthen their compliance awareness and skills. The Bank is committed to fulfilling its reporting obligations under anti-money-laundering laws and has been cooperating with regulatory authorities and the judiciaries to carry out anti-money laundering investigations. The Bank systematically carries out customer due diligence, and collects customer information and transaction records according

to applicable laws and regulations. The Bank seeks to continue to improve its anti- money laundering capabilities and its compliance with bank-wide anti-money laundering policies and procedures through reinforcing the implementation of the “know-your-customer” procedures and standardised operational processes, improving its information collection and processing capabilities relating to large and suspicious transactions and strengthening its review and reporting of these transactions, as well as enhancing the functionality of its anti-money laundering information system to generate risk alerts on a timely basis.

### Internal audit

The Bank has established a designated internal audit function, which follows a vertical reporting line. The Bank’s internal audit offices perform audits and evaluations on the Bank’s operations and management, business activities and financial performance. The Bank’s internal audit offices report to the Bank’s Board of Directors and are subject to the examination, supervision and evaluation by the Audit Committee of the Bank’s Board of Directors. The Bank’s internal audit offices are also under the supervision of the Bank’s Board of Supervisors. The Bank’s internal audit offices consist of the Audit Office at the Bank’s head office and ten regional offices. The Audit Office is responsible for the organisation, management and reporting of the Bank’s bankwide internal audit efforts. The regional offices, under the direct supervision of the Audit Office, perform internal audits in their respective specified areas and report to the Audit Office.

The chart below shows the organisational structure of the Bank’s internal audit function:



The Bank’s internal audits are organised in an effort to promote the Bank’s compliance with and implementation of the applicable laws and regulations, assess the Bank’s risk management, internal control and corporate governance and maintain the Bank’s risk exposures within an acceptable range to continue to improve the Bank’s business operations and management.

The Bank’s internal audit focuses on:

- the Bank’s compliance with the applicable PRC laws and regulations, macroeconomic policies and regulatory guidelines as well as the Bank’s internal policies and procedures;
- the soundness and effectiveness of compliance in the Bank’s operations, the performance of the Bank’s compliance departments and the effectiveness and efficiency of the Bank’s various departments;
- the integrity, soundness and effectiveness of the Bank’s internal control system;
- the Bank’s risk exposures and the applicability and effectiveness of the Bank’s risk identification, measurement and monitoring procedures;
- the accuracy and reliability of the Bank’s accounting records and financial statements;
- the management, use and disposal of the Bank’s various assets;

- the results of the Bank's operations and the implementation of the Bank's business plans and financial budgets;
- the planning, development, operation and maintenance of the Bank's information system;
- performance audits and departure audits of the executive officers of the Bank's head office (including various divisions of the Bank's head office), tier-1 branches and branches directly managed by the Bank's head office and the nominees for such executive officers;
- the remediation measures in respect of the issues identified in the Bank's internal audits; and
- other internal audits requested by the Board of Directors and the Audit Committee under the Board of Directors.

## SUBSTANTIAL SHAREHOLDERS

As at 31 December 2013, the persons who had, or were deemed or taken to have interests or short positions in the shares or underlying shares which would fall to be disclosed to the Bank under the provisions of Division 2 and 3 of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO") or which were recorded in the Bank's register required to be kept under section 336 of the SFO or who were directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Bank were as follows:

<u>Name of shareholders</u>	<u>Nature of shareholders</u>	<u>Type of shares</u>	<u>Shareholding percentage (%)</u>	<u>Total number of shares held</u>
Huijin	State-owned	A shares	40.28	130,831,990,282
MOF	State-owned	A shares	39.21	127,361,764,737
Hong Kong Securities Clearing Company Nominees Limited	Overseas legal entity	H shares	9.04	29,350,700,140

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

### Directors

The following table sets out certain information relating to the Bank's directors.

Name	Position	Term of appointment
JIANG Chaoliang	Chairman, Executive Director	2012.01-2015.01
ZHANG Yun	Vice Chairman, Executive Director, President	2012.01-2015.01
GUO Haoda	Executive Director, Executive Vice President	2012.12-2015.12
LOU Wenlong	Executive Director, Executive Vice President	2012.12-2015.12
SHEN Bingxi	Non-Executive Director	2012.01-2015.01
LIN Damao	Non-Executive Director	2012.01-2015.01
CHENG Fengchao	Non-Executive Director	2012.01-2015.01
LI Yelin	Non-Executive Director	2011.07-2014.07
XIAO Shusheng	Non-Executive Director	2012.02-2015.02
ZHAO Chao	Non-Executive Director	2012.02-2015.02
Anthony WU Ting-yuk	Independent Non-Executive Director	2012.01-2015.01
QIU Dong	Independent Non-Executive Director	2012.01-2015.01
Frederick MA Si-hang	Independent Non-Executive Director	2011.04-2014.04
WEN Tiejun	Independent Non-Executive Director	2011.05-2014.05
Francis YUEN Tin-fan	Independent Non-Executive Director	2013.03-2016.03

Mr. ZHANG Yun, vice chairman of the Board of Directors and president of the Bank, is responsible for the Bank's daily overall operation and management. The Bank's president is appointed by and responsible to the Board of Directors, and performs duties in accordance with the Bank's Articles of Association and authorisation of the Board of Directors. The roles of the Bank's chairman and president are separate, and the division of responsibilities between them is clearly established and set out in writing.

### Executive directors

**Mr. JIANG Chaoliang** received a Master's degree in economics from Southwestern University of Finance and Economics and is a senior economist. He has served as chairman of the Board of Directors and executive director of the Bank since January 2012. Mr. Jiang previously served as director of the General Planning Department and general manager of the International Business Department of the Bank and vice director of the Banking Department of the PBOC. He previously served concurrently as president of the Shenzhen branch of the PBOC and governor of the Shenzhen branch of SAFE, and president of the Guangzhou branch of the PBOC and governor of the Guangdong branch of SAFE. He was appointed as executive assistant president, director of the General Office and director of Labour Union Working Committee of the PBOC in June 2000, deputy governor of Hubei Province in September 2002, chairman of the board of directors of Bank of Communications in June 2004, and vice chairman of the board of directors and president of China Development Bank in September 2008. He previously served concurrently as chairman of the China Banking Association and member of the Monetary Policy Committee of the PBOC, and now serves concurrently as chairman of the China Payment and Settlement Association and a member of the board of directors of the Institute of International Finance. Mr. Jiang is an alternate member of the 18th Central Committee of the Communist Party of China and a member of the 11th National Committee of the Chinese People's Political Consultative Conference ("CPPCC").

**Mr. ZHANG Yun** received a PhD in economics from Wuhan University and is a senior economist. He has served as vice chairman, executive director and president of the Bank since January 2009. Mr. Zhang previously served successively as deputy president of Shenzhen branch, deputy president of the Guangdong branch, and president of the Guangxi Autonomous Region branch of the Bank. Mr. Zhang was appointed as executive assistant president and general manager of the Personnel Department of the Bank in March 2001, and executive vice president of the Bank in December 2001. Mr. Zhang serves

concurrently as president of the County Area Banking Division, chairman of the County Area Banking Division Management Committee of the Bank, chairman of the 7th Committee of China Institute of Rural Finance, and vice chairman of National Association of Financial Market Institutional Investors.

**Mr. GUO Haoda** holds a Bachelor's degree and is a senior economist. He is an expert entitled to Government Special Allowance by the State Council. Mr. Guo has served as the executive vice president of the Bank and president of the Beijing Branch since January 2009. He served as executive vice president of the Bank since March 2010 and then executive director and executive vice president of the Bank since December 2012. Mr. Guo previously served in several positions in the Bank, including vice president and then president of the Suzhou Branch in Jiangsu Province, president of the Shenzhen Branch and president of the Jiangsu Branch. He was appointed as executive vice president of the Bank and president of its Beijing Branch in April 2008. Mr. Guo received the National May 1st Labour Medal in 2003. He now serves concurrently as vice chairman of All-China Environment Federation, vice chairman of the China Payment and Settlement Association, a member of the State Council's Joint Conference on Combating Currency Counterfeit, a member of The State Council Leading Group of Poverty Alleviation and Development and a committee member of Western China Human Resources Development Foundation.

**Mr. LOU Wenlong** holds a Bachelor's degree and is a senior economist. He has served as a member of senior management of the Bank since August 2012. He has served as executive vice president of the Bank since September 2012 and became executive director and executive vice president of the Bank since December 2012. Mr. Lou previously served as secretary of the Youth League Committee, head of Students' Affairs Division and chief of the Teaching and Researching Office of Urban Finance of Zhejiang Banking College. Mr. Lou later served in several positions in the PBOC, including secretary of the Youth League Committee of the Head Office of the Zhejiang Branch, vice division chief and division chief of the Zhejiang Branch, director and assistant commissioner of the Banking Inspection Division, Hangzhou Financial Supervision Office of the Shanghai Branch, and deputy head of the supervisory team for China Construction Bank of Banking Supervision Department I. He was then appointed to several positions successively in the CBRC, including deputy director and then director of Banking Supervision Department II in September 2005, and director-general of Beijing Office in February 2009. He is now serving as a guest professor with Capital University of Economics and Business, and the vice chairman of the 7th session of the Committee of the China Institute of Rural Finance.

#### **Non-executive directors**

**Mr. SHEN Bingxi** received a PhD in economics from Renmin University of China and is a Research Fellow. He now works with Huijin and has served as non-executive director of the Bank since January 2009. Mr. Shen previously served successively as deputy director of the Financial Market Division, Financial System Reform Department of the PBOC; director of the System Reform Division and Currency Policy Research Division, Policy Research Office of the PBOC; director of the Currency Policy Research Division, Research Department of the PBOC; and chief representative of the Tokyo Representative Office of the PBOC. Mr. Shen was appointed as deputy chief of the Financial Market Division of the PBOC and counsel of the Financial Market Division of the PBOC. Mr. Shen was a guest research fellow at the University of Tokyo, and is now an adjunct professor of Zhejiang University, University of International Business and Economics and East China University of Science and Technology.

**Mr. LIN Damao** received a Bachelor's degree and is an accountant. He now works with Huijin and has served as non-executive director of the Bank since January 2009. Mr. Lin previously served successively in several positions in the MOF, including deputy director of the Foreign Economy Division, Foreign Currency and Foreign Affairs Department; deputy director of the Foreign Economic Cooperation Division, Foreign Currency and Foreign Affairs Department; director of the Foreign Economic Cooperation Division, Foreign Currency and Foreign Affairs Department; director of the Foreign Economy Division, Foreign Affairs Department; and director of the Foreign Affairs Division, Department of Policies and Legislation. Mr. Lin was appointed as vice counsel of the MOF Department of Policies and Legislation in May 2001.

**Mr. CHENG Fengchao** received a PhD in management from Hunan University and is a senior accountant, a China Certified Public Accountant and a China Certified Asset Appraiser. He now works

with Huijin and has served as non-executive director of the Bank since January 2009. Mr. Cheng previously served successively as vice director general, Financial Bureau of Pingquan County, Hebei Province; vice director, Administrative Office of Financial Department of Hebei Province; head of Hebei Accounting Firm; vice president and secretary general, Hebei Institute of Certified Public Accountants; and deputy general manager, Shijiazhuang Office of China Great Wall Asset Management Corporation. Mr. Cheng was appointed as general manager, Valuation Management Department, China Great Wall Asset Management Corporation in January 2001; general manager, Tianjin Office of China Great Wall Asset Management Corporation in January 2006; and general manager, Development Research Department, China Great Wall Asset Management Corporation in August 2008. Mr. Cheng is now also serving as a guest professor of Peking University HSBC Business School, PhD supervisor of Hunan University, Master supervisor of Graduate School of the Chinese Academy of Social Sciences, Central University of Finance and Economics and Capital University of Economics and Business, and is a member of the Expert Advisory Committee for Mergers, Acquisitions and Restructurings of the CSRC.

**Mr. LI Yelin** graduated from the Party School of the Central Committee of the Communist Party of China as an on-the-job graduate in economic management. He is a senior auditor and a non-practicing Certified Accountant. He is the executive director of China Audit Society. He now works with Huijin and has served as non-executive director of the Bank since July 2011. He served as the deputy division director and division director of the Special Commissioner's Office for Shenyang under the National Audit Office (the "NAO"). He was appointed the vice commissioner of the Special Commissioner's Office for Shenyang under the NAO in April 1993 and the vice commissioner (in charge) of the Special Commissioner's Office for Lanzhou under the NAO since December 1999. He was also appointed head (commissioner level) of the organising team of the Special Commissioner's Office for Changchun under the NAO in April 2001 and commissioner of the Special Commissioner's Office for Shenyang under the NAO in January 2002. He had been the director of the Finance and Audit Department of the NAO since September 2006.

**Mr. XIAO Shusheng** holds a Bachelor's degree and is a senior accountant and associate non-practice member of Chinese Institute of Certified Public Accountants. He now works with Huijin and has served as non-executive director of the Bank since February 2012. Mr. Xiao started working with the MOF in 1982, and served successively as vice director and director in the MOF Department of Accounting; director of Registration Department and General Division, Chinese Institute of Certified Public Accountants, vice secretary-general of the Chinese Institute of Certified Public Accountants and vice director and director of the MOF Accountants Qualification Appraisal Centre.

**Mr. ZHAO Chao** holds a Bachelor's degree and is a statistician. He currently works with Huijin and has served as non-executive director of the Bank since February 2012. Mr. Zhao started working with the Bureau of Statistics of Shanxi Province in 1982, and served successively as vice director of the Finance and Trade Division, Bureau of Statistics of Shanxi Province; director of the Business and Trade Division and Legislation Division, State-owned Assets Supervision and Administration Bureau of Shanxi Province; director of the Supervision and Inspection Division, Policies and Legislation Department of National State-owned Assets Supervision and Administration Bureau, director of the Property Rights Legal Affairs Division the MOF State-owned Capital Basic Management Department; counsel of the Lottery Management Division, the MOF Department of Policy Planning; secretary general of the MOF General Department, vice director of the MOF Investment Appraisal and Censoring Centre, and vice counsel of the MOF Department of Treaty and Law.

#### **Independent non-executive directors**

**Mr. Anthony WU Ting-yuk** is a member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants, and member of standing committee of the 12th CPPCC National Committee. He has served as independent non-executive director of the Bank since January 2009. Mr. Wu previously served successively as chairman of Far East and China, Ernst & Young PLLC, chairman of the Hong Kong General Chamber of Commerce and chairman of Bauhinia Foundation Research Centre. Mr. Wu is currently serving as a director of the Hong Kong General Chamber of



Commerce, a director of Bauhinia Foundation Research Centre, chief advisor of the Bank of Tokyo-Mitsubishi UFJ, Ltd., an independent non-executive director of Fidelity Funds, an independent non-executive director of Guangdong Investment Limited, an independent non-executive director of China Taiping Insurance Holdings Company Limited, a member of Expert Advisory Committee on Public Policies under National Health and Family Planning Commission of the PRC, International Collaboration Principal Advisor to the State Administration of Traditional Chinese Medicine of the People's Republic of China, a trustee of Foundation of Oxford University and an Honorary Fellow of the Hong Kong College of Community Medicine. Mr. Wu was appointed as Justice of the Peace in 2004 and awarded Gold Bauhinia Star in 2008 by the Government of Hong Kong.

**Mr. QIU Dong** received a PhD in economics and is a PhD supervisor, an expert entitled to Government Special Allowance by the State Council and a distinguished guest professor of Changjiang Scholars Programme. He has served as independent non-executive director of the Bank since January 2009. He served as principal of Dongbei University of Finance and Economics and a representative of the Tenth National People's Congress. He is now chairman of the academic committee of the National Accounting Research Institute of Beijing Normal University. Mr. Qiu is currently serving as member of the Appraisal Group of Philosophy, Social Science and Planning, member of the Disciplines Evaluation Panel of the Academic Degrees Committee of the State Council (Applied Economics), member of the Advisory Committee of the National Bureau of Statistics of the PRC; vice president of the National Accounting Society of China, vice president of the Statistical Education Society of China, vice president of the China Association of Market Information and Research; vice chairman of the National Statistical Teaching Material Editing and Censoring Committee, member of Selection Committee for Science and Technology Progress Award on Statistics of China; an adjunct PhD supervisor of Tianjin University of Finance and Economics, an adjunct professor of Zhejiang Gongshang University, Jinan University, Zhongnan University of Economics and Law, Shanxi University of Finance and Economics, Zhejiang University of Finance and Economics, Southwest University of Finance and Economics, and member of the Editorial Board of Statistical Research. Currently, he is also an independent non-executive director of China Cinda Asset Management Corporation.

**Mr. Frederick MA Si-hang** received a Bachelor's degree in arts from the University of Hong Kong. He has served as independent non-executive director of the Bank since April 2011. Mr. Ma was previously the Secretary for Financial Services and the Treasury of the Government of the Hong Kong Special Administrative Region from 2002, and Secretary for Commerce and Economic Development of the Government of the Hong Kong Special Administrative Region from 2007 until he resigned in July 2008. Mr. Ma has served as managing director in the London Office of RBC Dominion Securities, managing director and Asia chief of Global Private Bank of Chase Manhattan Bank and Asia-Pacific chief executive of J.P. Morgan Private Bank, vice-chairman and managing director of Kumagai Gumi (HK) Limited, chief financial officer and executive director of PCCW Limited, non-executive director of China Strategic Holdings Limited and independent non-executive director of China Resources Land Limited. Mr. Ma is currently a member of the international advisory council of China Investment Corporation, director of Husky Energy Inc., external director of COFCO Limited and external director of China Mobile Communications Corporation. He is an honorary professor of the School of Economics and Finance at the University of Hong Kong, an honorary advisor to the School of Accountancy of Central University of Finance and Economics, professor of the Institute of Advanced Executive Education of the Hong Kong Polytechnic University, an honorary professor of the Faculty of Business Administration of the Chinese University of Hong Kong and a member of the global advisory committee of the Bank of America Group. Mr. Ma is also an independent non-executive director of Aluminum Corporation of China Limited, an independent non-executive director of Hutchison Port Holdings Management Pte. Limited, an independent non-executive director of MTR Corporation Limited and a non-executive director of FWD Group. Mr. Ma was awarded Gold Bauhinia Star in 2009 and appointed as Non-official Justice of the Peace in 2010, respectively, by the Government of the Hong Kong Special Administrative Region.

**Mr. WEN Tiejun** received a PhD in management from China Agricultural University. Mr. Wen is currently a deputy director of the Academic Board, the executive president of the Institute of Advanced

Study of Sustainable Development and a second-grade professor of Renmin University of China, and an expert entitled to Government Special Allowance by the State Council of the PRC. He has served as independent non-executive director of the Bank since May 2011. He previously served concurrently as director of the Rural Construction Centre of Renmin University of China, director of China Rural Economy and Finance Research Institute, the executive dean of the School of China Rural Construction of Southwest University and the executive dean of School of Cross-Strait Rural Construction of Fujian Agriculture and Forestry University. He has also served as a member of the National Environment Advisory Committee, ministerial adviser and advisory expert of the Ministry of Commerce, the State Forestry Administration, Beijing Province and Fujian Province of the PRC. Mr. Wen was appointed as vice president of the Chinese Association of Agricultural Economics in 2007 and a member of the Sixth Session Disciplinary Assessment Team under the Academic Degree Commission of the State Council of the PRC in 2008. He was previously deputy secretary general of the China Society of Economic Reform and a researcher of the Research Centre for Rural Economy of Ministry of Agriculture of the PRC.

**Mr. Francis YUEN Tin-fan** received a Bachelor's degree in economics from the University of Chicago and is a member of the Shanghai Municipal Committee of Chinese People's Political Consultative Conference. He is now non-executive vice chairman of Pacific Century Regional Developments Limited, and has served as independent non-executive director of the Bank since March 2013. Mr. Yuen previously served as chief executive of the HKSE, vice chairman and executive director of Pacific Century Group, chairman and board representative of Pacific Century Group Japan Co., Ltd., vice chairman and executive director of PCCW Limited, vice chairman of Pacific Century Premium Developments Limited, executive chairman of Pacific Century Insurance Holdings Limited, vice chairman and executive director of Pacific Century Regional Developments Limited and a non-executive director of China Pacific Insurance (Group) Co., Ltd. and Kee Shing (Holdings) Limited (currently known as Gemini Property Investments Limited). Mr. Yuen is currently serving as an independent non-executive director of China Foods Limited and China Chengxin International Credit Rating Co., Ltd. He is also chairman of the board of trustees of the Hong Kong Centre for Economic Research, chairman of the advisory committee of Ortus Capital Management Limited, and a member of the board of trustees of the University of Chicago and Fudan University in Shanghai.

### Supervisors

The following table sets out certain information relating to the Bank's supervisors.

<u>Name</u>	<u>Position</u>
CHE Yingxin	Chairman of the Board of Supervisors
JIA Xiangsen	Supervisor Representing Employees
ZHENG Xin	Supervisor Representing Employees
ZHANG Jianzhong	Supervisor Representing Employees
XIA Zongyu	Supervisor Representing Employees
WANG Xingchun	Supervisor Representing Employees
DAI Gengyou	External Supervisor

**Mr. CHE Yingxin** holds a Bachelor's degree. He has served as the chairman of the Board of Supervisors of the Bank since January 2009. Mr. Che previously served successively as president of the Lushi sub-branch of the PBOC, vice president of the Luoyang branch of the PBOC and deputy governor of the Luoyang branch of the SAFE; president of the Sanmenxia branch of the PBOC and governor of the Sanmenxia branch of the SAFE; president of the Xinyang branch of the PBOC and governor of the Xinyang branch of the SAFE; vice president of the Henan branch of the PBOC and deputy governor of the Henan branch of the SAFE; deputy director of the Inspection Bureau of the PBOC; deputy secretary of the Commission for Discipline Inspection and director of the Inspection Bureau of the PBOC; deputy secretary of Communist Party of China Central Commission for Financial Discipline Inspection; director of Financial Inspection Bureau of Ministry of Supervision; and director of Banking Supervision Department I of the CBRC. Mr. Che was appointed as assistant to chairman of the CBRC in February

2005, and chairman of the board of supervisors of Key State-owned Financial Institutions in December 2005. He currently serves in several positions, including vice chairman of the 7th session of the Committee of the China Institute of Rural Finance and director of the Dalian Committee of China Business Executives Academy. Mr. Che is also a member of the 12th CPPCC National Committee.

**Mr. JIA Xiangsen** graduated from a Master programme in money and banking at the Chinese Academy of Social Sciences and is a senior economist. He has served as a supervisor representing employees of the Bank since April 2009. Mr. Jia previously served as officer and deputy section chief of the PBOC Beijing branch, and deputy director of the PBOC Fengtai District Office. Mr. Jia has served in several positions in the Bank, including vice president of the Beijing Fengtai sub-branch, deputy chief of the Education Division of the Beijing branch, deputy director of the Credit Cooperation Management Department of the Beijing branch and deputy chief of the Science and Technology Division of the Beijing branch. Mr. Jia also once served as president of the Beijing Dongcheng sub-branch and assistant to president of the Beijing branch. Mr. Jia was appointed as vice president of the Beijing branch of the Bank in November 1994, general manager of the Corporate Banking Department of the Bank in December 2000, president of the Guangdong branch of the Bank in November 2003, principal of the Audit Office of the Bank in April 2008, and chief auditor and principal of the Audit Office of the Bank in March 2010. He is concurrently serving as the deputy director-general of China Association for Promoting Technology and Finance.

**Mr. ZHENG Xin**, graduated with a junior college diploma and is a senior accountant. Mr. Zheng has served as a supervisor representing employees of the Bank since July 2011. He previously served as the deputy director of the Personnel Department in the Shanghai branch of the Bank, deputy director and director of the Finance and Accounting Department and president of the Xuhui Sub-branch. Mr. Zheng became vice president of the Shanghai branch of the Bank in December 1996, president of the Anhui branch of the Bank in December 2003 and president of the Shanghai branch of the Bank in January 2007. He was appointed as general manager of the Internal Control and Compliance Department of the Bank in July 2009. He has served as general manager of the Internal Control and Legal & Compliance Department of the Bank since July 2011.

**Mr. ZHANG Jianzhong** holds a Bachelor's degree and is a senior economist. Mr. Zhang has served as a supervisor representing employees of the Bank since May 2013. He previously served in several positions in the Inspection and Supervision Office of the Bank, including inspector (deputy chief level) of the Case Division, head of the Economic Case Division and head of its Division I. Mr. Zhang was appointed to several positions in the Bank, including discipline inspection supervisor of the Inspection and Supervision Department in April 1999, vice president of Inner Mongolia branch in April 2001, deputy director of the Inspection and Supervision Department in November 2003 and president of the Ningxia branch in January 2007. He was appointed as deputy secretary of the Party Discipline Committee of the Bank in September 2012, and deputy secretary of the Party Discipline Committee and general manager of the Inspection and Supervision Department of the Bank in February 2013.

**Mr. XIA Zongyu** holds a Master's degree and is a senior economist. Mr. Xia has served as a supervisor representing employees of the Bank since May 2013. He previously served in several positions in the Executive Office of the Bank, including deputy chief of the General Division, deputy chief and then chief of the Policy Research Division, and chief of the Document Management Division. Mr. Xia was appointed to several positions in the Bank, including deputy director of the Executive Office in October 2003, principal of the Sannong Retail Banking Department in April 2008, general manager of Sannong Retail Banking Department in July 2008 and vice president of Fujian branch in June 2009. He was appointed as principal of the Union Affairs Department in November 2012 and director of the Union Affairs Department in January 2013.

**Mr. WANG Xingehun**, received a Master's degree in economics from the Graduate School of the People's Bank of China and is a Senior Economist. Mr. Wang previously served successively in several positions of the Bank, including deputy chief of the Policy Research Division of the Research Office, chief of the Policy Research Division of the Development Planning Department, assistant general manager of the Development Planning Department, and assistant general manager of the Market Development Department. He was appointed as deputy general manager of the Market Development

Department of the Bank in May 1998, deputy general manager of the Training Department of the Bank in December 2000, vice president of Tianjin Training Institute of the Bank in February 2002, general manager of the Legal Affairs Department of the Bank in November 2003, general manager of the Legal and Compliance Department of the Bank in June 2006, general manager of the Legal Affairs Department of the Bank in July 2008, supervisor representing employees and general manager of the Legal Affairs Department of the Bank in April 2009, supervisor representing employees and branch principal of the Audit Office's Affiliated Office of the Bank in March 2011, branch principal of the Audit Office's Affiliated Office of the Bank in July 2011, and director of Office of the Board of Supervisors in March 2014.

**Mr. DAI Genyou** holds a Bachelor's degree and is a senior economist. He is an expert entitled to Government Special Allowance by the State Council. Mr. Dai is currently an independent director of Haitong Securities Co., Ltd. and Shanghai Zhangjiang Hi-Tech Park Development Co., Ltd. He previously served in several positions in the People's Bank of China, including vice president of the Anqing Branch, director of Division I of Statistics and Research Department, director of the Economic Analysis Division of Statistics and Analysis Department, deputy chief of Statistics and Analysis Department, counsel of the Statistics and Analysis Department (bureau level, during the term of which he concurrently served as deputy head of the Finance and Trade Team, the Central Leading Group on Finance and Economic Affairs of Central Committee of the Communist Party of China), chief of the Monetary Policy Department and secretary-general of Monetary Policy Committee, director of the Credit Information System Bureau and Credit Reference Centre, and director of the Credit Reference Centre. He retired from the PBOC in March 2010.

#### Senior management

The following table sets out certain information relating to the Bank's senior management.

Name	Position
ZHANG Ynn	Vice Chairman, Executive Director, President
GUO Haoda	Executive Director, Executive Vice President
CAI Huaxiang	Executive Vice President
GONG Chao	Executive Vice President, Secretary of the Party Discipline Committee
LOU Wenlong	Executive Director, Executive Vice President
WANG Wei	Executive Vice President
LI Zhenjiang	Executive Vice President
ZHU Gaoming	Secretary to the Board of Directors

For the detailed biography of **Mr. ZHANG Yun**, **Mr. GUO Haoda** and **Mr. LOU Wenlong**, please see "Directors" above. The biographies of other senior management personnel are as follows:

**Mr. CAI Huaxiang** received a Master's degree in engineering from China University of Geosciences and is a senior economist. He has served as executive vice president of the Bank since February 2010. Mr. Cai previously served successively as deputy director of the Personnel Bureau of China Development Bank; president of the Nanchang branch and Jiangxi branch of China Development Bank; general manager of the Operation Department of China Development Bank and president of the Beijing branch of China Development Bank. Mr. Cai was appointed as vice president of China Development Bank Corporation in September 2008.

**Mr. GONG Chao** received a Master's degree in Economics from Xi'an Jiaotong University and is a senior economist. He has served as secretary of the Party Discipline Committee of the Bank since December 2011 and as executive vice president and secretary of the Party Discipline Committee of the Bank since March 2012. Mr. Gong previously served as the deputy director of the human resources department of Agricultural Development Bank of China, deputy director of the Administrative Affairs Department and the Executive General Office of the SSF, and vice president of the Beijing branch of Agricultural Development Bank of China. Mr. Gong was appointed as general manager of the human resources department of Agricultural Development Bank of China in September 2006.

**Mr. WANG Wei** received a Master's degree in economics from Nanjing Agricultural University and is a senior economist. He has served as a member of senior management of the Bank since December 2011 and an executive vice president of the Bank since December 2013. Mr. Wang previously served as deputy president of the Ningxia branch, deputy president of the Gansu branch, president of the Gansu branch, president of the Xinjiang branch and president of the Xinjiang Production and Construction Corps branch, director of the General Office of the Bank and president of the Hebei branch, general manager of the Internal Control and Compliance Department and the general manager of the Human Resources Department. He was appointed as chief officer of the county area business and general manager of the Human Resources Department of the Bank in April 2011. He is concurrently the vice chairman of the fourth committee of Chinese Society of Ideological and Political Work and a member of the fourth national standing committee of Chinese Financial Association.

**Mr. LI Zhenjiang** received a PhD in economics from Nankai University and is a senior economist and an expert entitled to Government Special Allowance by the State Council. He has served as executive vice president of the Bank since October 2013 and previously served as secretary to the Board of Directors of the Bank. Mr. Li previously served successively as chief of the Policy Research Division of the PBOC General Administration Department and vice director of the Integrated Management Department of the PBOC Shanghai Head Office. Mr. Li was appointed as deputy director of the Restructuring Office of the Bank in August 2007, director of Research Office of the Bank in January 2008, and general manager of the Strategic Management Department of the Bank in October 2008, secretary to the Board of Directors in January 2009 and managing director of the Office of Board of Directors of the Bank since January 2009.

#### **Company secretary**

**Mr. ZHU Gaoming**, received a Master's degree in Economics from Fudan University and a Master's degree in Business Administration from University of Sheffield. He is also a senior economist. He previously served in several positions in Agricultural Bank of China, including deputy director of International Business Management Division, deputy general manager and general manager of International Business Department and general manager of Foreign Exchange Business Department of Shanghai Branch. He was appointed as vice president of Shanghai Branch in February 2004, vice president and president of Jiangsu Branch in December 2006 and December 2008, respectively. Mr. Zhu was appointed as general manager of Corporate Banking Department and Small Enterprise Finance Department and concurrently as general manager of Investment Banking Department (secondary department level) of the Bank in May 2010, and general manager of the Credit Approval Department of the Bank since May 2011.

#### **Special committees of the Board of Directors**

The Board of Directors established the Strategic Planning Committee, the County Area Banking Business Development Committee, the Nomination and the Remuneration Committee, the Audit and Compliance Committee and the Risk Management Committee (which established the Related Party Transactions Management Committee thereunder).

#### **Strategic planning committee**

The Strategic Planning Committee currently comprises ten directors, including Mr. JIANG Chaoliang, the chairman, Mr. ZHANG Yun, the vice chairman, Mr. GUO Haoda and Mr. LOU Wenlong (both are executive directors), Mr. SHEN Bingxi, Mr. CHENG Fengchao, Mr. LI Yelin, Mr. XIAO Shusheng and Mr. ZHAO Chao (all are non-executive director) and Mr. Anthony WU Ting-yuk (Independent non-executive director). Mr. JIANG Chaoliang, the chairman, has been appointed as Chairman of the Strategy Planning Committee. The primary duties of the Strategic Planning Committee are to review the overall development strategy and specific strategic development plans, major investment and financing plans, mergers and acquisitions plans and other material matters critical to the development of the Bank and make suggestions to the Board of Directors.

### **County area banking business development committee**

The County Area Banking Business Development Committee currently comprises seven directors, including Mr. ZHANG Yun, the vice chairman, Mr. GUO Haoda (executive director), Mr. CHENG Fengchao, Mr. XIAO Shusheng, Mr. ZHAO Chao (all are non-executive directors), Mr. QIU Dong and Mr. WEN Tiejun (both are independent non-executive directors). Mr. ZHANG Yun is the chairman of the County Area Banking Business Development Committee. The primary duties of the County Area Banking Business Development Committee are to review the strategic development plan, policies, basic management rules and the risk strategic plan of the County Area Banking Business and other major matters critical to the development of the County Area Banking Business. It is also responsible for monitoring the implementation of the Bank's County Area Banking Business strategic plan, policies and basic management rules, evaluating the services for customers of County Area Banking Business, and making suggestions to the Board of Directors.

### **Nomination and remuneration committee**

The Nomination and Remuneration Committee currently comprises seven Directors, including Mr. ZHANG Yun, the vice chairman, Mr. SHEN Bingxi and Mr. LIN Damao (both are non-executive directors), Mr. Anthony WU Ting-yuk, Mr. QIU Dong, Mr. Frederick MA Si-hang and Mr. WEN Tiejun (all are Independent non-executive directors). Mr. QIU Dong is chairman of the Nomination and Remuneration Committee. The primary duties of the Nomination and Remuneration Committee are to formulate standards and procedures for election of directors, chairmen and members of board committees and senior management members and submit the proposed candidates and their qualifications to the Board of Directors for approval, and to formulate the remuneration packages for directors, supervisors and senior management members, and submit the same to the Board of Directors for approval.

During the reporting period, the candidates of Directors were nominated by the Board of Directors by proposal with written materials, including their respective profiles, and were elected at the Shareholders' General Meeting.

When nominating candidates of Directors, the Nomination and Remuneration Committee mainly takes into account their qualifications, their compliance with laws, administrative regulations, rules and the Articles of Association, their capability of due diligence, their understanding of our operation and management and willingness to accept supervision of their performance by the Board of Supervisors of the Bank and based on the requirement of the diversity of composition of the Board of Directors. The quorum of the meeting of the Nomination and Remuneration Committee shall be more than half of all its members. A resolution shall be passed by more than half of votes of all its members.

During the reporting period, the Nomination and Remuneration Committee convened three meetings and considered five proposals including the remuneration policy for our Directors, Supervisors and Senior Management of 2012 and the appointments of vice presidents.

### **Audit committee**

At the end of the reporting period, the Audit Committee of the Board of Directors comprised six Directors, namely Mr. LIN Damao and Mr. CHENG Fengchao (both are Non-Executive Directors), Mr. Frederick MA Si-hang, Mr. QIU Dong, Mr. WEN Tiejun and Mr. Francis YUEN Tin-fan (all are Independent Non-Executive Directors). Mr. Frederick MA Si-hang is Chairman of the Audit Committee. The primary duties of the Audit Committee are to supervise, inspect and review our internal audit, financial information and internal control, and to make suggestions to the Board of Directors.

### **Risk management committee**

The Risk Management Committee currently comprises eight directors, including Mr. LOU Wenlong (executive director), Mr. SHEN Bingxi, Mr. LIN Damao, Mr. LI Yelin and Mr. XIAO Shusheng (all are non-executive directors) and Mr. Anthony WU Ting-yuk, Mr. QIU Dong and Mr. Francis YUEN Tin-fan (all are independent non-executive directors). Mr. Anthony WU Ting-yuk is Chairman of the Risk

Management Committee. The primary duties of the Risk Management Committee are to review the Bank's risk strategy, risk management policies, risk management reports and proposals on deployment of risk-based capital, supervise and assess the performance of relevant senior management members and risk management departments in respect of risk management, and to make suggestions to the Board of Directors.

**Related party transactions management committee**

The Related Party Transactions Management Committee currently comprises four directors, including Mr. LI Yelin (non-executive director), Mr. Anthony WU Ting-yuk, Mr. QIU Dong and Mr. Francis YUEN Tin-fan (all are independent non-executive directors). Mr. Anthony WU Ting-yuk is chairman of the Related Party Transactions Management Committee. The primary duties of the Related Party Transactions Management Committee are to identify related parties of the Bank, review the Bank's general management system for related party transactions, review and record the related party transactions, and make suggestions to the Board of Directors.

## TAXATION

*The following summary of certain PRC, Hong Kong and EU tax consequences of the purchase, ownership and disposal of the Notes is based upon applicable laws, regulations, rulings and decisions in effect as at the date of this Offering Circular, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Neither these statements nor any other statements in this Offering Circular are to be regarded as advice on the tax position of any holder of the Notes or any persons acquiring, selling or otherwise dealing in the Notes or on any tax implications arising from the acquisition, sale or other dealings in respect of the Notes. Persons considering the purchase of the Notes should consult their own tax advisers concerning the possible tax consequences of buying, holding or selling any Notes under the laws of their country of citizenship, residence or domicile.*

### **PRC Taxation**

According to the PRC Enterprise Income Tax Law and the relevant implementation rules, non-PRC resident enterprises will not be subject to the PRC income tax in respect of the interest income determined as income sourced outside the PRC by PRC tax authority. However, pursuant to the PRC Individual Income Tax Law and the relevant implementation rules, it remains uncertain as to whether non-PRC resident individuals shall be subject to the PRC income tax in respect of the interest income from the Notes. Any individual who has a domicile within the PRC or has no domicile but has stayed in the PRC for one year or longer shall pay the income tax at 20% for any income sourced within and outside the PRC, and any individual who has no domicile in the PRC and has not stayed in the PRC for one year or longer shall pay the income tax at 20% for any income sourced in the PRC, unless otherwise provided in preferential taxation policies under special taxation arrangements.

### **Hong Kong**

#### ***Withholding tax***

No withholding tax is payable in Hong Kong in respect of payments of principal or interest on the Notes or in respect of any capital gains arising from the sale of the Notes.

#### ***Profits tax***

Hong Kong profits tax is chargeable on every person carrying on a trade, profession or business in Hong Kong in respect of profits arising in or derived from Hong Kong from such trade, profession or business (excluding profits arising from the sale of capital assets).

Under the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) (the "Inland Revenue Ordinance") as it is currently applied by the Inland Revenue Department, interest on the Notes may be deemed to be profits arising in or derived from Hong Kong from a trade, professional or business carried in Hong Kong in the following circumstances:

- (a) interest on the Notes is received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance) and arises through or from the carrying on by the financial institution of its business in Hong Kong; or
- (b) interest on the Notes is derived from Hong Kong and is received by or accrues to a company (other than a financial institution) carrying on a trade, profession or business in Hong Kong; or
- (c) interest on the Notes is derived from Hong Kong and is received by or accrues to a person (other than a company) carrying on a trade, profession or business in Hong Kong and is in respect of the funds of the trade, profession or business.

Sums derived from the sale, disposal or redemption of the Notes will be subject to Hong Kong profits tax where received by or accrued to a person who carries on a trade, profession or business in Hong Kong



and the sum has a Hong Kong source. The source of such sums will generally be determined by having regard to the manner in which the Notes are acquired and disposed of.

Sums received by or accrued to a financial institution by way of gains or profits arising through or from the carrying on by the financial institution of its business in Hong Kong from the sale, disposal and redemption of the Notes will be subject to profits tax.

#### **Stamp duty**

No stamp duty is payable in Hong Kong upon or in connection with the issue or delivery of any Notes *provided either:*

1. such Notes are denominated in a currency other than the currency of Hong Kong and are not repayable in any circumstances in the currency of Hong Kong; or
2. such Notes constitute loan capital (as defined in the Stamp Duty Ordinance (Cap.117) of the laws of Hong Kong).

#### **European Union (EU) directive on the taxation of savings income**

Under EC Council Directive 2003/48/EC on the taxation of savings income, each member state is required to provide to the tax authorities of another member state details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in that other member state; however, for a transitional period, Austria and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35 per cent. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments. Luxembourg has announced that it will no longer apply the withholding tax system as from 1 January 2015 and will provide details of payments of interest (or similar income) as from this date.

A number of non-EU countries, and certain dependent or associated territories of certain member states, have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in a member state. In addition, the member states have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a member state to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

The European Council formally adopted a Council Directive amending the Directive on 24 March 2014 (the “**Amending Directive**”). The Amending Directive broadens the scope of the requirements described above. Member States have until 1 January 2016 to adopt the national legislation necessary to comply with the Amending Directive. The changes made under the Amending Directive include extending the scope of the Directive to payments made to, or collected for, certain other entities and legal arrangements. They also broaden the definition of “interest payment” to cover income that is equivalent to interest.

Investors who are in any doubt as to their position should consult their professional advisers.

#### **The proposed financial transactions tax (“FTT”)**

On 14 February 2013, the European Commission published a proposal (the “**Commission’s Proposal**”) for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the “**participating Member States**”). The Commission’s Proposal has very broad scope and could, if introduced, apply to certain dealings in the Securities (including secondary market transactions) in certain circumstances.

Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Securities where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

A joint statement issued in May 2014 by ten of the eleven participating Member States indicated an intention to implement the FTT progressively, such that it would initially apply to shares and certain derivatives, with this initial implementation occurring by 1 January 2016.

The FTT proposal remains subject to negotiation between the participating Member States. It may therefore be altered prior to any implementation. Additional EU Member States may decide to participate.

Prospective holders of the Securities are advised to seek their own professional advice in relation to the FTT.

#### **FATCA**

With respect to Global Notes held within Euroclear or Clearstream Luxembourg, in all but the most remote circumstances, it is not expected that FATCA will affect the amount of any payment received by Euroclear or Clearstream Luxembourg. With respect to Notes held through a sub-custodian for the CMU Service, the Issuer and financial institutions through which payments on the Notes are made may be required to withhold under FATCA if the sub-custodian or other nominee or custodian receiving payments on the Notes has not entered into an agreement with the IRS to report certain information about its accountholders to the IRS or is not otherwise exempt from FATCA withholding (including pursuant to the terms of any applicable IGA entered into between the United States and such entity's jurisdiction of residence).

It is possible that, in order to comply with FATCA, the Issuer (or if the Notes are held through another financial institution, such other financial institution) may be required, pursuant to an agreement with the IRS to which the Issuer (or such other financial institution) are subject or under applicable law (including pursuant to the terms of any applicable IGA) to request certain information from holders or beneficial owners of the Notes, which information may be provided to the IRS. In addition, (a) if the Notes are treated as debt for U.S. federal income tax purposes and are issued after the Grandfathering Date, or (b) if the Notes are treated as debt for U.S. federal income tax purposes and are issued on or before the Grandfathering Date, but the terms of the Notes are materially modified after the Grandfathering Date or (c) if the Notes are treated as equity for U.S. federal income tax purposes, then it is possible that the Issuer or such other financial institution may be required to apply FATCA withholding to all or a portion of payments with respect to the Notes made after 31 December 2016 (or, if later, the date on which the final regulations that define foreign passthru payments are published in the U.S. Federal Register) if such information is not provided or if payments are made to certain FFIs that are not subject to a similar agreement with the IRS (and are not otherwise required to comply with the FATCA regime under applicable law (including pursuant to the terms of any applicable IGA)).

The application of the FATCA withholding rules was phased in beginning 1 July 2014, with withholding on foreign passthru payments made by participating FFIs taking effect no earlier than 1 January 2017. FATCA withholding on foreign passthru payments generally does not apply to debt obligations that are issued on or before the date that is six months after the date on which the final regulations that define foreign passthru payments are filed with the U.S. Federal Register (such date that is six months after the Grandfathering Date), unless such obligations are materially modified after that date or are not treated as debt for U.S. federal income tax purposes. The date on which final regulations defining "foreign passthru payments" will be published is currently uncertain.

## PRC CURRENCY CONTROLS

### Remittance of Renminbi into and outside the PRC

The Renminbi is not a freely convertible currency. The remittance of Renminbi into and outside the PRC is subject to controls imposed under PRC law.

### Current Account Items

Under PRC foreign exchange control regulations, current account item payments include payments for imports and exports of goods and services, payments of income and current transfers into and outside the PRC.

Prior to July 2009, all current account items were required to be settled in foreign currencies. On July 2009, the PRC government promulgated Measures for the Administration of the Pilot Programme of Renminbi Settlement of Cross-Border Trades (跨境貿易人民幣結算試點管理辦法) (the “Measures”) and its implementation rules, pursuant to which designated and eligible enterprises are allowed to settle their cross-border trade transactions in Renminbi. Since July 2009, subject to the Measures and its implementation rules, the PRC has commenced a scheme pursuant to which Renminbi may be used for settlement of cross-border trade between approved pilot enterprises in five designated cities in the PRC including Shanghai, Guangzhou, Dongguan, Shenzhen and Zhuhai and enterprises in designated offshore jurisdictions including Hong Kong and Macau. On 17 June 2010, the PRC government promulgated the Circular on Issues concerning the Expansion of the Scope of the Pilot Programme of Renminbi Settlement of Cross-Border Trades (關於擴大跨境貿易人民幣結算試點有關問題的通知), pursuant to which (i) the list of designated pilot districts was expanded to cover 20 provinces including Beijing, Shanghai, Tianjin, Chongqing, Guangdong, Jiangsu, Zhejiang, Liaoning, Shandong and Sichuan, and (ii) the restriction on designated offshore districts was lifted. Accordingly, any enterprises in the designated pilot districts and offshore enterprises are entitled to use Renminbi to settle any current account items between them (except in the case of payments for exports of goods from the PRC, such Renminbi remittance may only be effected by approved pilot enterprises in 16 provinces within the designated pilot districts in the PRC). On 1 August 2011, the PRC government promulgated the Circular on the Expansion of the Regions of Renminbi Settlement of Cross-Border Trades (關於擴大跨境貿易人民幣結算地區的通知), pursuant to which the list of designated pilot districts was expanded to the whole country. On 3 February 2012, the PRC government promulgated the Circular on the Relevant Issues Pertaining to Administration over Enterprises Engaging in RMB Settlement of Export of Goods (關於出口貨物貿易人民幣結算企業管理有關問題的通知), pursuant to which any enterprises in China which are qualified to engage in import and export trade are allowed to settle their goods export trade in Renminbi.

The Measures and the subsequent circulars will be subject to interpretation and application by the relevant PRC authorities. Local authorities may adopt different practices in applying the Measures and impose conditions for settlement of current account items.

### Capital Account Items

Under PRC foreign exchange control regulations, capital account items include cross-border transfers of capital, direct investments, securities investments, derivative products and loans. Capital account payments are generally subject to approval of the relevant PRC authorities.

Capital account items are generally required to be made in foreign currencies. For instance, foreign investors (including any Hong Kong investors) are generally required to make any capital contribution to foreign invested enterprises in a foreign currency in accordance with the terms set out in the relevant joint venture contracts and/or articles of association as approved by the relevant authorities. Foreign invested enterprises or any other relevant PRC parties are also generally required to make capital account item payments including proceeds from liquidation, transfer of shares, reduction of capital and principal repayment under foreign debt to foreign investors in a foreign currency. That said, the relevant PRC authorities may approve a foreign entity to make a capital contribution or shareholder’s loan to a foreign invested enterprise with Renminbi lawfully obtained by it outside the PRC and for the foreign invested

enterprise to service interest and principal repayment to its foreign investor outside the PRC in Renminbi on a trial basis. The foreign invested enterprise may also be required to complete registration and verification process with the relevant PRC authorities before such Renminbi remittances.

On 3 June 2011, the PBOC promulgated the Circular on Clarifying Issues concerning Cross-border Renminbi Settlement (中國人民銀行關於明確跨境人民幣業務相關問題的通知) (the “PBOC Circular”). The PBOC Circular provides instructions to local PBOC authorities on procedures for the approval of settlement activities for non-financial Renminbi foreign direct investment into the PRC. The PBOC Circular applies to all non-financial Renminbi foreign direct investment into the PRC, and includes investment by way of establishing a new enterprise, acquiring an onshore enterprise, transferring the shares, increasing the registered capital of an existing enterprise, or providing loan facilities in Renminbi. The domestic settlement banks of foreign investors or foreign invested enterprises in the PRC are required to submit written applications to the relevant local PBOC authorities which include, inter alia, requisite approval letters issued by the relevant MOFCOM authorities. The PBOC Circular only applies to cases where the receiving onshore enterprise is not a financial institution. On 13 October 2011, the PBOC issued the PBOC RMB FDI Measures, to commence the PBOC’s detailed RMB FDI administration system, which covers almost all aspects of RMB FDI, including capital injection, payment of purchase price in the acquisition of PRC domestic enterprises, repatriation of dividends and distribution, as well as RMB denominated cross-border loans. Under the PBOC RMB FDI Measures, special approval for RMB FDI and shareholder loans from the PBOC which was previously required by the PBOC Circular is no longer necessary. On 19 November 2012, the SAFE promulgated the Circular on Further Improving and Adjusting the Foreign Exchange Administration Policies on Direct Investment (國家外匯管理局關於進一步改進和調整直接投資外匯管理政策的通知) (the “SAFE Circular on DI”), which became effective on 17 December 2012. According to the SAFE Circular on DI, the SAFE removes or adjusts certain administrative licensing items with regard to foreign exchange administration over direct investments to promote investment, including, but not limited to, the abrogation of SAFE approval for opening of and payment into foreign exchange accounts under direct investment accounts, the abrogation of SAFE approval for reinvestment with legal income generated within China of foreign investors, the simplification of the administration of foreign exchange reinvestments by foreign investment companies, and the abrogation of SAFE approval for purchase and external payment of foreign exchange under direct investment accounts.

On 3 December 2013, MOFCOM promulgated the MOFCOM RMB FDI Circular, which became effective on 1 January 2014, to further facilitate FDI by simplifying and streamlining the applicable regulatory framework. The MOFCOM Circular replaced the 2011 MOFCOM Notice. Pursuant to the MOFCOM RMB FDI Circular, written approval from the appropriate office of MOFCOM and/or its local counterparts specifying “Renminbi Foreign Direct Investment” and the amount of capital contribution is required for each FDI. Compared with the 2011 MOFCOM Notice, the MOFCOM RMB FDI Circular no longer contains the requirements for central level MOFCOM approvals for investments of RMB300 million or above, or in certain industries, such as financial guarantee, financial leasing, micro-credit, auction, foreign invested investment companies, venture capital and equity investment vehicles, cement, iron and steel, electrolyse aluminium, ship building and other industries under the state macro-regulation. Unlike the 2011 MOFCOM Notice, the MOFCOM RMB FDI Circular has also removed the approval requirement for foreign investors who intend to change the currency of their existing capital contribution from a foreign currency to Renminbi. In addition, the MOFCOM RMB FDI Circular also clearly prohibits FDI funds from being used for any investments in securities and financial derivatives (except for investments in PRC listed companies by strategic investors) or for entrustment loans in the PRC.

On 10 January 2014, the SAFE promulgated the Circular on Further Improving and Adjusting the Foreign Exchange Administration Policies on Capital Account (the “SAFE Circular on Capital Account”), which became effective on 10 February 2014. According to the SAFE Circular on Capital Account, the SAFE removes or adjusts certain administrative licensing items with respect to foreign exchange administration on capital account, including but not limited to, the simplification of the foreign exchange administration on the foreign claim of finance leasing companies and the acquisition of domestic non-performing assets by foreign investors, the further liberalization regarding the administration on

preliminary expense for outbound direct investment and outbound remittance by domestic enterprises, the simplification of the approval procedure regarding profit remittance by domestic enterprises and the improvement of foreign exchange administration on the foreign exchange operation permits acquired by securities companies.

There are currently no rules governing remittance of Renminbi proceeds of bond issuance by a foreign entity such as the Bank into an onshore financial institution for its own use as capital injection or for other capital account purposes and any such remittance will be subject to special government approvals on a case-by-case basis.

As the MOFCOM RMB FDI Circular and the PBOC RMB FDI Measures are relatively new rules, they will be subject to interpretation and application by the relevant PRC authorities.

As there is currently no specific PRC regulation on the remittance of Renminbi for settlement of transactions categorised as capital account items, there is no assurance that approval of such remittances will continue to be granted or will not be revoked in the future. Further, if any new PRC regulations are promulgated in the future which have the effect of permitting or restricting (as the case may be) the remittance of Renminbi for payment of transactions categorised as capital account items, then such remittances will need to be made subject to the specific requirements or restrictions set out in such rules.

## CLEARANCE AND SETTLEMENT

*The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of Euroclear, Clearstream, Luxembourg or the CMU (together, the "Clearing Systems") currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Issuer believes to be reliable, but neither the Issuer nor any Dealer or the Arrangers takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. Neither the Issuer nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to, or payments made on account of, such beneficial ownership interests.*

The relevant Pricing Supplement will specify the Clearing System(s) applicable for each Series.

### **The Clearing Systems**

#### *Euroclear and Clearstream, Luxembourg*

Euroclear and Clearstream, Luxembourg each holds securities for participating organisations and facilitates the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream, Luxembourg provide to their respective participants, among other things, services for safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg participants are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to Euroclear or Clearstream, Luxembourg is also available to others, such as banks, brokers, dealers and trust companies which clear through or maintain a custodial relationship with a Euroclear or Clearstream, Luxembourg participant, either directly or indirectly.

Distributions of principal with respect to book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by the Paying Agent, to the cash accounts of Euroclear or Clearstream, Luxembourg participants in accordance with the relevant system's rules and procedures.

#### **CMU**

The CMU is a central depository service provided by the Central Moneymarkets Unit of the HKMA for the safe custody and electronic trading between the members of this service ("CMU Members") of capital markets instruments ("CMU Instruments") which are specified in the CMU Reference Manual as capable of being held within the CMU.

The CMU is only available to CMU Instruments issued by a CMU Member or by a person for whom a CMU Member acts as agent for the purposes of lodging instruments issued by such persons. Membership of the CMU is open to all members of the Hong Kong Capital Markets Association and "authorised institutions" under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

Compared to clearing services provided by Euroclear and Clearstream, Luxembourg, the standard custody and clearing service provided by the CMU is limited. In particular (and unlike the European Clearing Systems), the HKMA does not as part of this service provide any facilities for the dissemination to the relevant CMU Members of payments (of interest or principal) under, or notices pursuant to the notice provisions of, the CMU Instruments. Instead, the HKMA advises the lodging CMU Member (or a designated paying agent) of the identities of the CMU Members to whose accounts payments in respect of the relevant CMU Instruments are credited, whereupon the lodging CMU Member (or the designated paying agent) will make the necessary payments of interest or principal or send notices directly to the relevant CMU Members. Similarly, the HKMA will not obtain certificates of non-US beneficial

ownership from CMU Members or provide any such certificates on behalf of CMU Members. The CMU Lodging and Paying Agent will collect such certificates from the relevant CMU Members identified from an instrument position report obtained by request from the HKMA for this purpose.

An investor holding an interest through an account with either Euroclear or Clearstream, Luxembourg, in any Notes held in the CMU will hold that interest through the respective accounts which Euroclear and Clearstream, Luxembourg, each have with the CMU.

### **Book-Entry Ownership**

#### *Bearer Notes*

The Issuer has made applications to Euroclear and Clearstream, Luxembourg for acceptance in their respective book-entry systems in respect of any Series of Bearer Notes. The Issuer may also apply to have Bearer Notes accepted for clearance through the CMU. In respect of Bearer Notes, a temporary Global Note and/or a permanent Global Note will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg or a sub-custodian for the CMU. Transfers of interests in a temporary Global Note or a permanent Global Note will be made in accordance with the normal market debt securities operating procedures of the CMU, Euroclear and Clearstream, Luxembourg.

#### *Registered Notes*

The Issuer may make applications to Euroclear and Clearstream, Luxembourg for acceptance in their respective book-entry systems in respect of the Notes to be represented by a Global Certificate. The Issuer may also apply to have Notes to be represented by a Global Certificate accepted for clearance through the CMU. Each Global Certificate will have an International Securities Identification Number (“ISIN”) and a Common Code. Investors in Notes of such Series may hold their interests in a Global Certificate through Euroclear, Clearstream, Luxembourg or the CMU (if applicable).

Each Global Certificate will be subject to restrictions on transfer contained in a legend appearing on the front of such Global Certificate, as set out under “Subscription and Sale”.

All Registered Notes will initially be in the form of a Global Certificate. Individual Certificates will be available, in the case of Notes initially represented by a Global Certificate, in amounts specified in the applicable Pricing Supplement.

## SUBSCRIPTION AND SALE

### Dealer Agreement

Subject to the terms and on the conditions contained in the First Amended and Dealer Agreement dated 3 July 2014 (the “**Dealer Agreement**”) between the Bank, Hong Kong Branch, the Arrangers and the Permanent Dealers, the Notes will be offered on a continuous basis by the Issuer to the Permanent Dealers. However, the Issuer has reserved the right to sell Notes directly on its own behalf to Dealers that are not Permanent Dealers as at the date of the Dealer Agreement. The Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer. The Notes may also be sold by the Issuer through the Dealers, acting as agents of the Issuer. The Dealer Agreement also provides for Notes to be issued in syndicated Tranches that are severally underwritten by two or more Dealers.

The Issuer will pay each relevant Dealer a commission as agreed between them in respect of Notes subscribed by it. The Issuer has agreed to reimburse the Arrangers for certain of its expenses incurred in connection with the establishment of the Programme and the Dealers for certain of their activities in connection with the Programme.

The Issuer has agreed to indemnify the Dealers against certain liabilities in connection with the offer and sale of the Notes. The Dealer Agreement entitles the Dealers to terminate any agreement that they make to subscribe Notes in certain circumstances prior to payment for such Notes being made to the Issuer.

The Arrangers, the Dealers or any of their respective affiliates may have performed certain banking and advisory services for the Issuer and/or its affiliates from time to time for which they have received customary fees and expenses and may, from time to time, engage in transactions with and perform services for the Issuer and/or its affiliates in the ordinary course of the Issuer’s or their business. The Dealers or certain of their respective affiliates may purchase the Notes and be allocated the Notes for asset management and/or proprietary purposes but not with a view to distribution.

The Arrangers, the Dealers or any of their respective affiliates may purchase the Notes for its or their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to the Notes and/or other securities of the Issuer or its associates at the same time as the offer and sale of the Notes or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Notes to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchasers of the Notes).

### Selling Restrictions

#### *General*

The distribution of this Offering Circular or any offering material and the offering, sale or delivery of the Notes is restricted by law in certain jurisdictions. Therefore, persons who may come into possession of this Offering Circular or any offering material are advised to consult with their own legal advisers as to what restrictions may be applicable to them and to observe such restrictions. This Offering Circular may not be used for the purpose of an offer or invitation in any circumstances in which such offer or invitation is not authorised.

If a jurisdiction requires that an offering of Notes be made by a licensed broker or dealer and the Dealers or any affiliate of the Dealers is a licensed broker or dealer in that jurisdiction, such offering shall be deemed to be made by that Dealers or its affiliate on behalf of the Issuer in such jurisdiction.

#### *United States*

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in accordance



with Regulation S or pursuant to an exemption from the registration requirements of the Securities Act. Each Dealer has represented and agreed that it has offered and sold, and shall offer and sell, any Series (1) as part of their distribution at any time and (2) otherwise until 40 days after the completion of the distribution of an identifiable tranche of which such Notes are a part, as determined and certified to the Issuer and each relevant Dealer, by the Fiscal Agent or, the Lead Manager, only in accordance with Rule 903 of Regulation S. Accordingly, neither it, its affiliates nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to the Notes, and it and they have complied and shall comply with the offering restrictions requirement of Regulation S. Each Dealer agrees to notify the Fiscal Agent or, in the case of a Syndicated Issue, the Lead Manager when it has completed the distribution of its portion of the Notes of any identifiable tranche so that the Fiscal Agent or, in the case of a Syndicated Issue, the Lead Manager may determine the completion of the distribution of all Notes of that tranche and notify the other relevant Dealers of the end of the distribution compliance period. Each Dealer agrees that, at or prior to confirmation of sale of Notes, it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Notes from it during the distribution compliance period a confirmation or notice to substantially the following effect:

“The Notes covered hereby have not been registered under the U.S. Securities Act of 1933 (the “Securities Act”) and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of an identifiable tranche of Notes of which such Notes are a part, except in either case in accordance with Regulation S under the Securities Act. Terms used above have the meaning given to them by Regulation S under the Securities Act.”

Bearer Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the Internal Revenue Code.

In addition, until 40 days after the commencement of the offering of any identifiable tranche of Notes, an offer or sale of Notes within the United States by any dealer that is not participating in the offering of such Notes may violate the registration requirements of the Securities Act.

Unless the Pricing Supplement or the Subscription Agreement relating to one or more Tranches specifies that the applicable TEFRA exemption is either “C Rules” or “not applicable”, each Dealer has represented and agreed in relation to each Tranche of Notes in bearer form:

- (i) except to the extent permitted under U.S. Treas. Reg. §1.163-5(c)(2)(i)(D) (the “D Rules”):
  - (a) it has not offered or sold, and during a 40 day restricted period shall not offer or sell, Notes in bearer form to a person who is within the United States or its possessions or to a United States person; and
  - (b) it has not delivered and shall not deliver within the United States or its possessions definitive Notes in bearer form that are sold during the restricted period;
- (ii) it has and throughout the restricted period shall have in effect procedures reasonably designed to ensure that its employees or agents who are directly engaged in selling Notes in bearer form are aware that such Notes may not be offered or sold during the restricted period to a person who is within the United States or its possessions or to a United States person, except as permitted by the D Rules;
- (iii) if it is a United States person, it is acquiring the Notes in bearer form for purposes of resale in connection with their original issuance and if it retains Notes in bearer form for its own account, it shall only do so in accordance with the requirements of U.S. Treas. Reg. §1.163-5(c)(2)(i)(D)(6); and

- (iv) with respect to each affiliate that acquires from it Notes in bearer form for the purpose of offering or selling such Notes during the restricted period, it either (a) repeats and confirms the representations contained in sub-paragraphs (i), (ii) and (iii) on behalf of such affiliate or (b) agrees that it shall obtain from such affiliate for the benefit of the Issuer the representations contained in sub-paragraphs (i), (ii) and (iii).

Terms used in this paragraph have the meanings given to them by the Internal Revenue Code, including the D Rules.

To the extent that the Pricing Supplement or the Subscription Agreement relating to one or more Tranches of Bearer Notes specifies that the applicable TEFRA exemption is "C Rules", under U.S. Treas. Reg. §1.163-5(c)(2)(i)(C) (the "C Rules"), Notes in bearer form must be issued and delivered outside the United States and its possessions in connection with their original issuance. In relation to each such Tranche, each Dealer has represented and agreed that it has not offered, sold or delivered, and shall not offer, sell or deliver, directly or indirectly, Notes in bearer form within the United States or its possessions in connection with their original issuance. Further, in connection with their original issuance of Notes in bearer form, it has not communicated, and shall not communicate, directly or indirectly, with a prospective purchaser if either such purchaser or it is within the United States or its possessions or otherwise involve its U.S. office in the offer or sale of Notes in bearer form. Terms used in this paragraph have the meanings given to them by the Internal Revenue Code, including the C Rules.

Each issuance of index-, commodity- or currency-linked Notes shall be subject to such additional U.S. selling restrictions as the relevant Dealer(s) shall agree with the Issuer as a term of the issuance and purchase or, as the case may be, subscription of such Notes. Each relevant Dealer has agreed that it shall offer, sell and deliver such Notes only in compliance with such additional U.S. selling restrictions

#### *European Economic Area*

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date") it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Offering Circular as completed by the final terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

- (i) if the final terms in relation to the Notes specify that an offer of those Notes may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State (a "Non-exempt Offer"), following the date of publication of a prospectus in relation to such Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, provided that any such prospectus has subsequently been completed by the final terms contemplating such Non-exempt Offer, in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or final terms, as applicable and the Issuer has consented in writing to its use for the purpose of that Non-exempt Offer;
- (ii) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (iii) at any time to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (iv) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (ii) to (iv) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer of Notes to the public” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression “Prospectus Directive” means Directive 2003/71/EC (and amendments there to, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State) and includes any relevant implementing measure in each Relevant Member State and the expression “2010 PD Amending Directive” means Directive 2010/73/EU.

#### *United Kingdom*

Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that:

- (i) in relation to any Notes which have a maturity of less than one year, (a) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (b) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of section 19 of the Financial Services and Markets Act 2000 (the “FSMA”) by the Issuer;
- (ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and
- (iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

#### *Hong Kong*

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that:

- (i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes except for Notes which are a “structured product” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the “Securities and Futures Ordinance”) other than (a) to “professional investors” as defined in the Securities and Futures Ordinance and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and
- (ii) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, in each case whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

### *Singapore*

Each Dealer has acknowledged that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not offered or sold any Notes or caused such Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell such Notes or cause such Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Notes, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

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#### *Note:*

*Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:*

*(i) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or*

*(ii) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,*

*securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:*

*(i) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;*

*(ii) where no consideration is or will be given for the transfer;*

*(iii) where the transfer is by operation of law; or*

*(iv) as specified in Section 276(7) of the SFA.*

### *PRC*

Each Dealer has represented, warranted and agreed that the offer of the Notes is not an offer of securities within the meaning of the Securities Law or other pertinent laws and regulations of the PRC and the Notes are not being offered or sold and may not be offered or sold, directly or indirectly, in the PRC, except as permitted by the securities laws of the PRC.

### *Japan*

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended) (the "Financial Instruments and Exchange Act"). Accordingly, each Dealer has represented, warranted and agreed and each further Dealer appointed under the Programme will be required to represent, warrant and agree that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and any other applicable laws and regulations of Japan.

## GENERAL INFORMATION

1. **Clearing Systems:** The Notes have been accepted for clearance through the Euroclear and Clearstream, Luxembourg systems (which are the entities in charge of keeping the records). The Issuer may also apply to have Notes accepted for clearance through the CMU. The relevant CMU instrument number will be set out in the relevant Pricing Supplement. The relevant ISIN, the Common Code and (where applicable) the identification number for any other relevant clearing system for each series of Notes will be specified in the applicable Pricing Supplement. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be set out in the relevant Pricing Supplement.

The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L-1855 Luxembourg. The address of any alternative clearing system will be specified in the relevant Pricing Supplement.

2. **Listing:** Application has been made to the HKSE for permission to deal in, and for listing of, any Notes which are agreed at the time of issue to be so listed on the HKSE. There can be no assurance that the application will be approved.
3. **Litigation:** None of the Issuer nor any of its subsidiaries is involved in any material litigation or arbitration proceedings relating to claims or amounts which are material in the context of the issue of the Notes, nor is the Issuer or any of its subsidiaries aware that any such proceedings are pending or threatened.
4. **Authorisations:** The Issuer has obtained all necessary consents, approvals and authorisations as may be required in connection with the establishment of the Programme and the issue of this Offering Circular. The establishment of the Programme has been duly authorised by the Bank on 18 June 2014. The Issuer has obtained and has agreed to obtain from time to time all necessary internal consents, approvals and authorisations for the issue of Notes under the Programme.
5. **No Material Adverse Change:** Except as disclosed in this Offering Circular, there has been no significant change in the financial or trading position of the Issuer or of the Group since 31 December 2013 and no material adverse change in the financial position or prospects of the Issuer or of the Group since 31 December 2013.
6. **Available Documents:** For so long as Notes may be issued pursuant to this Offering Circular, the following documents will be available, during usual business hours on any weekday (Saturdays and public holidays excepted), for inspection at the offices of the Issuer and/or the Fiscal Agent:
  - (a) the Memorandum and Articles of Association of the Bank;
  - (b) the audited consolidated financial statements of the Bank as at and for the years ended 31 December 2011, 2012 and 2013 (in each case together with the audit reports in connection therewith);
  - (c) copies of the most recent annual and interim reports (including the financial statements) published by the Bank;
  - (d) the Fiscal Agency Agreement (which includes the form of the Global Notes, the definitive Bearer Notes, the Certificates, the Coupons, the Receipts and the Talons) and the Deed of Covenant;
  - (e) the Dealer Agreement;
  - (f) a copy of this Offering Circular together with any Supplement to this Offering Circular or further Offering Circular;

- (g) a copy of the subscription agreement for Notes issued on a syndicated basis that are listed on any stock exchange, where the rules of such stock exchange so require;
  - (h) each Pricing Supplement (save that Pricing Supplement relating to a Note which is neither admitted to trading on a regulated market within the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer and the Fiscal Agent as to its holding of Notes and identity).
7. **Auditors:** The consolidated financial statements of the Bank as at and for the years ended 31 December 2011 and 2012, which are included elsewhere in this Offering Circular have been audited by Deloitte Touche Tohmatsu, Certified Public Accountants, the Bank's former independent auditor, as stated in the auditors' report appearing herein. The consolidated financial statements of the Bank as at and for the year ended 31 December 2013, which are included elsewhere in this Offering Circular have been audited by PricewaterhouseCoopers, the Bank's independent auditor, as stated in their report appearing herein.
  8. Each Bearer Note having a maturity of more than one year, Receipt, Coupon and Talon will bear the following legend: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code".
  9. The issue price and the amount of the relevant Notes will be determined, before filing of the relevant Pricing Supplement of each Tranche, based on the prevailing market conditions. The Issuer does not intend to provide any post-issuance information in relation to any issues of Notes.

## INDEX TO FINANCIAL STATEMENTS

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Notes:

- (1) The audited consolidated financial statements of the Bank as of and for the year ended 31 December 2012 set out herein have been reproduced from the Audited Consolidated Financial Statements of the Bank for the year ended 31 December 2012 and page references are reference to pages set forth in such consolidated financial statements included in the Bank's Annual Report 2012.
- (2) The audited consolidated financial statements of the Bank as of and for the year ended 31 December 2013 set out herein have been reproduced from the Audited Consolidated Financial Statements of the Bank for the year ended 31 December 2013 and page references are reference to pages set forth in such consolidated financial statements included in the Bank's Annual Report 2013.

## ANNEX B

### ADDITIONAL INFORMATION REQUIRED PURSUANT TO THE DFSA'S MARKETS RULES

#### DESCRIPTION OF THE BANK

##### **Incorporation Details**

The Bank was incorporated as a joint stock limited liability company on 15 January 2009 with company registration number 100000000005472 and has remained incorporated since then.

The Bank's registered office address and principal place of business is No. 69, Jianguomen Nei Avenue, Dongcheng District, Beijing 100005, PRC and its contact phone number is +86 10 8510 9619.

The address for the Bank's Dubai branch is Office No. 2901, Level 29, Al Fattan Currency House Tower 2, DIFC, P.O. Box 124803, Dubai, UAE and its contact phone number is +971 4 5676 900. The Dubai branch was founded on 25 March 2013.

In this Annex, references to "UAE" are to the United Arab Emirates and references to the "DIFC" are to the Dubai International Financial Centre.

##### **Business Activities**

###### *History*

Agricultural Cooperative Bank ("ACB"), the Bank's predecessor, was established in 1951. From February 1979, ACB gradually evolved from a wholly state-owned specialised bank to a wholly state-owned commercial bank. In 2007, the PRC government resolved at the National Financial Conference that ACB would undertake an integrated restructuring, implement commercially-driven operations and seek a public listing at an appropriate time. On 21 October 2008, the State Council approved, in principle, ACB's restructuring plan. Subsequently, ACB completed a number of major financial restructuring initiatives such as the disposal of non-performing loans and other impaired assets and received a capital contribution from the State. On 15 January 2009, the Bank was incorporated as a joint stock limited liability company as part of that restructuring.

#### SUBSTANTIAL SHAREHOLDERS

The Bank's substantial shareholders, the MOF and Huijin (both state-owned entities), own approximately 39.2% and 40.3% respectively, of its outstanding shares. Systems and controls are in place to manage any conflict of interest that might arise between the interests of the MOF and/or Huijin and the interests of the Bank and to ensure that their control is not abused. MOF and Huijin do not engage in any commercial activity. In addition, Huijin has entered into a non-competition deed with the Bank, pursuant to which Huijin has undertaken, so long as it continues to hold any of the Bank's shares, not to engage or participate in any competing commercial banking activities.

All transactions and relationships between the Bank and its substantial shareholders are conducted on an arm's length basis and on normal contractual terms. The Bank can operate its business independently of its substantial shareholders.



## **DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT**

### **Details relating to Directors and Senior Managers**

The business address of each of the Directors and Senior Managers is No. 69, Jianguomen Nei Avenue, Dongcheng District, Beijing 100005, PRC. There are no potential conflicts of interest between the personal interests of the Directors and Senior Managers and their duties owed to the Bank or interests of the Bank.

#### *Change in Director*

In June 2014, Mr. ZHOU Ke was appointed as a non-executive director of the Bank. Mr. ZHOU Ke, aged 47, holds a Bachelor's degree. He started working with the Ministry of Finance of the PRC in 1988, and served successively as deputy director of Water Resources Division of Department of Agriculture, director of the Science and Technology Division, director of Project Management Department III and director of Policy Research Department of the National Agricultural Comprehensive Development Office, deputy director of the National Agricultural Comprehensive Development Evaluation Center, and deputy director of the National Agricultural Comprehensive Development Office.

### **Details relating to the Senior Management Team of the Agricultural Bank of China Limited Dubai Branch**

The business address of each of the Senior Managers of the Dubai branch is Office No. 2901, Level 29, Al Fattan Currency House Tower 2, DIFC, P.O. Box 124803, Dubai, UAE. The Senior Management Team comprises the following Senior Managers:

- Min Fang
- Hui Shao
- Qiang Li

## **SUMMARY FINANCIAL INFORMATION**

### **Historical Financial Information about the Bank**

The audited consolidated financial statements of the Bank as at and for each of the years ended 31 December 2012 and 2013 (the "Financial Statements") have been audited in accordance with the standards of the International Auditing and Assurance Standards Board. The Financial Statements are presented and prepared in a form consistent with that which will be adopted in the Bank's next published annual financial statements having regard to accounting standards and policies and legislation (namely the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange Limited and by the Hong Kong Companies Ordinance) applicable to such annual financial statements.

### **Creditworthiness of the Bank**

In 2013, the Bank's issuer credit ratings were assigned A/A-1 by Standard & Poor's Hong Kong Limited; the bank deposits ratings were assigned A1/P-1 by Moody's Investors Service Hong Kong Limited; and the long-/short-term foreign-currency issuer default ratings were assigned A/F1 by Fitch Ratings Inc.. The Bank's outlook ratings assigned by the above credit rating agencies were "stable". A rating is not a recommendation to buy, sell or hold the Notes (or beneficial interests therein) and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

## **SUBSCRIPTION AND SALE**

### **Dubai International Financial Centre**

Each Joint Lead Manager has represented and agreed that it has not offered and will not offer the Notes to any person in the Dubai International Financial Centre unless such offer is:

- (a) an “**Exempt Offer**” in accordance with the Markets Rules; and
- (b) made only to persons who meet the Professional Client criteria set out in Rule 2.3.2 of the DFSA Conduct of Business Module (version 22/07-13).

## **GENERAL INFORMATION**

### **Approval of the Offering Document, Admission to Trading and Listing of Notes**

The total expenses relating to the approval of the Offering Document by the DFSA, together with the admission of the Notes issued under the Programme to the official list of securities maintained by the DFSA (first issuance), are estimated to be U.S.\$12,000. The total expenses relating to the admission to trading of the Notes issued under the Programme on NASDAQ Dubai are estimated to be U.S.\$6,500 (first issuance).

### **Legal and other Proceedings against the Bank**

Neither the Bank nor any of its subsidiaries (together, the “**Group**”) has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Bank is aware) during the 12 months preceding the date of the Offering Circular which may have, or have in such period, had a significant impact on the Bank’s and/or the Group’s financial position or profitability.

### **No Significant Change in Financial or Trading Position**

There has been no significant change in the financial or trading position of the Bank or the Group since 30 June 2014 and no material adverse change in the financial position or prospects of the Bank or of the Group since 30 June 2014.

### **Information about Auditors**

The current auditor of the Bank is PricewaterhouseCoopers, Certified Public Accountants of the Hong Kong Institute of Certified Public Accountants.

The Bank’s previous auditor (replaced following the completion of the audit of the Bank’s consolidated financial statements as at and for the year ended 31 December 2012) was Deloitte Touche Tohmatsu, also Certified Public Accountants of the Hong Kong Institute of Certified Public Accountants.

Neither the Bank nor the Issuer accepts responsibility for the factual correctness of any information produced by the Auditors but the Bank and the Issuer confirm that all such information has been accurately reproduced and, so far as the Bank and the Issuer are aware and have been able to ascertain from that published information, no facts have been omitted which would render the reproduced information inaccurate or misleading.

**ANNEX C**

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30  
JUNE 2014**

**AGRICULTURAL BANK OF CHINA LIMITED**  
(Incorporated in the People's Republic of China with Limited Liability)

**Interim Financial Information (Unaudited)**  
**For the six months ended 30 June 2014**  
(Prepared under International Financial Reporting Standards)

## **Report on Review of Interim Financial Information**

**To the Board of Directors of Agricultural Bank of China Limited**  
(Incorporated in the People's Republic of China with Limited Liability)

### **Introduction**

We have reviewed the interim financial information set out on pages 1 to 96, which comprises the condensed consolidated interim statement of financial position of Agricultural Bank of China Limited (the "Bank") and its subsidiaries (together, the "Group") as at 30 June 2014 and the related condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes (the "Interim Financial Information"). The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting". The directors of the Bank are responsible for the preparation and presentation of this Interim Financial Information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this Interim Financial Information based on our review 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". A review of interim financial information consists of making inquiries, 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 Information is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers  
Certified Public Accountants

Hong Kong, 26 August 2014

**AGRICULTURAL BANK OF CHINA LIMITED**

**CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT  
FOR THE SIX MONTHS ENDED 30 JUNE 2014**  
(Amounts in millions of Renminbi, unless otherwise stated)

	Notes	Six months ended 30 June	
		2014 (Unaudited)	2013 (Unaudited)
Interest income	6	337,832	296,463
Interest expense	6	(128,394)	(116,461)
<b>Net interest income</b>	6	<b>209,438</b>	<b>180,002</b>
Fee and commission income	7	50,441	49,721
Fee and commission expense	7	(2,593)	(2,124)
<b>Net fee and commission income</b>	7	<b>47,848</b>	<b>47,597</b>
Net trading gain	8	2,798	2,073
Net gain on financial instruments designated at fair value through profit or loss	9	533	90
Net gain on investment securities		25	334
Other operating income	10	7,267	5,948
<b>Operating income</b>		<b>267,909</b>	<b>236,044</b>
Operating expenses	11	(103,386)	(94,071)
Impairment losses on assets	12	(28,939)	(22,471)
<b>Profit before tax</b>		<b>135,584</b>	<b>119,502</b>
Income tax expense	13	(31,517)	(27,118)
<b>Profit for the period</b>		<b>104,067</b>	<b>92,384</b>
<b>Attributable to:</b>			
Equity holders of the Bank		104,032	92,352
Non-controlling interests		35	32
		<b>104,067</b>	<b>92,384</b>
Earnings per share attributable to the equity holders of the Bank (Expressed in RMB per share)			
- Basic and diluted	15	0.32	0.28

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

**AGRICULTURAL BANK OF CHINA LIMITED**

**CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME  
FOR THE SIX MONTHS ENDED 30 JUNE 2014**  
(Amounts in millions of Renminbi, unless otherwise stated)

	<b>Six months ended 30 June</b>	
	<b>2014</b> <b>(Unaudited)</b>	<b>2013</b> <b>(Unaudited)</b>
Profit for the period	<u>104,067</u>	<u>92,384</u>
Other comprehensive income/(expenses):		
Items that may be reclassified subsequently to profit or loss:		
Fair value changes on available-for-sale financial assets	21,899	(1,815)
Income tax impact for fair value changes on available-for-sale financial assets	(5,405)	419
Foreign currency translation differences	<u>128</u>	<u>(281)</u>
Other comprehensive income/(expenses), net of tax	<u>16,622</u>	<u>(1,677)</u>
Total comprehensive income for the period	<u>120,689</u>	<u>90,707</u>
Total comprehensive income attributable to:		
Equity holders of the Bank	120,597	90,683
Non-controlling interests	<u>92</u>	<u>24</u>
	<u>120,689</u>	<u>90,707</u>

The accompanying notes form an integral part of these condensed consolidated interim financial statements.



AGRICULTURAL BANK OF CHINA LIMITED

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2014

(Amounts in millions of Renminbi, unless otherwise stated)

	Notes	30 June 2014 (Unaudited)	31 December 2013 (Audited)
<b>Assets</b>			
Cash and balances with central banks	16	2,851,344	2,603,802
Deposits with banks and other financial institutions	17	523,899	397,678
Precious metals		21,211	19,185
Placements with and loans to banks and other financial institutions	18	547,064	308,655
Financial assets held for trading	19	59,508	53,864
Financial assets designated at fair value through profit or loss	20	291,865	269,018
Derivative financial assets	21	6,592	8,186
Financial assets held under resale agreements	22	750,986	737,052
Loans and advances to customers	23	7,503,254	6,902,522
Available-for-sale financial assets	24	826,749	781,311
Held-to-maturity investments	25	1,636,625	1,523,815
Debt instruments classified as receivables	26	596,824	592,090
Investments in associates and joint ventures		-	1
Property and equipment	27	148,126	150,859
Goodwill		1,381	1,381
Deferred tax assets	28	70,334	74,075
Other assets	29	170,850	138,608
<b>Total assets</b>		<b>16,006,612</b>	<b>14,562,102</b>
<b>Liabilities</b>			
Borrowings from central bank		141	104
Deposits from banks and other financial institutions	30	912,712	729,354
Placements from banks and other financial institutions	31	231,128	174,363
Financial liabilities held for trading	32	28,152	20,805
Financial liabilities designated at fair value through profit or loss	33	279,610	285,454
Derivative financial liabilities	21	5,603	7,635
Financial assets sold under repurchase agreements	34	123,922	26,787
Due to customers	35	12,809,504	11,811,411
Debt securities issued	36	275,358	266,261
Deferred tax liabilities	28	5	8
Dividends payable	14	57,489	-
Other liabilities	37	375,251	395,383
<b>Total liabilities</b>		<b>15,098,875</b>	<b>13,717,565</b>

**AGRICULTURAL BANK OF CHINA LIMITED****CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION (Continued)**

AT 30 JUNE 2014

(Amounts in millions of Renminbi, unless otherwise stated)

	Notes	30 June 2014 (Unaudited)	31 December 2013 (Audited)
<b>Equity</b>			
Share capital	38	324,794	324,794
Capital reserve	39	98,773	98,773
Investment revaluation reserve	40	(6,335)	(22,772)
Surplus reserve	41	60,689	60,632
General reserve	42	156,673	139,204
Retained earnings		272,499	243,482
Foreign currency translation reserve		<u>(877)</u>	<u>(1,005)</u>
Equity attributable to equity holders of the Bank		906,216	843,108
Non-controlling interests		<u>1,521</u>	<u>1,429</u>
<b>Total equity</b>		<u>907,737</u>	<u>844,537</u>
<b>Total equity and liabilities</b>		<u>16,006,612</u>	<u>14,562,102</u>

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

Approved and authorized for issue by the Board of Directors on 26 August 2014.

Jiang Chaoliang

Chairman

Lou Wenlong

Executive Director

AGRICULTURAL BANK OF CHINA LIMITED

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY  
FOR THE SIX MONTHS ENDED 30 JUNE 2014  
(Amounts in millions of Renminbi, unless otherwise stated)

	Total equity attributable to equity holders of the Bank							Total		
	Notes	Share capital	Investment revaluation reserve	Surplus reserve	General reserve	Retained earnings	Foreign currency translation reserve		Non-controlling interests	
As at 1 January 2014 (Audited)	324,794	98,773	(22,772)	60,632	139,204	243,482	(1,005)	843,108	1,429	844,537
Profit for the period	-	-	-	-	-	104,032	-	104,032	35	104,067
Other comprehensive income	-	-	16,437	-	-	-	128	16,565	57	16,622
Total comprehensive income for the period	-	-	16,437	-	-	104,032	128	120,597	92	120,689
Appropriation to surplus reserve	-	-	-	57	-	(57)	-	-	-	-
Appropriation to general reserve	42	-	-	-	17,469	(17,469)	-	-	-	-
Dividends	14	-	-	-	-	(57,489)	-	(57,489)	-	(57,489)
As at 30 June 2014 (Unaudited)	324,794	98,773	(6,335)	60,689	156,673	272,499	(877)	906,216	1,521	907,737

AGRICULTURAL BANK OF CHINA LIMITED

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2014

(Amounts in millions of Renminbi, unless otherwise stated)

	Total equity attributable to equity holders of the Bank							Total		
	Share capital	Capital reserve	Investment revaluation reserve	Surplus reserve	General reserve	Retained earnings	Foreign currency translation reserve		Non-controlling interests	
As at 1 January 2013 (Audited)	324,794	98,773	(901)	43,996	75,349	208,488	(684)	749,815	1,539	751,354
Profit for the period	-	-	-	-	-	92,352	-	92,352	32	92,384
Other comprehensive expenses	-	-	(1,388)	-	-	-	(281)	(1,669)	(8)	(1,677)
Total comprehensive (expenses) /income for the period	-	-	(1,388)	-	-	92,352	(281)	90,683	24	90,707
Appropriation to surplus reserve	-	-	-	37	-	(37)	-	-	-	-
Appropriation to general reserve	42	-	-	-	63,829	(63,829)	-	-	-	-
Dividends	14	-	-	-	-	(50,830)	-	(50,830)	-	(50,830)
As at 30 June 2013 (Unaudited)	324,794	98,773	(2,289)	44,033	139,178	186,144	(965)	789,668	1,563	791,231
Profit for the period	-	-	-	-	-	73,963	-	73,963	(136)	73,827
Other comprehensive expenses	-	-	(20,483)	-	-	-	(40)	(20,523)	4	(20,519)
Total comprehensive (expenses) /income for the period	-	-	(20,483)	-	-	73,963	(40)	53,440	(132)	53,308
Appropriation to surplus reserve	-	-	-	16,599	-	(16,599)	-	-	-	-
Appropriation to general reserve	-	-	-	-	26	(26)	-	-	-	-
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	(2)	(2)
As at 31 December 2013 (Audited)	324,794	98,773	(22,772)	60,632	139,204	243,482	(1,005)	843,108	1,429	844,537

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

**AGRICULTURAL BANK OF CHINA LIMITED**

**CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS**

FOR THE SIX MONTHS ENDED 30 JUNE 2014

(Amounts in millions of Renminbi, unless otherwise stated)

	<b>Six months ended 30 June</b>	
	<b>2014</b>	<b>2013</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before tax	135,584	119,502
Adjustments for:		
Amortization of intangible assets and other assets	1,265	1,118
Depreciation of property and equipment	8,069	7,326
Impairment losses on assets	28,939	22,471
Interest income arising from investment securities	(58,074)	(50,369)
Interest income arising from impaired loans and advances to customers	(380)	(358)
Interest expense on debt securities issued	4,741	4,118
Net gain on investment securities	(25)	(334)
Net gain on disposal of investment in subsidiaries, associates and joint ventures	-	(304)
Net gain on disposal of property, equipment and other assets	(208)	(84)
Net foreign exchange (gain)/loss	(1,301)	3,509
	<u>118,610</u>	<u>106,595</u>
Net change in operating assets and operating liabilities:		
Net increase in balances with central banks, deposits with banks and other financial institutions	(266,160)	(272,945)
Net increase in placements with and loans to banks and other financial institutions	(45,738)	(6,142)
Net decrease/(increase) in financial assets held under resale agreements	64,541	(181,431)
Net increase in loans and advances to customers	(621,335)	(514,808)
Net increase in borrowings from central bank	37	24
Net increase in placements from banks and other financial institutions	56,765	79,408
Net increase in due to customers and deposits from banks and other financial institutions	1,181,451	620,263
Increase in other operating assets	(55,684)	(119,448)
Increase in other operating liabilities	98,596	177,576
	<u>531,083</u>	<u>(110,908)</u>
Cash from/(used in) operations	531,083	(110,908)
Income tax paid	(51,485)	(46,678)
	<u>479,598</u>	<u>(157,586)</u>
<b>NET CASH FROM /(USED IN) OPERATING ACTIVITIES</b>	<b>479,598</b>	<b>(157,586)</b>

**AGRICULTURAL BANK OF CHINA LIMITED**

**CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS (Continued)**

FOR THE SIX MONTHS ENDED 30 JUNE 2014

(Amounts in millions of Renminbi, unless otherwise stated)

	Notes	Six months ended 30 June	
		2014 (Unaudited)	2013 (Unaudited)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Cash received from disposal/redemption of investment securities		280,469	271,517
Cash received from interest income arising from investment securities		45,570	40,392
Cash received from disposal of investment in subsidiaries, associates and joint ventures		1	411
Cash received from other investing activities		651	206
Cash paid for purchase of investment securities		(421,384)	(450,725)
Cash paid for purchase of property and equipment and other assets		(9,019)	(9,102)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<b>(103,712)</b>	<b>(147,301)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Cash received from debt securities issued		106,204	58,410
Repayments of debt securities issued		(97,126)	(29,181)
Cash payments for interest on debt securities issued		(5,885)	(5,036)
<b>NET CASH FROM FINANCING ACTIVITIES</b>		<b>3,193</b>	<b>24,193</b>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>379,079</b>	<b>(280,694)</b>
<b>CASH AND CASH EQUIVALENTS AT 1 JANUARY</b>		<b>813,799</b>	<b>952,936</b>
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>		<b>656</b>	<b>(2,187)</b>
<b>CASH AND CASH EQUIVALENTS AT 30 JUNE</b>	43	<b>1,193,534</b>	<b>670,055</b>
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES INCLUDE:</b>			
Interest received		265,520	238,340
Interest paid		(114,604)	(104,197)

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

# AGRICULTURAL BANK OF CHINA LIMITED

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2014 (Amounts in millions of Renminbi, unless otherwise stated)

### 1 GENERAL INFORMATION

Agricultural Bank of China Limited (the "Bank") is the successor entity to the Agricultural Bank of China (the "Predecessor Entity") which was a wholly state-owned commercial bank approved for setup by the People's Bank of China (the "PBOC") and founded on 23 February 1979 in the People's Republic of China (the "PRC"). On 15 January 2009, the Bank was established after the completion of the financial restructuring of the Predecessor Entity. The Bank's establishment was authorized by the PBOC. The Bank was listed on the Shanghai Stock Exchange and The Stock Exchange of Hong Kong Limited on 15 July 2010 and 16 July 2010, respectively.

The Bank operates under financial services certificate No. B0002H111000001 issued by the China Banking Regulatory Commission (the "CBRC"), and business license No. 100000000005472 issued by the State Administration of Industry and Commerce of the PRC. The registered office of the Bank is located at No.69 Jianguomen Nei Avenue, Dongcheng District, Beijing, the PRC.

The principal activities of the Bank and its subsidiaries (collectively, the "Group") include Renminbi ("RMB") and foreign currency deposits, loans, clearing and settlement services, assets custody services, fund management, finance leasing services, insurance services and other services as approved by relevant regulators, and the provision of related services by its overseas establishments as approved by the respective local regulators.

The head office and domestic branches of the Bank and its subsidiaries operating in the Mainland China are referred to as "Domestic Operations". Branches and subsidiaries registered and operating outside of the Mainland China are referred to as "Overseas Operations".

### 2 BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2014 have been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting", as well as with all applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

### 3 PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements have been prepared on the historical cost basis, except for certain financial instruments which are measured at fair value. Except for those described below, the accounting policies and methods of computation used in the condensed consolidated interim financial statements are the same as those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2013.

The condensed consolidated interim financial statements should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2013, which have been audited.

#### **Standards and amendments effective in 2014 and adopted by the Group**

In the current interim period, the Group has applied the following new and revised International Financial Reporting Standards ("IFRSs"), as well as certain amendments, issued by the International Accounting Standards Board ("IASB") that are mandatorily effective for the current interim period. Description of these standards and amendments were disclosed in the Group's annual consolidated financial statements for the year ended 31 December 2013.

## AGRICULTURAL BANK OF CHINA LIMITED

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2014 (Amounts in millions of Renminbi, unless otherwise stated)

#### 3 PRINCIPAL ACCOUNTING POLICIES (Continued)

##### Standards and amendments effective in 2014 and adopted by the Group (Continued)

Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to IAS 36	Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets
Amendments to IAS 39	Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting
Amendments to IFRS 10, IFRS 12 and IAS 27	Investment Entities
IFRIC 21	Levies

The adoption of these new standards and amendments does not have a significant impact on the operating results, comprehensive income, or financial position of the Group.

##### Standards and amendments that are not yet effective in the current interim period and have not been adopted before their effective dates by the Group

The Group has not adopted the following new and revised IFRSs that have been issued but are not yet effective.

			Effective for annual period beginning on or after
Amendment to IAS 19 (as revised in 2011)	(1)	Employee Benefits - To Plans that Require Employees or Third Parties to Contribute Towards the Cost of Benefits	1 July 2014
Amendments to IFRSs	(1)	Annual Improvements to IFRSs 2010 - 2012 Cycle	1 July 2014
Amendments to IFRSs	(1)	Annual Improvements to IFRSs 2011 - 2013 Cycle	1 July 2014
IFRS 14	(2)	Regulatory Deferral Account	1 January 2016
Amendments to IFRS 11	(3)	Acquisition of Interests in Joint Operations	1 January 2016
Amendments to IAS 16 and IAS 38	(4)	Clarification of Acceptable Methods of Depreciation and Amortization	1 January 2016
IFRS 15	(5)	Revenue from Contracts with Customers	1 January 2017
IFRS 9	(6)	Financial Instruments	1 January 2018

(1) Descriptions of these amendments were disclosed in the Group's annual consolidated financial statements for the year ended 31 December 2013. The Group anticipates that the adoption of these amendments will not have a significant impact on the Group's consolidated financial statements.

(2) The IASB has issued IFRS 14 - Regulatory Deferral Accounts, an interim standard on the accounting for certain balances that arise from rate-regulated activities ("regulatory deferral accounts"). IFRS 14 is only applicable to entities that apply IFRS 1 - First-time Adoption of International Financial Reporting Standards as first-time adopters of IFRS. It permits such entities, on adoption of IFRS, to continue to apply their previous GAAP accounting policies for the recognition, measurement, impairment and de-recognition of regulatory deferral accounts. The Group anticipates that the adoption of this new standard will not have a significant impact on the Group's consolidated financial statements.



## AGRICULTURAL BANK OF CHINA LIMITED

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2014 (Amounts in millions of Renminbi, unless otherwise stated)

#### 3 PRINCIPAL ACCOUNTING POLICIES (Continued)

**Standards and amendments that are not yet effective in the current interim period and have not been adopted before their effective dates by the Group (Continued)**

- (3) The IASB has amended IFRS 11 - Joint Arrangements, to provide specific guidance on accounting for the acquisition of an interest in a joint operation that is a business. The amendments require an investor to apply the principles of business combination accounting when it acquires an interest in a joint operation that constitutes a business. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.
- (4) The amendments to IAS 16 - Property, plant and equipment, clarify that depreciation of an item of property, plant and equipment based on revenue generated by using the asset is not appropriate. The amendments to IAS 38 - Intangible Assets, establish a rebuttable presumption that amortization of an intangible asset based on revenue generated by using the asset is inappropriate. The presumption may only be rebutted in certain limited circumstances. The Group anticipates that the adoption of these amendments will not have a significant impact on the Group's consolidated financial statements.
- (5) The IASB released IFRS 15 - Revenue from Contracts with Customers. This standard moves away from a revenue recognition model based on an "earnings process" to an "asset-liability" approach based on transfer of control. Performance obligations are the building blocks in the new revenue recognition model. The amount and timing of revenue recognition are determined at the performance obligation level. The new standard is based on the principle that revenue is recognized when control of a good or service transfers to the customer. The Group is in the process of assessing the impact on the Group's consolidated financial statements from this new standard.
- (6) The IASB has released the complete set of IFRS 9 - Financial Instruments, which will replace the current guidance in IAS 39 - Financial Instruments: Recognition and Measurement. IFRS 9 introduces a logical model for classification and measurement, which is driven by cash flow characteristics and the business model in which an asset is held. IFRS 9 also introduces a single, forward-looking expected loss impairment model that will require more timely recognition of expected credit losses. This expected loss impairment model contains a three-stage approach which is based on the change in credit quality of financial assets since initial recognition, under which an entity is required to account for expected credit losses from day one and to recognize full lifetime expected losses on a more timely basis. In addition, as part of IFRS 9, a substantially-reformed approach to hedge accounting is also introduced, with enhanced disclosures about risk management activity. The new model represents a significant overhaul of hedge accounting that aligns the accounting treatment with risk management activities, enabling entities to better reflect these activities in their financial statements. The Group is in the process of assessing the impact on the Group's consolidated financial statements from this new standard.

#### 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The preparation of condensed consolidated interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, and income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Group's annual consolidated financial statements for the year ended 31 December 2013.

**AGRICULTURAL BANK OF CHINA LIMITED**

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED 30 JUNE 2014**

(Amounts in millions of Renminbi, unless otherwise stated)

**5 LIST OF SUBSIDIARIES**

The following are the principal subsidiaries of the Bank as at 30 June 2014:

Name of entity	Date of incorporation/ establishment	Place of incorporation/ establishment	Authorized/ paid-in capital	Percentage of equity interest (%)	Percentage of voting rights (%)	Principal activities
China Agricultural Finance Co., Ltd.	1 November 1988	Hong Kong, PRC	HKD588,790,000	100.00	100.00	Investment holding
ABC International Holdings Limited	11 November 2009	Hong Kong, PRC	HKD2,913,392,449	100.00	100.00	Investment holding
ABC Financial Leasing Co., Ltd.	29 September 2010	Shanghai, PRC	RMB2,000,000,000	100.00	100.00	Financial leasing
Agricultural Bank of China (UK) Limited	29 November 2011	London, United Kingdom	USD100,000,000	100.00	100.00	Banking
ABC-CA Fund Management Co., Ltd.	18 March 2008	Shanghai, PRC	RMB200,000,001	51.67	51.67	Fund management
ABC Hexigten Rural Bank Limited Liability Company	12 August 2008	Inner Mongolia, PRC	RMB19,600,000	51.02	51.02	Banking
ABC Hubei Hanchuan Rural Bank Limited Liability Company	12 August 2008	Hubei, PRC	RMB20,000,000	50.00	66.67	Banking
ABC Jixi Rural Bank Limited Liability Company	25 May 2010	Anhui, PRC	RMB29,400,000	51.02	51.02	Banking
ABC Ansai Rural Bank Limited Liability Company	30 March 2010	Shaanxi, PRC	RMB20,000,000	51.00	51.00	Banking
ABC Zhejiang Yongkang Rural Bank Limited Liability Company	20 April 2012	Zhejiang, PRC	RMB210,000,000	51.00	51.00	Banking
ABC Xiamen Tong'an Rural Bank Limited Liability Company	24 May 2012	Fujian, PRC	RMB100,000,000	51.00	51.00	Banking
ABC Life Insurance Co., Ltd.	19 December 2005	Beijing, PRC	RMB2,032,653,061	51.00	51.00	Life insurance

During the six months ended 30 June 2014, there was no change in the proportion of equity interest or voting rights the Bank held in its subsidiaries.

- (1) Two of the three directors on the board of ABC Hubei Hanchuan Rural Bank Limited Liability Company were appointed by the Bank. The Bank concluded that it has effective control over this entity and has included it in its consolidation scope.
- (2) At 31 December 2012, the Bank acquired 51% of the issued share capital of Jiahe Life Insurance Co., Ltd., and renamed it as ABC Life Insurance Co., Ltd.. Arising from this acquisition, the Group recognized goodwill of RMB1,381 million as at 31 December 2012. During the six months ended 30 June 2014 and the year ended 31 December 2013, there was no objective evidence noted for any goodwill impaired.
- (3) The consolidated structured entities are disclosed in Note 46 Structured Entities.

AGRICULTURAL BANK OF CHINA LIMITED

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2014

(Amounts in millions of Renminbi, unless otherwise stated)

6 NET INTEREST INCOME

	Six months ended 30 June	
	2014	2013
Interest income		
Loans and advances to customers		
Including: Corporate loans and advances	157,996	143,101
Personal loans and advances	66,456	54,049
Discounted bills	2,674	3,367
Held-to-maturity investments	31,240	24,990
Balances with central banks	19,524	18,409
Available-for-sale financial assets	16,320	15,224
Financial assets held under resale agreements	15,857	14,127
Debt instruments classified as receivables	10,514	10,155
Deposits with banks and other financial institutions	9,959	8,937
Placements with and loans to banks and other financial institutions	6,120	3,406
Financial assets held for trading	1,019	579
Financial assets designated at fair value through profit or loss	153	119
Subtotal	<u>337,832</u>	<u>296,463</u>
Interest expense		
Due to customers	(106,491)	(95,322)
Deposits from banks and other financial institutions	(11,931)	(12,228)
Placements from banks and other financial institutions	(4,504)	(4,573)
Debt securities issued	(4,741)	(4,118)
Financial assets sold under repurchase agreements	(726)	(219)
Borrowings from central bank	(1)	(1)
Subtotal	<u>(128,394)</u>	<u>(116,461)</u>
Net interest income	<u>209,438</u>	<u>180,002</u>
Interest income accrued on impaired financial assets (included within interest income)	<u>380</u>	<u>358</u>

**AGRICULTURAL BANK OF CHINA LIMITED**

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

FOR THE SIX MONTHS ENDED 30 JUNE 2014

(Amounts in millions of Renminbi, unless otherwise stated)

**7 NET FEE AND COMMISSION INCOME**

	<b>Six months ended 30 June</b>	
	<b>2014</b>	<b>2013</b>
Fee and commission income		
Agency services	13,237	12,502
Settlement and clearing services	12,383	12,080
Bank card	9,261	7,462
Consultancy and advisory services	7,876	10,046
Electronic banking services	3,855	3,108
Custodian and other fiduciary services	2,077	2,404
Credit commitment	1,637	1,484
Others	115	635
	<u>50,441</u>	<u>49,721</u>
Subtotal		
Fee and commission expense		
Bank card	(1,026)	(801)
Settlement and clearing services	(887)	(643)
Electronic banking services	(422)	(420)
Others	(258)	(260)
	<u>(2,593)</u>	<u>(2,124)</u>
Subtotal		
Net fee and commission income	<u>47,848</u>	<u>47,597</u>

**8 NET TRADING GAIN**

	<b>Six months ended 30 June</b>	
	<b>2014</b>	<b>2013</b>
Net gain on foreign exchange rate derivatives	1,473	1,358
Net (loss)/gain on interest rate derivatives	(6)	165
Net gain/(loss) on held-for-trading debt securities	839	(287)
Net gain on precious metals (1)	492	837
	<u>2,798</u>	<u>2,073</u>
Total		

(1) Net gain on precious metals consists of net gain on precious metals and precious metal related derivative products.

**9 NET GAIN ON FINANCIAL INSTRUMENTS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS**

	<b>Six months ended 30 June</b>	
	<b>2014</b>	<b>2013</b>
Net gain on principal guaranteed wealth management products	495	226
Net gain/(loss) on debt securities	10	(146)
Others	28	10
	<u>533</u>	<u>90</u>
Total		

AGRICULTURAL BANK OF CHINA LIMITED

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2014

(Amounts in millions of Renminbi, unless otherwise stated)

10 OTHER OPERATING INCOME

	Six months ended 30 June	
	2014	2013
Insurance premium	4,884	4,020
Government grant	796	885
Net gain on foreign exchange	737	255
Gain on disposal of property and equipment	181	118
Rental income	160	186
Others	509	484
Total	<u>7,267</u>	<u>5,948</u>

11 OPERATING EXPENSES

		Six months ended 30 June	
		2014	2013
Staff costs	(1)	52,650	48,821
General operating and administrative expenses		17,245	17,893
Business tax and surcharges	(2)	14,457	13,657
Depreciation and amortization		9,334	8,444
Insurance benefits and claims		4,889	4,046
Others		4,811	1,210
Total		<u>103,386</u>	<u>94,071</u>

(1) Staff costs

	Six months ended 30 June	
	2014	2013
Salaries, bonuses, allowances and subsidies	34,304	31,742
Social insurance	9,325	8,169
Housing funds	3,814	3,357
Labor union fee and staff education expenses	1,515	1,406
Early retirement benefits	559	1,095
Others	3,133	3,052
Total	<u>52,650</u>	<u>48,821</u>

(2) Business tax for the Group's Domestic Operations is generally calculated as 5% of taxable income. Business tax was declared and paid with the local tax department by Domestic Operations.

In accordance with the "Circular regarding the Business Taxes Preferential Policies on Agriculture-related Loans Granted by the County Area Banking Division of Agricultural Bank of China Limited" (Cai Shui [2014] No.5), jointly issued by the MOF and the State Administration of Taxation on 10 January 2014, business tax of the Group's county-level sub-branches in the 19 provinces for the pilot program would be levied at 3% on interest income from agriculture-related loans from 1 November 2013 to 31 December 2015.

Additionally, city construction and maintenance tax is calculated as 1%-7% of business tax for the Group's Domestic Operations.

Education surcharge is calculated as 3%-5% of business tax for the Group's Domestic Operations.

**AGRICULTURAL BANK OF CHINA LIMITED**

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

FOR THE SIX MONTHS ENDED 30 JUNE 2014

(Amounts in millions of Renminbi, unless otherwise stated)

**12 IMPAIRMENT LOSSES ON ASSETS**

	<b>Six months ended 30 June</b>	
	<b>2014</b>	<b>2013</b>
Loans and advances to customers	27,085	22,211
Placements with and loans to banks and other financial institutions	988	159
Debt instruments classified as receivables	371	126
Held-to-maturity investments	171	138
Property and equipment	7	1
Deposits with banks and other financial institutions	-	(34)
Available-for-sale financial assets	(32)	(55)
Other assets	349	(75)
	<u>28,939</u>	<u>22,471</u>
Total	<u>28,939</u>	<u>22,471</u>

**13 INCOME TAX EXPENSE**

	<b>Six months ended 30 June</b>	
	<b>2014</b>	<b>2013</b>
Current income tax		
- PRC Enterprise Income Tax	32,968	31,639
- Hong Kong Profits Tax	151	186
- Other jurisdictions	65	14
	<u>33,184</u>	<u>31,839</u>
Subtotal	<u>33,184</u>	<u>31,839</u>
Deferred tax (Note 28)	<u>(1,667)</u>	<u>(4,721)</u>
Total	<u>31,517</u>	<u>27,118</u>

PRC Enterprise Income Tax is calculated at 25% of the estimated taxable profit for the current and prior periods, and also includes supplementary PRC tax on Overseas Operations as determined in accordance with the relevant PRC income tax rules and regulations. Taxation arising in other jurisdictions (including Hong Kong) is calculated at the rates prevailing in the relevant jurisdictions.

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**13 INCOME TAX EXPENSE (Continued)**

The tax charges for the six months ended 30 June 2014 and 30 June 2013 can be reconciled to the profit per the condensed consolidated interim income statements as follows:

	<u>Six months ended 30 June</u>	
	<u>2014</u>	<u>2013</u>
Profit before tax	135,584	119,502
Tax calculated at applicable PRC statutory tax rate of 25%	33,896	29,876
Tax effect of items such as expenses not deductible for tax purpose	1,039	465
Tax effect of income not taxable for tax purpose (1)	(3,414)	(3,214)
Effect of different tax rates in other jurisdictions	(4)	(9)
Income tax expense	<u>31,517</u>	<u>27,118</u>

(1) Non-taxable income primarily includes interest income from PRC treasury bonds.

**14 DIVIDENDS**

	<u>Six months ended 30 June</u>	
	<u>2014</u>	<u>2013</u>
Dividends recognized as distribution during the period		
Cash dividend related to 2013 (1)	57,489	-
Cash dividend related to 2012 (2)	-	50,830
	<u>57,489</u>	<u>50,830</u>

No dividends related to the period from 1 January to 30 June 2014 were paid, declared or proposed during the current period. The directors do not recommend any interim dividend for the six months ended 30 June 2014.

(1) Distribution of final dividend for 2013

A cash dividend of RMB0.177 per share related to 2013, amounting to RMB57,489 million in total was approved, after the required appropriations for the statutory surplus reserve and the general reserve for 2013 as determined in accordance with the relevant accounting rules and financial regulations applicable to PRC enterprises (the "PRC GAAP"), at the annual general meeting held on 23 June 2014.

The above dividend was recognized as dividends payable as at 30 June 2014.

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**14 DIVIDENDS (Continued)**

(2) Distribution of final dividend for 2012

A cash dividend of RMB0.1565 per share related to 2012, amounting to RMB50,830 million in total was approved, after the required appropriations for the statutory surplus reserve and the general reserve for 2012 as determined in accordance with the "PRC GAAP", at the annual general meeting held on 18 June 2013.

The above dividend was recognized as distribution during the six-month period ended 30 June 2013.

**15 EARNINGS PER SHARE**

The calculation of basic and diluted earnings per share is as follows:

	<u>Six months ended 30 June</u>	
	2014	2013
Earnings:		
Profit for the period attributable to equity holders of the Bank	104,032	92,352
Number of shares:		
Weight average number of ordinary shares in issue (million)	324,794	324,794
Basic and diluted earnings per share (RMB yuan)	<u>0.32</u>	<u>0.28</u>

There were no potential ordinary shares outstanding during the current and prior periods.

**16 CASH AND BALANCES WITH CENTRAL BANKS**

		30 June 2014	31 December 2013
Cash		93,420	99,759
Mandatory reserve deposits with central banks	(1)	2,411,901	2,279,918
Surplus reserve deposits with central banks	(2)	181,550	100,519
Other deposits with central banks	(3)	<u>164,473</u>	<u>123,606</u>
Total		<u>2,851,344</u>	<u>2,603,802</u>

- (1) The Group places mandatory reserve deposits with the PBOC and overseas regulatory bodies. These include RMB reserve deposits and foreign currency reserve deposits. These mandatory reserve deposits are not available for the Group's daily operations.



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**16 CASH AND BALANCES WITH CENTRAL BANKS (Continued)**

- (1) As at 30 June 2014, for Domestic Operations of the Bank which meet the requirements of "Notice on Differential Mandatory Reserve Deposits for the Sannong Banking Operations of Agricultural Bank of China Limited for 2013 issued by the People's Bank of China" (Yinbanfa [2013] No.57) and effective from 7 March 2013, RMB mandatory reserve deposits with the PBOC were based on 18 % of qualified RMB deposits (31 December 2013: 18%), while for the remaining Domestic Operations of the Bank, RMB mandatory reserve deposits were based on 20% of qualified RMB deposits (31 December 2013: 20%). Foreign currency mandatory reserve deposits were based on 5% (31 December 2013: 5%) of qualified foreign currency deposits from customers. Mandatory reserve deposits placed by the Bank's Overseas Operations were determined based on respective overseas regulatory requirements. The foreign currency reserve deposits placed with the PBOC are non-interest bearing.
- (2) Surplus reserve deposits are deposits maintained with the PBOC in addition to the mandatory reserve deposits and mainly for the purpose of clearing and allocation of position, etc.
- (3) Other deposits with central banks primarily represent fiscal deposits placed with the PBOC that are not available for use in the Group's daily operations, of which fiscal deposits are non-interest bearing.

**17 DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS**

	30 June 2014	31 December 2013
Deposits with:		
Domestic banks	480,349	360,762
Other domestic financial institutions	3,359	1,713
Overseas banks	40,191	35,203
	<u>523,899</u>	<u>397,678</u>
Total	<u>523,899</u>	<u>397,678</u>

As at 30 June 2014, the carrying amount of deposits with banks and other financial institutions which have been pledged as security was RMB523 million (31 December 2013: RMB1,205 million). These deposits were mainly pledged deposits with stock exchanges or pledged with overseas banks for the purpose of executing financial derivative transactions.

**18 PLACEMENTS WITH AND LOANS TO BANKS AND OTHER FINANCIAL INSTITUTIONS**

	30 June 2014	31 December 2013
Placements with and loans to:		
Domestic banks	102,739	81,436
Other domestic financial institutions	437,527	223,566
Overseas banks	8,361	4,228
	<u>548,627</u>	<u>309,230</u>
Gross amount	<u>548,627</u>	<u>309,230</u>
Allowance for impairment losses - collectively assessed	<u>(1,563)</u>	<u>(575)</u>
Placements with and loans to banks and other financial institutions, net	<u>547,064</u>	<u>308,655</u>

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19 FINANCIAL ASSETS HELD FOR TRADING

		30 June 2014	31 December 2013
Debt securities issued by:			
Governments		3,375	4,979
Public sector and quasi-governments		24,320	24,073
Financial institutions		-	474
Corporates		12,961	12,486
		<u>40,656</u>	<u>42,012</u>
Subtotal			
Equity instruments		-	48
Precious metal contracts		18,852	11,804
		<u>18,852</u>	<u>11,804</u>
Total		<u>59,508</u>	<u>53,864</u>
Analyzed as:			
Listed outside Hong Kong	(1)	40,656	42,060
Unlisted		18,852	11,804
		<u>18,852</u>	<u>11,804</u>
Total		<u>59,508</u>	<u>53,864</u>

(1) Debt securities traded on the China Domestic Interbank Bond Market are included in "Listed outside Hong Kong".

20 FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

		30 June 2014	31 December 2013
Debt securities issued by:			
Governments		3,799	8,721
Public sector and quasi-government		25,214	25,983
Financial institutions		4,246	11,021
Corporates		5,608	12,282
		<u>38,867</u>	<u>58,007</u>
Subtotal			
Interests in trust products	(1)	187,209	171,280
Other debt instruments	(1)	65,190	38,710
Equity instruments		599	1,021
		<u>599</u>	<u>1,021</u>
Total		<u>291,865</u>	<u>269,018</u>
Analyzed as:			
Listed in Hong Kong		123	183
Listed outside Hong Kong	(2)	29,992	43,255
Unlisted		261,750	225,580
		<u>261,750</u>	<u>225,580</u>
Total		<u>291,865</u>	<u>269,018</u>

(1) Underlying assets of the trust products and other debt instruments held by the Group include credit assets, deposits with domestic banks and other domestic financial institutions and debt securities.

(2) Debt securities traded on the China Domestic Interbank Bond Market are included in "Listed outside Hong Kong".

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**21 DERIVATIVE FINANCIAL ASSETS AND LIABILITIES**

The Group primarily enters into foreign exchange rate, interest rate and precious metal derivative contracts related to trading, asset and liability management, and customer initiated transactions.

The contractual/notional amounts and fair values of the derivative financial instruments entered into by the Group are set out in the following tables. The contractual/notional amounts of derivative financial instruments provide a basis for comparison with fair values of instruments recognized on the condensed consolidated interim statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair values of the instruments and, therefore, do not indicate the Group's exposure to credit or market risks. The fair value of derivative instruments become favorable (assets) or unfavorable (liabilities) as a result of fluctuations in market interest rates, foreign exchange rates or precious metal prices relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly.

Certain financial assets and financial liabilities of the Group are subject to enforceable master netting arrangements or similar agreements. The agreement between the Group and the counterparty generally allows for net settlement of the relevant financial assets and financial liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and financial liabilities will be settled on a gross basis. However, each party to the master netting arrangements or similar agreements will have the option to settle all such amounts on a net basis in the event of default of the other party. As at 30 June 2014, the amount of the financial assets and financial liabilities subject to enforceable master netting arrangements or similar agreements are not material to the Group. The Group did not elect to settle these financial assets and financial liabilities on a net basis. The Group does not hold any other financial instruments, other than derivatives, that are subject to master netting arrangements or similar agreements.

	30 June 2014	
	Contractual/ notional amount	Fair value
		Assets      Liabilities
Exchange rate derivatives		
Currency forwards	353,808	2,893      (1,671)
Currency swaps	467,304	2,389      (2,134)
Cross-currency interest rate swaps	11,440	172      (334)
Currency options	17,224	47      (95)
Subtotal		5,501      (4,234)
Interest rate derivatives		
Interest rate swaps	181,147	1,018      (1,144)
Precious metal contracts	10,871	73      (225)
Total derivative financial assets and liabilities		6,592      (5,603)

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21 DERIVATIVE FINANCIAL ASSETS AND LIABILITIES (Continued)

	31 December 2013		
	Contractual/ notional amount	Fair value	
		Assets	Liabilities
Exchange rate derivatives			
Currency forwards	256,278	1,624	(2,786)
Currency swaps	365,555	3,886	(2,215)
Cross-currency interest rate swaps	17,966	372	(678)
Currency options	11,864	33	(15)
Subtotal		5,915	(5,694)
Interest rate derivatives			
Interest rate swaps	165,722	1,637	(1,940)
Precious metal contracts	7,201	634	-
Others	1,494	-	(1)
Total derivatives financial assets and liabilities		8,186	(7,635)
			30 June 2014
Credit risk weighted amount for counterparty			12,336

Credit risk weighted amount for derivative transaction counterparty represents the counterparty credit risk associated with derivative transactions and is calculated in accordance with the "Capital Rules for Commercial Banks (Provisional)" issued by the CBRC which was effective 1 January 2013 and is dependent on, among other factors, creditworthiness of customers and maturity characteristics of each type of contract. As at 30 June 2014, credit risk weighted amount for derivative transaction counterparty was measured under the Internal Ratings-Based approach as disclosed in Note 50 Capital Management.

As at 31 December 2013, credit risk weighted amount for derivative transaction counterparty was RMB11,380 million, which was measured under the Weighted approach as disclosed in Note 50 Capital Management.

22 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

	30 June 2014	31 December 2013
Analyzed by collateral type:		
Debt securities	357,526	402,454
Bills	388,603	332,921
Loans and others	4,857	1,677
Total	750,986	737,052

The collateral received in connection with the purchase of financial assets under resale agreement is disclosed in Note 47 Contingent Liabilities and Commitments - Collateral.

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23 LOANS AND ADVANCES TO CUSTOMERS

Analysis of loans and advances to customers:

	30 June 2014	31 December 2013
Corporate loans and advances		
Loans and advances	5,447,794	5,031,088
Discounted bills	85,603	97,993
Subtotal	5,533,397	5,129,081
Personal loans and advances	2,307,510	2,095,632
Gross loans and advances	7,840,907	7,224,713
Allowance for impairment losses		
Individually assessed	(52,288)	(50,127)
Collectively assessed	(285,365)	(272,064)
Total allowance for impairment losses	(337,653)	(322,191)
Loans and advances to customers, net	7,503,254	6,902,522

Analysis of loans and advances to customers by collective and individual assessments:

	Identified impaired loans and advances (2)			Subtotal	Total	Identified impaired gross loans and advances as a % of total gross loans and advances
	Loans and advances for which the allowance is collectively assessed (1)	For which the allowance is collectively assessed	For which the allowance is individually assessed			
30 June 2014						
Gross loans and advances	7,743,434	17,082	80,391	97,473	7,840,907	1.24
Allowance for impairment losses	(272,844)	(12,521)	(52,288)	(64,809)	(337,653)	
Loans and advances to customers, net	7,470,590	4,561	28,103	32,664	7,503,254	
31 December 2013						
Gross loans and advances	7,136,932	15,426	72,355	87,781	7,224,713	1.22
Allowance for impairment losses	(261,624)	(10,440)	(50,127)	(60,567)	(322,191)	
Loans and advances to customers, net	6,875,308	4,986	22,228	27,214	6,902,522	

- (1) Loans and advances for which the allowance is collectively assessed consist of loans and advances which have not been specifically identified as impaired.
- (2) Identified impaired loans and advances include loans for which objective evidence of impairment exists and which have been identified as bearing impairment losses, which are measured either individually (corporate loans and advances) or collectively (personal loans and advances).

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23 LOANS AND ADVANCES TO CUSTOMERS (Continued)

Movements of the allowance for impairment losses on loans and advances to customers:

	Six months ended 30 June 2014		
	Individually assessed allowance	Collectively assessed allowance	Total
1 January 2014	50,127	272,064	322,191
Impairment allowance on loans charged	16,030	38,794	54,824
Reversal of impairment allowance	(3,614)	(24,125)	(27,739)
Net additions	12,416	14,669	27,085
Write-offs and transfer out	(10,359)	(1,410)	(11,769)
Recovery of loans and advances written off in previous years	343	116	459
Unwinding of discount on allowance	(248)	(132)	(380)
Exchange difference	9	58	67
30 June 2014	52,288	285,365	337,653
	Year ended 31 December 2013		
	Individually assessed allowance	Collectively assessed allowance	Total
1 January 2013	52,242	227,746	279,988
Impairment allowance on loans charged	16,390	73,442	89,832
Reversal of impairment allowance	(10,785)	(26,921)	(37,706)
Net additions	5,605	46,521	52,126
Write-offs and transfer out	(7,842)	(1,942)	(9,784)
Recovery of loans and advances written off in previous years	600	220	820
Unwinding of discount on allowance	(454)	(239)	(693)
Exchange difference	(24)	(242)	(266)
31 December 2013	50,127	272,064	322,191

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24 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	30 June 2014	31 December 2013
Debt securities issued by:		
Governments	144,198	149,808
Public sector and quasi-governments	432,049	409,382
Financial institutions	72,403	52,030
Corporates	174,661	167,724
	<u>823,311</u>	<u>778,944</u>
Subtotal		
	823,311	778,944
Equity instruments	1,347	819
Fund investments	1,134	988
Others	957	560
	<u>3,442</u>	<u>2,367</u>
Total	<u>826,749</u>	<u>781,311</u>
Analyzed as:		
Debt securities		
Listed in Hong Kong	17,591	14,442
Listed outside Hong Kong	(1) 791,648	749,029
Unlisted	14,072	16,033
Equity instruments, fund investments and others		
Listed outside Hong Kong	1,562	1,141
Unlisted	(2) 1,876	666
	<u>3,442</u>	<u>2,367</u>
Total	<u>826,749</u>	<u>781,311</u>

(1) Debt securities traded on the China Domestic Interbank Bond Market are included in "Listed outside Hong Kong".

(2) Certain unlisted equity instruments are measured at cost because their fair value cannot be reliably measured.

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25 HELD-TO-MATURITY INVESTMENTS

	30 June 2014	31 December 2013
Debt securities issued by:		
Governments	533,701	519,265
Public sector and quasi-governments	899,364	808,838
Financial institutions	48,507	29,688
Corporates	155,824	166,623
	<u>1,637,396</u>	<u>1,524,414</u>
Gross amount		
Allowance for impairment losses		
Collectively assessed	(771)	(599)
Held-to-maturity investments, net	<u>1,636,625</u>	<u>1,523,815</u>
Analyzed as:		
Listed in Hong Kong	1,151	715
Listed outside Hong Kong	(1) 1,629,035	1,521,141
Unlisted	6,439	1,959
Total	<u>1,636,625</u>	<u>1,523,815</u>

(1) Debt securities traded on the China Domestic Interbank Bond Market are included in "Listed outside Hong Kong".

26 DEBT INSTRUMENTS CLASSIFIED AS RECEIVABLES

	30 June 2014	31 December 2013
Debt instruments:		
Receivable from the MOF	(1) 362,054	362,054
Special government bond	(2) 93,300	93,300
Public sector and quasi-governments bonds	66,102	66,485
Financial institution bonds	31,213	27,124
Corporate bonds	31,758	31,018
Certificate treasury bonds and savings		
treasury bonds	4,345	6,037
Others	8,765	6,414
	<u>597,537</u>	<u>592,432</u>
Gross amount, unlisted		
Allowance for impairment losses		
Individually assessed	(45)	(44)
Collectively assessed	(668)	(298)
Total allowance for impairment losses	<u>(713)</u>	<u>(342)</u>
Debt instruments classified as receivables, net	<u>596,824</u>	<u>592,090</u>

(1) Pursuant to the "Notice on Relevant Issues Concerning the Disposal of Non-performing Assets of Agricultural Bank of China" (Caijin [2008] No.138) issued by the Ministry of Finance (the "MOF"), receivable from the MOF is to be settled annually over a tentative period of 15 years starting from 1 January 2008 and bears interest at 3.3% per annum.

(2) Special government bond refers to the non-transferable bond issued by the MOF in 1998 in the aggregate principal amount of RMB93.3 billion to the Predecessor Entity for capital replenishment. The bond will mature in 2028 and bears interest at a fixed rate of 2.25% per annum, from 1 December 2008.



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27 PROPERTY AND EQUIPMENT

	Buildings	Electronic equipment, furniture and fixtures	Motor vehicles	Construction in progress	Total
<b>Cost</b>					
1 January 2014	124,294	55,314	4,746	28,682	213,036
Additions	543	931	14	4,112	5,600
Transfers	4,181	209	-	(4,390)	-
Disposals	(352)	(487)	(223)	-	(1,062)
30 June 2014	128,666	55,967	4,537	28,404	217,574
<b>Accumulated depreciation</b>					
1 January 2014	(31,529)	(27,400)	(2,947)	-	(61,876)
Charge for the period	(3,660)	(4,254)	(155)	-	(8,069)
Eliminated on disposals	218	365	219	-	802
30 June 2014	(34,971)	(31,289)	(2,883)	-	(69,143)
<b>Allowance for impairment losses</b>					
1 January 2014	(288)	(10)	(2)	(1)	(301)
Impairment loss	(1)	-	-	(6)	(7)
Eliminated on disposals	3	-	-	-	3
30 June 2014	(286)	(10)	(2)	(7)	(305)
<b>Carrying value</b>					
30 June 2014	93,409	24,668	1,652	28,397	148,126
1 January 2014	92,477	27,904	1,797	28,681	150,859

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27 PROPERTY AND EQUIPMENT (Continued)

	Buildings	Electronic equipment, furniture and fixtures	Motor vehicles	Construction in progress	Total
<b>Cost</b>					
1 January 2013	112,618	48,476	4,030	26,375	191,499
Additions	2,001	8,472	964	13,503	24,940
Transfers	10,196	1,000	-	(11,196)	-
Disposals	(521)	(2,634)	(248)	-	(3,403)
31 December 2013	124,294	55,314	4,746	28,682	213,036
<b>Accumulated depreciation</b>					
1 January 2013	(24,688)	(22,141)	(2,873)	-	(49,702)
Charge for the year	(7,011)	(7,795)	(313)	-	(15,119)
Eliminated on disposals	170	2,536	239	-	2,945
31 December 2013	(31,529)	(27,400)	(2,947)	-	(61,876)
<b>Allowance for impairment losses</b>					
1 January 2013	(293)	(10)	(3)	(1)	(307)
Impairment loss	(14)	-	-	-	(14)
Eliminated on disposals	19	-	1	-	20
31 December 2013	(288)	(10)	(2)	(1)	(301)
<b>Carrying values</b>					
31 December 2013	92,477	27,904	1,797	28,681	150,859
1 January 2013	87,637	26,325	1,154	26,374	141,490

According to the relevant laws and regulations, subsequent to the Bank's transformation into a joint stock company, the legal title of properties previously held by the Predecessor Entity are to be transferred to the Bank. As at 30 June 2014, the registration transfer process of certain properties has not been completed. Management believes that the incomplete registration transfer process does not affect the rights of the Bank as the legal successor to those assets.

The carrying amounts of buildings located on land with the following remaining lease terms are as follows:

	30 June 2014	31 December 2013
Held in Hong Kong		
on long-term lease (over 50 years)	84	83
Held outside Hong Kong		
on long-term lease (over 50 years)	4,622	4,451
on medium-term lease (10 - 50 years)	79,984	79,003
on short-term lease (less than 10 years)	8,719	8,940
Subtotal	93,325	92,394
Total	93,409	92,477

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28 DEFERRED TAXATION

For the purpose of presentation in the condensed consolidated interim statement of financial position, certain deferred tax assets and liabilities have been offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following is the analysis of the deferred tax balances:

	30 June 2014	31 December 2013
Deferred tax assets	70,334	74,075
Deferred tax liabilities	<u>(5)</u>	<u>(8)</u>
Net	<u>70,329</u>	<u>74,067</u>

(1) The following are the movements and major deferred tax assets and liabilities recognized:

	Allowance for impairment losses	Accrued but not paid staff cost	Early retirement benefits	Provision	Fair value changes of financial instruments	Others	Total
1 January 2014	56,137	6,165	2,589	1,181	8,011	(16)	74,067
Credit/(charge) to the consolidated interim income statement	2,034	180	(200)	1,060	(1,402)	(5)	1,667
Charge to other comprehensive income	-	-	-	-	(5,405)	-	(5,405)
30 June 2014	<u>58,171</u>	<u>6,345</u>	<u>2,389</u>	<u>2,241</u>	<u>1,204</u>	<u>(21)</u>	<u>70,329</u>

	Allowance for impairment losses	Accrued but not paid staff cost	Early retirement benefits	Provision	Fair value changes of financial instruments	Others	Total
1 January 2013	46,289	6,388	2,944	879	437	(3)	56,934
Credit/(charge) to the consolidated income statement	9,848	(223)	(355)	302	347	(13)	9,906
Credit to other comprehensive income	-	-	-	-	7,227	-	7,227
31 December 2013	<u>56,137</u>	<u>6,165</u>	<u>2,589</u>	<u>1,181</u>	<u>8,011</u>	<u>(16)</u>	<u>74,067</u>

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28 DEFERRED TAXATION (Continued)

(2) Deferred income tax assets/(liabilities) and related temporary differences, before offsetting qualifying amounts, are attributable to the following items:

	30 June 2014		31 December 2013	
	Deductible/ (taxable) temporary difference	Deferred tax assets/ (liabilities)	Deductible/ (taxable) temporary difference	Deferred tax assets/ (liabilities)
<b>Deferred tax assets</b>				
Allowance for impairment losses	232,742	58,171	224,604	56,137
Accrued but not paid staff cost	25,380	6,345	24,661	6,165
Fair value changes of financial instruments	16,621	4,155	42,899	10,725
Early retirement benefits	9,555	2,389	10,356	2,589
Provision	8,966	2,241	4,723	1,181
Others	41	10	40	9
Subtotal	293,305	73,311	307,283	76,806
<b>Deferred tax liabilities</b>				
Fair value changes of financial instruments	(11,803)	(2,951)	(10,857)	(2,714)
Others	(137)	(31)	(157)	(25)
Subtotal	(11,940)	(2,982)	(11,014)	(2,739)
Net	281,365	70,329	296,269	74,067

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**29 OTHER ASSETS**

	30 June 2014	31 December 2013
Interest receivable	95,215	75,022
Accounts receivable and temporary payments (1)	28,655	18,656
Land use rights (2)	23,468	23,857
Premiums receivable and reinsurance assets	10,663	9,346
Investment property	3,335	3,312
Long-term deferred expenses	3,285	3,480
Intangible assets	2,671	2,627
Foreclosed assets	571	873
Others	2,987	1,435
<b>Total</b>	<b>170,850</b>	<b>138,608</b>

(1) Accounts receivable and temporary payments primarily include items in the process of clearing and settlement.

(2) Land use rights

The carrying amount of land use rights (including leasehold land in Hong Kong) analysed by the remaining terms of the leases:

	30 June 2014	31 December 2013
Held in Hong Kong		
on long-term lease (over 50 years)	1,033	1,023
Held outside Hong Kong		
on long-term lease (over 50 years)	375	367
on medium-term lease (10-50 years)	22,019	22,402
on short-term lease (less than 10 years)	41	65
<b>Subtotal</b>	<b>22,435</b>	<b>22,834</b>
<b>Total</b>	<b>23,468</b>	<b>23,857</b>

According to the relevant laws and regulations, subsequent to the Bank's transformation into a joint stock company, land use rights previously held by the Predecessor Entity are to be transferred to the Bank. As at 30 June 2014, the registration transfer process of certain land use rights has not been completed. Management believes that the incomplete registration transfer process does not affect the rights of the Bank as the legal successor to those land use rights.

**30 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS**

	30 June 2014	31 December 2013
Deposits from:		
Domestic banks	230,672	172,322
Other domestic financial institutions	667,720	547,711
Overseas banks	12,633	8,153
Other overseas financial institutions	1,687	1,168
<b>Total</b>	<b>912,712</b>	<b>729,354</b>

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**31 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS**

	30 June 2014	31 December 2013
Placements from:		
Domestic banks and other financial institutions	84,775	64,511
Overseas banks and other financial institutions	<u>146,353</u>	<u>109,852</u>
Total	<u>231,128</u>	<u>174,363</u>

**32 FINANCIAL LIABILITIES HELD FOR TRADING**

The financial liabilities held for trading are liabilities related to precious metal contracts.

**33 FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS**

	30 June 2014	31 December 2013
Principal guaranteed wealth management products	<u>279,610</u>	<u>285,454</u>

The Group designates wealth management products with principal guaranteed by the Group as financial liabilities at fair value through profit or loss. The corresponding investments are designated financial assets at fair value through profit or loss. As at 30 June 2014, the fair value of these products issued by the Group were lower than the contractual amount payable to the holders of these products upon maturity by RMB7,930 million (31 December 2013: RMB6,104 million).

For the six months ended 30 June 2014 and the year of 2013, there were no significant changes in the fair value of the Group's financial liabilities designated at fair value through profit or loss that were attributable to the changes in the Bank's own credit risk.

**34 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS**

	30 June 2014	31 December 2013
Analyzed by type of collateral:		
Debt securities	123,292	26,391
Bills	32	37
Loans	<u>598</u>	<u>359</u>
Total	<u>123,922</u>	<u>26,787</u>

The collateral pledged under repurchase agreement is disclosed in Note 47 Contingent Liabilities and Commitments - Collateral.

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**35 DUE TO CUSTOMERS**

	<b>30 June 2014</b>	<b>31 December 2013</b>
Demand deposits		
Corporate customers	3,072,911	3,014,858
Individual customers	3,557,457	3,437,661
Time deposits		
Corporate customers	1,571,898	1,345,988
Individual customers	3,828,852	3,490,197
Pledged deposits	(1) 357,527	247,656
Others	420,859	275,051
	<u>12,809,504</u>	<u>11,811,411</u>
Total		

(1) Analyzed by the activity to which the pledged deposits are related:

	<b>30 June 2014</b>	<b>31 December 2013</b>
Bank acceptances	132,821	89,842
Trade finance	70,558	30,305
Guarantee and letters of guarantee	50,898	45,625
Letters of credit	29,104	29,918
Others	74,146	51,966
	<u>357,527</u>	<u>247,656</u>
Total		

**36 DEBT SECURITIES ISSUED**

		<b>30 June 2014</b>	<b>31 December 2013</b>
Bonds issued	(1)	151,952	156,300
Certificates of deposit issued	(2)	112,062	106,991
Interbank certificates of deposit issued	(3)	11,344	2,970
		<u>275,358</u>	<u>266,261</u>
Total			

As at 30 June 2014 and 31 December 2013, there was no default for these debt securities issued.

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**36 DEBT SECURITIES ISSUED (Continued)**

(1) The carrying value of the Group's bonds issued are as follows:

		30 June 2014	31 December 2013
4.0% subordinated fixed rate bonds maturing in May 2024	(i)	25,000	25,000
5.3% subordinated fixed rate bonds maturing in June 2026	(ii)	50,000	50,000
3.2% fixed rate RMB bonds maturing in November 2015	(iii)	1,000	1,000
4.99% subordinated fixed rate bonds maturing in December 2027	(iv)	50,000	50,000
Medium term notes issued	(v)	26,061	5,404
3.3% subordinated fixed rate bonds maturing in May 2019	(vi)	-	20,000
Subordinated floating rate bonds maturing in May 2019	(vii)	-	5,000
Total nominal value		152,061	156,404
Less: Unamortized issuance cost and discounts		(109)	(104)
Carrying value		<u>151,952</u>	<u>156,300</u>

Pursuant to the approval by relevant regulatory authorities, the bonds issued by the Bank are set out as below:

- (i) The subordinated fixed rate bonds issued in May 2009 have a tenor of 15 years, with a fixed coupon rate of 4.0%, payable annually. The Bank has an option to redeem all of the bonds at face value on 20 May 2019. If the Bank does not exercise this option, the coupon rate of the bonds will increase to 7.0% per annum from 20 May 2019 onwards.
- (ii) The subordinated fixed rate bonds issued in June 2011 have a tenor of 15 years, with a fixed coupon rate of 5.3%, payable annually. The Bank has an option to redeem all of the bonds at face value on 7 June 2021. If the Bank does not exercise this option, the coupon rate of the bonds will remain at 5.3% per annum from 7 June 2021 onwards.
- (iii) The RMB bonds issued in Hong Kong in November 2012 have a tenor of 3 years, with a fixed coupon rate 3.2%, payable semi-annually.
- (iv) The subordinated fixed rate bonds issued in December 2012 have a tenor of 15 years, with a fixed coupon rate of 4.99%, payable annually. The Bank has an option to redeem all of the bonds at face value on 20 December 2022. If the Bank does not exercise this option, the coupon rate of the bonds will remain at 4.99% per annum from 20 December 2022 onwards.



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**36 DEBT SECURITIES ISSUED (Continued)**

(1) The carrying value of the Group's bonds issued are as follows (Continued):

(v) On 4 July 2013, the Bank's Hong Kong Branch was approved by the Stock Exchange of Hong Kong Limited for the listing of a Medium Term Note (MTN) Programme totaling USD5,000 million. As at 30 June 2014, the details of MTNs issued under this programme were as follows:

	<b>Maturity dates ranging from</b>	<b>Coupon rates (%)</b>	<b>Outstanding balance</b>
Fixed rate RMB MTNs	July 2014 to December 2018	2.00-3.60	17,439
Fixed rate USD MTNs	November 2014 to December 2018	1.15-2.88	7,332
Floating rate USD MTNs	April 2015 to March 2017	3-month USD LIBOR plus 1.20 to 1.33 per annum	791
Fixed rate HKD MTN	May 2015	1.45	79
Zero coupon EUR MTN	December 2014	-	420
<b>Total</b>			<b>26,061</b>

(vi) The subordinated fixed rate bonds issued in May 2009 had a tenor of 10 years, with a fixed coupon rate of 3.3%, payable annually. The Bank had an option and had exercised the option to redeem all of the bonds at face value on 20 May 2014.

(vii) The subordinated floating rate bonds issued in May 2009 had a tenor of 10 years. The coupon rate was based on the PBOC one-year fixed deposit rate on the issue date and reset annually plus 60 basis points. Interest was payable annually. The Bank had an option and had exercised the option to redeem all of the bonds at face value on 20 May 2014.

(2) As at 30 June 2014, certificates of deposit were primarily issued by the Hong Kong Branch, the Singapore Branch, the New York Branch and the Tokyo Branch of the Bank and were measured at amortized cost.

(3) The Bank's head office issued three-month interbank certificates of deposit of RMB4,500 million and six-month interbank certificates of deposit of RMB7,000 million, respectively. These interbank certificates of deposit will mature in the second half year of 2014.

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37 OTHER LIABILITIES

		30 June 2014	31 December 2013
Interest payable		171,223	163,328
Clearing and settlement		53,452	51,365
Staff costs payable	(1)	42,385	45,573
Insurance liabilities		36,901	30,864
Income taxes payable		25,963	44,263
Business and other taxes payable		6,901	7,492
Provision		8,966	4,723
Amount payable to the MOF	(2)	4,273	1,539
Dormant accounts		1,855	1,871
Others		23,332	44,365
<b>Total</b>		<b>375,251</b>	<b>395,383</b>

(1) Staff costs payable

	Six months ended 30 June 2014			
	1 January	Accrued	Paid	30 June
Salaries, bonuses, allowances and subsidies (i)	24,973	34,304	(35,077)	24,200
Social insurance (i)	884	9,325	(8,745)	1,464
Housing funds	245	3,814	(3,604)	455
Labor union fees and staff education expenses	2,726	1,515	(675)	3,566
Early retirement benefits (ii)	10,356	559	(1,360)	9,555
Others	6,389	3,133	(6,377)	3,145
<b>Total</b>	<b>45,573</b>	<b>52,650</b>	<b>(55,838)</b>	<b>42,385</b>
			<b>2013</b>	
	1 January	Accrued	Paid	31 December
Salaries, bonuses, allowances and subsidies (i)	25,704	63,758	(64,489)	24,973
Social insurance (i)	1,866	16,939	(17,921)	884
Housing funds	301	7,213	(7,269)	245
Labor union fees and staff education expenses	2,304	2,827	(2,405)	2,726
Early retirement benefits (ii)	11,777	1,854	(3,275)	10,356
Others	5,745	12,138	(11,494)	6,389
<b>Total</b>	<b>47,697</b>	<b>104,729</b>	<b>(106,853)</b>	<b>45,573</b>

- (i) Salaries, bonuses, allowances and subsidies, retirement benefits and other social insurance are timely distributed and paid in accordance with the related laws and regulations and the Group's policy.

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**37 OTHER LIABILITIES (Continued)**

(1) Staff costs payable (Continued)

(ii) Early retirement benefits

The amounts recognized in the condensed consolidated interim income statement in respect of the early retirement benefits are as follows:

	<b>Six months ended 30 June</b>	
	<b>2014</b>	<b>2013</b>
Interest cost	212	176
Actuarial loss recognized in the period	331	682
Past service cost	16	237
<b>Total</b>	<b>559</b>	<b>1,095</b>

The principal assumptions used for the purpose of the actuarial valuations were as follows:

	<b>30 June 2014</b>	<b>31 December 2013</b>
Discount rate	3.72%	4.38%
Annual average medical expense growth rate	8.00%	8.00%
Annual subsidies growth rate	8.00%	8.00%
Normal retirement age		
- Male	60	60
- Female	55	55

Assumptions regarding future mortality experience are based on the China Life Insurance Mortality Table (year 2000 - 2003) (published historical statistics in China).

During the six months ended 30 June 2014 and the year ended 31 December 2013, the Group had no default on the above staff costs payable.

(2) Amount payable to the MOF

Pursuant to the "Notice on Relevant Issues Concerning the Disposal of Non-performing Assets of Agricultural Bank of China" (Caijin [2008] No. 138) issued by the MOF, the MOF commissioned the Bank to manage and dispose of the non-performing assets transferred. The amount payable to the MOF represents proceeds collected by the Group from the disposal of these non-performing assets on behalf of the MOF.

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**38 SHARE CAPITAL**

During the six months ended 30 June 2014 and the year ended 31 December 2013, there was no change in the Bank's share capital.

	As at 30 June 2014 and 31 December 2013	
	Number of shares (millions)	Nominal value
Registered, issued and fully paid:		
A shares of RMB1 each	294,055	294,055
H shares of RMB1 each	30,739	30,739
<b>Total</b>	<b>324,794</b>	<b>324,794</b>

A shares refer to the ordinary shares listed in Mainland China. They are offered and traded in RMB. H shares refer to the ordinary shares listed in Hong Kong. Their par value is denominated in RMB. They were initially offered and are currently traded in HKD.

As at 30 June 2014, 9,892 million A shares and none of the H shares of the Bank with par value of RMB1 per share were subject to lock-up restriction respectively (31 December 2013: 9,892 million A shares and none of the H shares, respectively).

**39 CAPITAL RESERVE**

The capital reserve represents the share premium related to ordinary shares issued by the Bank in 2010. Share premium was recorded in the capital reserve after deducting direct issue costs, which consisted primarily of underwriting fees and professional fees.

**40 INVESTMENT REVALUATION RESERVE**

	Six months ended 30 June 2014		
	Gross amount	Tax effect	Net effect
1 January 2014	(30,313)	7,541	(22,772)
Fair value changes on available-for-sale financial assets	21,876	(5,420)	16,456
Transferred to the condensed consolidated interim income statement upon disposal of available-for-sale financial assets	(25)	6	(19)
<b>30 June 2014</b>	<b>(8,462)</b>	<b>2,127</b>	<b>(6,335)</b>
	<b>2013</b>		
	Gross amount	Tax effect	Net effect
1 January 2013	(1,224)	323	(901)
Fair value changes on available-for-sale financial assets	(29,440)	7,306	(22,134)
Transferred to the consolidated income statement upon disposal of available-for-sale financial assets	351	(88)	263
<b>31 December 2013</b>	<b>(30,313)</b>	<b>7,541</b>	<b>(22,772)</b>

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### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2014 (Amounts in millions of Renminbi, unless otherwise stated)

#### 41 SURPLUS RESERVE

Under PRC Law, the Bank is required to transfer 10% of its net profit determined under the PRC GAAP to a non-distributable statutory surplus reserve. Appropriation to the statutory surplus reserve may cease when the balance of this reserve has reached 50% of share capital.

Subject to the approval of the equity holders, the statutory surplus reserves can be used for replenishing the accumulated losses or increasing the Bank's share capital. The statutory surplus reserves amount used to increase the share capital is limited to a level where the balance of the statutory surplus reserves after such capitalization is not less than 25% of the share capital.

#### 42 GENERAL RESERVE

Pursuant to Caijin [2012] No. 20 "Requirements on Impairment Allowance for Financial Institutions" (the "Requirement") issued by the MOF, effective 1 July 2012, in addition to the impairment allowance, the Bank establishes a General Reserve within equity holders' equity through the appropriation of profit to address unidentified potential impairment losses. The General Reserve should not be less than 1.5% of the aggregate amount of risk assets as defined by the Requirement. The General Reserve includes regulatory reserve appropriated by the Bank's overseas branches ("Overseas Institutions") pursuant to local regulatory requirements.

Pursuant to relevant PRC regulatory requirements, some domestic subsidiaries of the Bank are required to appropriate certain amounts of their net profit as General Reserves.

During the six months ended 30 June 2014, the Group transferred RMB17,469 million (six months ended 30 June 2013: RMB63,829 million) to the General Reserve pursuant to the regulatory requirements in the PRC and overseas jurisdictions. Of this amount, RMB17,330 million (six months ended 30 June 2013: RMB63,482 million) related to the appropriation proposed for the year ended 31 December 2013 which was approved in the annual general meeting held on 23 June 2014.

#### 43 CASH AND CASH EQUIVALENTS

For the purpose of the condensed consolidated interim statement of cash flows, cash and cash equivalents include the following balances with an original maturity of less than three months:

	30 June 2014	30 June 2013
Cash	93,420	79,283
Balance with central banks	192,437	107,943
Deposits with banks and other financial institutions	99,426	57,965
Placements with and loans to banks and other financial institutions	340,040	126,965
Financial assets held under resale agreements	468,211	297,899
Total	<u>1,193,534</u>	<u>670,055</u>

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#### 44 OPERATING SEGMENTS

Operating segments are identified on the basis of internal reports about the components of the Group that are regularly reviewed by the Board and relevant management committees, which constitute the chief operating decision makers, for the purposes of allocating resources to segments and assessing their performance. The Group's chief operating decision makers review three different sets of financial information. They are financial information based on (i) geographical locations, (ii) business activities and (iii) County Area and Urban Area banking business.

The measurement of segment assets and liabilities, as well as segment revenue, expense and results is based on the Group's accounting policies. There is no difference between the accounting policies used in the preparation of the condensed consolidated interim financial statements and those used in preparing the operating segment information.

Transactions between segments are conducted under normal commercial terms and conditions. Internal charges and transfer pricing are determined with reference to market rates and have been reflected in the performance of each segment.

Segment revenues, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

#### Geographical operating segments

The details of the geographical operating segments are as follows:

Head Office	
Yangtze River Delta:	Shanghai, Jiangsu, Zhejiang, Ningbo
Pearl River Delta:	Guangdong, Shenzhen, Fujian, Xiamen
Bohai Rim:	Beijing, Tianjin, Hebei, Shandong, Qingdao
Central China:	Shanxi, Hubei, Henan, Hunan, Jiangxi, Hainan, Anhui
Western China:	Chongqing, Sichuan, Guizhou, Yunnan, Shaanxi, Gansu, Qinghai, Ningxia, Xinjiang (including Xinjiang Bingtuan), Tibet, Inner Mongolia, Guangxi
Northeastern China:	Liaoning, Heilongjiang, Jilin, Dalian
Overseas and Others:	Overseas branches and subsidiaries

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44 OPERATING SEGMENTS (Continued)

Geographical operating segments (Continued)

For the six months ended 30 June 2014	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	Northeastern China	Overseas and Others	Eliminations	Consolidated total
External interest income	95,118	58,231	38,075	42,122	33,422	54,273	9,869	6,722	-	337,832
External interest expense	(8,455)	(28,143)	(15,969)	(23,920)	(19,239)	(21,930)	(6,755)	(3,983)	-	(128,394)
Inter-segment interest (expense)/income	(62,111)	11,058	5,259	15,434	13,441	12,819	4,323	(223)	-	-
Net interest income	24,552	41,146	27,365	33,636	27,624	45,162	7,437	2,516	-	209,438
Fee and commission income	5,752	9,624	8,386	7,107	7,280	9,750	2,017	525	-	50,441
Fee and commission expense	(240)	(588)	(479)	(403)	(372)	(442)	(67)	(2)	-	(2,593)
Net fee and commission income	5,512	9,036	7,907	6,704	6,908	9,308	1,950	523	-	47,848
Net trading gain	2,143	92	43	63	72	184	54	147	-	2,798
Net gain/(loss) on financial instruments designated at fair value through profit or loss	387	28	13	77	-	(3)	-	31	-	533
Net (loss)/gain on investment securities	(16)	-	-	-	-	-	-	41	-	25
Other operating income	(254)	520	310	339	193	992	67	5,100	-	7,267
Operating income	32,324	50,822	35,638	40,819	34,797	55,643	9,508	8,358	-	267,909
Operating expenses	(6,493)	(17,915)	(12,363)	(14,957)	(15,886)	(22,919)	(6,771)	(6,082)	-	(103,386)
Impairment losses on assets	(1,803)	(11,571)	(4,930)	(6,865)	(2,530)	774	(1,783)	(231)	-	(28,939)
Profit before tax	24,028	21,336	18,345	18,997	16,381	33,498	954	2,045	-	135,584
Income tax expense	-	-	-	-	-	-	-	-	-	(31,517)
Profit for the period	-	-	-	-	-	-	-	-	-	104,067
Depreciation and amortization included in operating expenses	(805)	(1,559)	(1,089)	(1,409)	(1,632)	(2,077)	(697)	(66)	-	(9,334)
Capital expenditure	723	668	810	1,430	779	1,345	251	544	-	6,550
As at 30 June 2014	4,343,648	3,179,263	1,930,013	2,694,217	2,239,187	3,063,648	725,261	562,888	(2,821,847)	15,936,278
Segment assets Including: Investments in associates and joint ventures	-	-	-	-	-	-	-	-	-	-
Unallocated assets	-	-	-	-	-	-	-	-	-	70,334
Total assets	10,342	36,263	18,064	28,832	28,487	39,584	12,172	8,521	-	16,006,612
Include: non-current assets(1)	-	-	-	-	-	-	-	-	-	182,265
Segment liabilities Unallocated liabilities	(3,426,379)	(3,202,189)	(1,939,915)	(2,705,075)	(2,242,871)	(3,094,220)	(732,505)	(551,600)	2,821,847	(15,072,907)
Total liabilities	-	-	-	-	-	-	-	-	-	(25,968)
Unallocated liabilities	-	-	-	-	-	-	-	-	-	(15,098,875)
Credit commitments	30,425	480,366	242,325	397,641	163,547	242,216	50,919	67,570	-	1,675,009

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44 OPERATING SEGMENTS (Continued)

Geographical operating segments (Continued)

For the six months ended 30 June 2013	Head Office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	Northeastern China	Overseas and Others	Eliminations	Consolidated total
External interest income	85,010	53,006	32,458	36,902	28,172	47,974	8,559	4,382	-	296,463
External interest expense	(8,482)	(25,681)	(15,272)	(21,372)	(17,408)	(19,733)	(6,109)	(2,404)	-	(116,461)
Inter-segment interest (expense)/income	(66,472)	12,225	6,746	15,359	14,128	13,624	4,375	15	-	-
Net interest income	10,056	39,550	23,932	30,889	24,892	41,865	6,825	1,993	-	180,002
Fee and commission income	5,066	11,168	7,047	7,492	7,474	9,411	1,543	520	-	49,721
Fee and commission expense	(206)	(391)	(359)	(353)	(385)	(367)	(61)	(2)	-	(2,124)
Net fee and commission income	4,860	10,777	6,688	7,139	7,089	9,044	1,482	518	-	47,597
Net trading gain/(loss)	1,929	597	140	65	100	205	102	(1,065)	-	2,073
Net (loss)/gain on financial instruments designated at fair value through profit or loss	(209)	23	4	210	(3)	(3)	-	68	-	90
Net gain on investment securities	5	-	-	-	-	-	-	329	-	334
Other operating income	(1,451)	507	194	293	442	759	45	5,159	-	5,948
Operating income	15,190	51,454	30,958	38,596	32,520	51,870	8,454	7,002	-	236,044
Operating expenses	(3,274)	(17,284)	(11,444)	(13,908)	(15,143)	(21,480)	(6,609)	(4,929)	-	(94,071)
Impairment losses on assets	(994)	(9,175)	(2,254)	(4,130)	(1,144)	(2,229)	(2,420)	(125)	-	(22,471)
Profit/(loss) before tax	10,922	24,995	17,250	20,558	16,233	28,161	(575)	1,948	-	119,502
Income tax expense	-	-	-	-	-	-	-	-	-	(27,118)
Profit for the period	(672)	(1,513)	(926)	(1,264)	(1,493)	(1,879)	(636)	(61)	-	(8,444)
Depreciation and amortization included in operating expenses	839	831	487	676	641	1,476	345	218	-	5,513
Capital expenditure	-	-	-	-	-	-	-	-	-	-
As at 31 December 2013	3,753,134	2,952,862	1,781,197	2,504,764	2,070,925	2,892,185	656,673	411,566	(2,535,299)	14,488,027
Segment assets	-	-	-	-	-	-	-	-	-	1
Including: investments in associates and joint ventures	-	-	-	-	-	-	-	-	-	74,075
Unallocated assets	-	-	-	-	-	-	-	-	-	14,562,102
Total assets	10,569	37,238	18,270	29,286	29,414	40,097	12,556	8,087	-	185,517
Including: non-current assets(1)	(3,010,413)	(2,937,132)	(1,770,841)	(2,490,676)	(2,059,375)	(2,876,763)	(660,204)	(403,189)	2,535,299	(13,673,294)
Segment liabilities	-	-	-	-	-	-	-	-	-	(44,271)
Unallocated liabilities	-	-	-	-	-	-	-	-	-	(13,717,565)
Total liabilities	-	-	-	-	-	-	-	-	-	1,481,945
Credit commitments	37,739	434,829	221,253	330,680	161,443	204,160	50,915	40,926	-	1,481,945

(1) Non-current assets include property and equipment, investment properties, land use rights, intangible assets and other long-term assets.



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#### 44 OPERATING SEGMENTS (Continued)

##### **Business operating segments**

The details of the business operating segments are as follows:

##### *Corporate banking*

The corporate banking segment provides financial products and services to corporations, government agencies and financial institutions. The range of products and services includes corporate loans and advances, trade finance, deposit products, corporate wealth management services and other types of corporate intermediary services.

##### *Personal banking*

The personal banking segment provides financial products and services to individual customers. The range of products and services includes personal loans, deposit products, card business, personal wealth management services and other types of personal intermediary services.

##### *Treasury operations*

The Group's treasury operations conduct money market and repurchase transactions, debt instruments investments, precious metal transactions, and derivative transactions for its own accounts or on behalf of customers.

##### *Others*

Others comprise components of the Group that are not attributable to any of the above segments, along with certain assets, liabilities, income or expenses of the Head Office that could not be allocated on a reasonable basis.

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44 OPERATING SEGMENTS (Continued)

Business operating segments (Continued)

	Corporate banking	Personal banking	Treasury operations	Others	Consolidated total
<b>For the six months ended 30 June 2014</b>					
External interest income	171,392	66,243	98,405	1,792	337,832
External interest expense	(43,830)	(73,904)	(9,882)	(778)	(128,394)
Inter-segment interest (expense)/income	(9,663)	83,057	(73,394)	-	-
Net interest income	117,899	75,396	15,129	1,014	209,438
Fee and commission income	28,093	21,744	-	604	50,441
Fee and commission expense	(901)	(1,692)	-	-	(2,593)
Net fee and commission income	27,192	20,052	-	604	47,848
Net trading gain	-	-	2,771	27	2,798
Net gain on financial instruments designated at fair value through profit or loss	-	-	506	27	533
Net (loss)/gain on investment securities	-	-	(14)	39	25
Other operating income	661	561	735	5,310	7,267
Operating income	145,752	96,009	19,127	7,021	267,909
Operating expenses	(45,865)	(42,864)	(8,526)	(6,131)	(103,386)
Impairment losses on assets	(18,292)	(9,002)	(1,506)	(139)	(28,939)
Profit before tax	81,595	44,143	9,095	751	135,584
Income tax expense					(31,517)
Profit for the period					104,067
Depreciation and amortization included in operating expenses	(2,096)	(5,395)	(1,805)	(38)	(9,334)
Capital expenditure	1,301	3,731	1,504	14	6,550
<b>As at 30 June 2014</b>					
Segment assets	5,513,625	2,673,861	7,656,427	92,365	15,936,278
Including: Investments in associates and joint ventures	-	-	-	-	-
Unallocated assets					70,334
Total assets					16,006,612
Segment liabilities	(5,809,251)	(8,011,493)	(1,113,128)	(139,035)	(15,072,907)
Unallocated liabilities					(25,968)
Total liabilities					(15,098,875)
Credit commitments	1,365,527	309,482	-	-	1,675,009

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44 OPERATING SEGMENTS (Continued)

Business operating segments (Continued)

	Corporate banking	Personal banking	Treasury operations	Others	Consolidated total
<b>For the six months ended 30 June 2013</b>					
External interest income	145,512	54,051	95,592	1,308	296,463
External interest expense	(37,868)	(66,563)	(11,339)	(691)	(116,461)
Inter-segment interest (expense)/income	(7,070)	78,993	(71,923)	-	-
Net interest income	100,574	66,481	12,330	617	180,002
Fee and commission income	29,335	19,846	-	540	49,721
Fee and commission expense	(707)	(1,417)	-	-	(2,124)
Net fee and commission income	28,628	18,429	-	540	47,597
Net trading gain/(loss)	-	-	2,135	(62)	2,073
Net gain on financial instruments designated at fair value through profit or loss	-	-	39	51	90
Net gain on investment securities	-	-	5	329	334
Other operating income	574	433	556	4,385	5,948
Operating income	129,776	85,343	15,065	5,860	236,044
Operating expenses	(40,703)	(40,815)	(7,632)	(4,921)	(94,071)
Impairment losses on assets	(9,893)	(12,085)	(337)	(156)	(22,471)
Profit before tax	79,180	32,443	7,096	783	119,502
Income tax expense					(27,118)
Profit for the period					92,384
Depreciation and amortization included in operating expenses	(1,839)	(4,996)	(1,569)	(40)	(8,444)
Capital expenditure	1,205	3,274	1,028	6	5,513
<b>As at 31 December 2013</b>					
Segment assets	5,061,143	2,404,907	6,937,843	84,134	14,488,027
Including: Investments in associates and joint ventures	-	-	-	1	1
Unallocated assets					74,075
Total assets					14,562,102
Segment liabilities	(5,206,616)	(7,444,267)	(948,506)	(73,905)	(13,673,294)
Unallocated liabilities					(44,271)
Total liabilities					(13,717,565)
Credit commitments	1,181,880	300,065	-	-	1,481,945

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44 OPERATING SEGMENTS (Continued)

County Area and Urban Area segments

The Group's operating segments organized by County Area and Urban Area banking business are set out as follows:

*County Area banking business*

The Group's County Area banking business provides a broad range of financial products and services to customers in designated County Area, through its operating branches in the counties or county-level cities throughout the PRC. The products and services mainly comprise loans, deposits, bank cards, and other types of intermediary services.

*Urban Area banking business*

The Group's Urban Area banking business comprises all banking activities outside of the County Area banking business, overseas branches and subsidiaries.

	County Area banking business	Urban Area banking business	Eliminations	Consolidated total
<b>For the six months ended 30 June 2014</b>				
External interest income	80,286	257,546	-	337,832
External interest expense	(45,278)	(83,116)	-	(128,394)
Inter-segment interest income/(expense)	46,250	(46,250)	-	-
Net interest income	81,258	128,180	-	209,438
Fee and commission income	17,072	33,369	-	50,441
Fee and commission expense	(958)	(1,635)	-	(2,593)
Net fee and commission income	16,114	31,734	-	47,848
Net trading gain	138	2,660	-	2,798
Net (loss)/gain on financial instruments designated at fair value through profit or loss	(8)	541	-	533
Net gain on investment securities	-	25	-	25
Other operating income	1,145	6,122	-	7,267
Operating income	98,647	169,262	-	267,909
Operating expenses	(41,230)	(62,156)	-	(103,386)
Impairment losses on assets	(13,499)	(15,440)	-	(28,939)
Profit before tax	43,918	91,666	-	135,584
Income tax expense				(31,517)
Profit for the period				104,067
Depreciation and amortization included in operating expenses	(4,281)	(5,053)	-	(9,334)
Capital expenditure	1,599	4,951	-	6,550
<b>As at 30 June 2014</b>				
Segment assets	5,883,344	10,142,138	(89,204)	15,936,278
Including: Investments in associates and joint ventures	-	-	-	-
Unallocated assets				70,334
Total assets				16,006,612
Segment liabilities	(5,578,144)	(9,583,967)	89,204	(15,072,907)
Unallocated liabilities				(25,968)
Total liabilities				(15,098,875)
Credit commitments	338,919	1,336,090	-	1,675,009

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44 OPERATING SEGMENTS (Continued)

County Area and Urban Area segments (Continued)

	County Area banking business	Urban Area banking business	Eliminations	Consolidated total
<b>For the six months ended 30 June 2013</b>				
External interest income	69,580	226,883	-	296,463
External interest expense	(40,253)	(76,208)	-	(116,461)
Inter-segment interest income/(expense)	47,196	(47,196)	-	-
Net interest income	76,523	103,479	-	180,002
Fee and commission income	17,870	31,851	-	49,721
Fee and commission expense	(725)	(1,399)	-	(2,124)
Net fee and commission income	17,145	30,452	-	47,597
Net trading gain	247	1,826	-	2,073
Net gain on financial instruments designated at fair value through profit or loss	26	64	-	90
Net gain on investment securities	-	334	-	334
Other operating income	944	5,004	-	5,948
Operating income	94,885	141,159	-	236,044
Operating expenses	(39,064)	(55,007)	-	(94,071)
Impairment losses on assets	(9,207)	(13,264)	-	(22,471)
Profit before tax	46,614	72,888	-	119,502
Income tax expense				(27,118)
Profit for the period				92,384
Depreciation and amortization included in operating expenses	(3,846)	(4,598)	-	(8,444)
Capital expenditure	1,711	3,802	-	5,513
<b>As at 31 December 2013</b>				
Segment assets	5,477,335	9,076,193	(65,501)	14,488,027
Including: Investments in associates and joint ventures	-	1	-	1
Unallocated assets				74,075
Total assets				14,562,102
Segment liabilities	(5,191,798)	(8,546,997)	65,501	(13,673,294)
Unallocated liabilities				(44,271)
Total liabilities				(13,717,565)
Credit commitments	286,409	1,195,536	-	1,481,945

**AGRICULTURAL BANK OF CHINA LIMITED**

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

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**45 RELATED PARTY TRANSACTIONS**

(1) The Group and the MOF

As at 30 June 2014, the MOF directly owned 39.21% (31 December 2013: 39.21%) of the share capital of the Bank.

The MOF is a Chinese government ministry, primarily responsible for managing state fiscal revenue and expenditures, and establishing and enforcing taxation policies. It reports to the Chinese State Council.

The Group had the following balances and transactions with the MOF in its ordinary course of business under normal commercial terms:

	30 June 2014	31 December 2013
Treasury bonds and special government bonds	737,756	729,892
Receivable from the MOF(Note 26)	362,054	362,054
Interest receivable		
- treasury bonds and special government bonds	11,274	9,017
- receivable from the MOF	4,451	33
Amount payable to the MOF(Note 37)	4,273	1,539
Customer deposits	15,386	11,292
Interest payable	12	10
Other liability		
- redemption of certificate treasury bonds on behalf of the MOF	110	112
	<u>110</u>	<u>112</u>
	<b>Six months ended 30 June</b>	
	<b>2014</b>	<b>2013</b>
Interest income	18,891	17,595
Interest expense	(25)	(30)
Fee and commission income	4,135	4,818

Interest rate ranges for transactions with the MOF during the periods are as follows:

	<b>Six months ended 30 June</b>	
	<b>2014</b>	<b>2013</b>
	%	%
Treasury bonds and receivable from the MOF	1.85 - 9.00	1.77 - 6.34
Customer deposits	0.01 - 3.25	0.05 - 3.25

The Group's redemption commitment for government bonds underwriting is disclosed in Note 47 Contingent Liabilities and Commitments.

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45 RELATED PARTY TRANSACTIONS (Continued)

(2) The Group and Huijin

Central Huijin Investment Ltd. ("Huijin") is a wholly-owned subsidiary of China Investment Corporation Limited, which is incorporated in Beijing, PRC. Huijin was established to hold certain equity interests in state-owned financial institutions as authorized by the State Council and does not engage in other commercial activities. Huijin exercises its legal rights and assumes obligations relative to the Bank on behalf of the PRC Government.

As at 30 June 2014, Huijin directly owned 40.28% (31 December 2013: 40.28%) of the share capital of the Bank.

Transactions with Huijin

The Group had the following balances and transactions with Huijin in its ordinary course of business under normal commercial terms:

	30 June 2014	31 December 2013
Investment in debt securities	11,180	11,130
Interest receivable	347	134
Customer deposits	10,635	10,960
Interest payable	2	158
	<u>                    </u>	<u>                    </u>
	<b>Six months ended 30 June</b>	
	<b>2014</b>	<b>2013</b>
Interest income	213	213
Interest expense	(58)	(98)
	<u>                    </u>	<u>                    </u>

Interest rate ranges for transactions with Huijin during the periods are as follows:

	<b>Six months ended 30 June</b>	
	<b>2014</b>	<b>2013</b>
	%	%
Debt securities	3.14 - 4.20	3.14 - 4.20
Customer deposits	0.72 - 3.30	0.72 - 3.30
	<u>                    </u>	<u>                    </u>

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**45 RELATED PARTY TRANSACTIONS (Continued)**

(2) The Group and Huijin (Continued)

**Transactions with companies under Huijin**

Huijin has equity interests in certain other banks and financial institutions under the direction of the Chinese Government. The Group enters into transactions with these banks and financial institutions in the ordinary course of business under normal commercial terms. Corresponding balances with these banks and financial institutions were as follows:

	30 June 2014	31 December 2013
Investment in debt securities	752,280	686,833
Deposits with banks and other financial institutions	60,332	21,059
Placements with and loans to banks and other financial institutions	65,460	31,926
Derivative financial assets	284	623
Financial assets held under resale agreements	48,520	88,706
Loans and advances to customers	1,265	385
Deposits from banks and other financial institutions	85,459	45,561
Placements from banks and other financial institutions	44,010	26,362
Derivative financial liabilities	400	457
Financial assets sold under repurchase agreements	105,765	11,859
Customer deposits	-	200

(3) The Group and other government related entities

Other than as disclosed above, a significant portion of the Group's banking transactions are entered into with government authorities, agencies, affiliates and other State controlled entities. These transactions are entered into under normal commercial terms and conditions and mainly include provision of credit and guarantee, deposits, foreign exchange transactions, derivative transactions, agency services, underwriting and distribution of bonds issued by government agencies, purchase, sales and redemption of investment securities issued by government agencies.

Management considers that transactions with these entities are activities conducted in the ordinary course of business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and those entities are government related. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are government authorities, agencies, affiliates and other State controlled entities.



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**45 RELATED PARTY TRANSACTIONS (Continued)**

(4) The Bank and its subsidiaries

The Bank entered into banking transactions with its subsidiaries at arm's length in the ordinary course of business.

Management considers that transactions between the Bank and its subsidiaries are not significant.

(5) Key management personnel

Key management personnel are those persons who have the authority and responsibility to plan, direct and control the activities of the Group. The Group enters into banking transactions with key management personnel in the normal course of business. During the six months ended 30 June 2014 and 2013, the Group had no material transactions with key management personnel.

(6) The Group and the Annuity Scheme

The Group had the following balances and transactions with the Annuity Scheme set up by the Bank apart from the obligation for defined contribution to the Annuity Scheme:

	30 June 2014	31 December 2013
Deposits from Annuity Scheme	8,050	8,050
Interest payable	21	15
Non-principal guaranteed wealth management products issued by the Bank	-	500
	<b>Six months ended 30 June</b>	
	<b>2014</b>	<b>2013</b>
Interest expense	244	456
Interest rate range for transaction with the Annuity Scheme during the periods is as follows:		
	<b>Six months ended 30 June</b>	
	<b>2014</b>	<b>2013</b>
	%	%
Deposits from Annuity Scheme	5.75 - 6.20	5.30 - 6.20

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46 STRUCTURED ENTITIES

(1) Unconsolidated structured entities managed by the Group

The unconsolidated structured entities managed by the Group consist primarily of collective investment vehicles ("WMP Vehicles") formed to issue and distribute wealth management products ("WMPs"), which are not subject to any guarantee by the Group of the principal invested or interest to be paid. The WMP Vehicles invest in a range of primarily fixed-rate assets, most typically money market instruments, debt securities and loan assets. As the manager of WMPs, the Group invests, on behalf of its customers, the funds raised in the assets as described in the investment plan related to each WMP and receives fee and commission income. The variable return that the Group has in relation to the WMPs is not significant; therefore, the WMP Vehicles are not consolidated by the Group.

As at 30 June 2014, the outstanding WMPs issued by WMP vehicles (excluding those with the principal guaranteed issued by the Group) amounted to RMB416,587 million (31 December 2013: RMB412,190 million), which represent the total size of the WMP vehicles. During the six months ended 30 June 2014, the Group's interest in the WMP Vehicles included Net Fee and Commission Income of RMB2,707 million (six months ended 30 June 2013: RMB2,714 million) and Net Interest Income of RMB180 million (six months ended 30 June 2013: RMB224 million), which related to placements and reverse repurchase agreement transactions by the Group with WMP Vehicles.

The Group has entered into placements and reverse repurchase agreement transactions at market interest rates with the WMP Vehicles. The outstanding amount of these transactions represents the Group's maximum exposure to the WMP Vehicles. The average balance during the six months ended 30 June 2014 and the outstanding balance as at 30 June 2014 of these transactions were RMB10,819 million (weighted average outstanding period of 2.07 days) and RMB253,017 million, respectively. The average balance during 2013 and the outstanding balance as at 31 December 2013 of these transactions were RMB30,453 million (weighted average outstanding period of 2.9 days) and RMB80,282 million, respectively. The Group was under no obligation to enter into these transactions. As at 30 June 2014 and 31 December 2013, the outstanding balance of these transactions was presented in Placements with and Loans to Banks and Other Financial Institutions.

There were no contractual liquidity arrangements, guarantees or other commitments among or between the Group, WMP vehicles or any third parties that could increase the level of the Group's risk from or reduce its interest in WMP vehicles disclosed above during the six months ended 30 June 2014 and the year ended 31 December 2013. The Group is not required to absorb any losses incurred by WMPs before other parties. During the period ended 30 June 2014 and the year ended 31 December 2013, no loss was incurred by the WMP Vehicles relating to the Group's interests in the WMP Vehicles, and the WMP Vehicles did not experience difficulty in financing their activities.

(2) Unconsolidated structured entities held by the Group

The Group invests in a number of other unconsolidated structured entities which are sponsored and managed by other entities for investment return, and records trading gains or losses and interest income therefrom. These assets include underlying investments made by WMPs managed by the Group, and for which the Group has provided investors of the WMPs with a principal and/or return guarantee. As at 30 June 2014, the Group's maximum exposure to these other unconsolidated structured entities is summarized in the table below.

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46 STRUCTURED ENTITIES (continued)

(2) Unconsolidated structured entities held by the Group (continued)

	As at 30 June 2014				Total
	Financial assets designated at fair value through profits or losses	Available-for-sale investments	Held-to-maturity investment	Debt instruments classified as receivables	
Interest in trust products	187,209	-	-	-	187,209
Other debt instruments	65,190	-	-	-	65,190
Asset management products issued by other entities (i)	-	957	-	8,765	9,722
Asset-backed securities	-	4,773	-	-	4,773
Fund investments	-	1,134	-	-	1,134
Mortgage-backed securities	-	54	43	-	97
<b>Total</b>	<b>252,399</b>	<b>6,918</b>	<b>43</b>	<b>8,765</b>	<b>268,125</b>

	As at 31 December 2013				Total
	Financial assets designated at fair value through profits or losses	Available-for-sale investments	Held-to-maturity investment	Debt instrument classified as receivables	
Interest in trust products	171,280	-	-	-	171,280
Other debt instruments	38,710	-	-	-	38,710
Asset management products issued by other entities (i)	-	560	-	5,908	6,468
Asset-backed securities	-	1,918	-	-	1,918
Fund investments	-	988	-	-	988
Mortgage-backed securities	-	87	45	-	132
<b>Total</b>	<b>209,990</b>	<b>3,553</b>	<b>45</b>	<b>5,908</b>	<b>219,496</b>

(i) The asset management products issued by other entities primarily consist of WMPs, asset management plans and debt investment plans.

The information of total size of the Unconsolidated Structured Entities listed above is not readily available from the public.

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**46 STRUCTURED ENTITIES (Continued)**

(3) Consolidated structured entities

The Group's consolidated structured entities consist principally of WMP Vehicles that issue and distribute WMPs with respect to which the Group has guaranteed the investor's principal investment and/or return upon maturity of the WMP, regardless of its actual performance; and a special purpose trust founded by a third party trust company for issuing asset backed securities by the Group. During the six months ended 30 June 2014 and the year ended 31 December 2013, the Group did not enter into financing transactions with any of these WMP Vehicles and the special purpose trust.

**47 CONTINGENT LIABILITIES AND COMMITMENTS**

**Legal proceedings**

The Bank and its subsidiaries are involved as defendants in certain lawsuits arising from their normal business operations. As at 30 June 2014, provisions of RMB877 million (31 December 2013: RMB962 million) were made by the Group based on court judgments or advice of legal counsel, and included in Note 37 Other Liabilities. Management of the Group believes that the final result of these lawsuits will not have a material impact on the financial position or operations of the Group.

**Capital commitments**

	30 June 2014	31 December 2013
Contracted but not provided for	5,934	6,404
Authorized but not contracted for	1,246	1,261
Total	<u>7,180</u>	<u>7,665</u>

**Credit commitments**

	30 June 2014	31 December 2013
<b>Loan commitments</b>		
- With an original maturity of less than 1 year	53,746	35,858
- With an original maturity of 1 year or above	405,940	434,411
Subtotal	<u>459,686</u>	<u>470,269</u>
Bank acceptances	462,576	404,852
Credit card commitments	236,111	219,682
Guarantee and letters of guarantee	247,693	191,073
Letters of credit	268,943	196,069
Total	<u>1,675,009</u>	<u>1,481,945</u>

Credit commitments represent credit cards and general credit facility limits granted to customers under non-cancellable agreements. These general credit facilities may be drawn in the form of loans or through the issuance of letters of credit, guarantee and letters of guarantee or bank acceptances.

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**47 CONTINGENT LIABILITIES AND COMMITMENTS (Continued)**

**Credit risk weighted amount for credit commitments**

**30 June 2014**

Credit commitments 826,085

Credit risk weighted amount for credit commitments represents the counterparty credit risk associated with credit commitments and is calculated in accordance with the "Capital Rules for Commercial Banks (Provisional)" issued by the CBRC which was effective 1 January 2013 and is dependent on, among other factors, creditworthiness of counterparties and maturity characteristics of each type of contract. As at 30 June 2014, credit risk weighted amount for credit commitments was measured under the Internal Ratings-Based approach as disclosed in Note 50 Capital Management.

As at 31 December 2013, credit risk weighted amount for credit commitments was RMB728,028 million, which was measured under the Weighted approach as disclosed in Note 50 Capital Management.

**Operating lease commitments**

At the end of each reporting period, the Group, as a lessee, had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	<b>30 June 2014</b>	<b>31 December 2013</b>
Within 1 year	3,477	3,575
1 to 2 years	3,034	3,039
2 to 3 years	2,472	2,550
3 to 5 years	3,080	2,527
Above 5 years	<u>2,308</u>	<u>3,204</u>
Total	<u>14,371</u>	<u>14,895</u>

In the current interim period, operating lease expense recognized as operating expense by the Group was RMB2,156 million, and is included in Note 11 Operating Expenses (six months ended 30 June 2013: RMB1,851 million).

**Finance lease commitments**

At the end of each reporting period, the Group, as a lessor, had the following non-cancellable finance lease commitments:

	<b>30 June 2014</b>	<b>31 December 2013</b>
Contractual amount	<u>31</u>	<u>61</u>

As at 30 June 2014, included in the Group's loans and advances are finance lease receivables of RMB33,265 million (31 December 2013: RMB32,211 million), among which, majority of the remaining maturity was within 1 to 5 years.

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47 CONTINGENT LIABILITIES AND COMMITMENTS (Continued)

Collateral

*Assets pledged*

At the end of each reporting period, the carrying amounts of assets pledged as collateral under repurchase agreements were as follows:

	30 June 2014	31 December 2013
Debt securities	125,846	27,011
Bills	32	38
Loans	733	600
	<hr/>	<hr/>
Total	<u>126,611</u>	<u>27,649</u>

The carrying value of financial assets sold under repurchase agreements by the Group as at 30 June 2014 was RMB123,922 million (31 December 2013: RMB26,787 million) as set out in Note 34 Financial Assets Sold Under Repurchase Agreements. Repurchase agreements are primarily due within 12 months from the effective dates of these agreements.

In addition, debt securities classified as available-for-sale and deposits with banks and other financial institutions pledged in accordance with regulatory requirements or as collateral of derivative transactions by the Group as at 30 June 2014 amounted to RMB5,060 million in total (31 December 2013: RMB5,637 million).

*Collateral accepted*

The Group received debt securities, bills, loans and other assets as collateral in connection with the purchase of assets under resale agreements as set out in Note 22 Financial Assets Held under Resale Agreements. Certain of these collaterals can be resold or re-pledged. The Group has accepted collateral that can be resold or re-pledged with a carrying amount of RMB8,175 million as at 30 June 2014 (31 December 2013: RMB1,744 million). The Group has not resold or re-pledged any collateral accepted as at 30 June 2014 (as at 31 December 2013: None).

**Redemption commitment for government bonds**

The Group is entrusted by the MOF to underwrite certain treasury bonds. The investors of treasury bonds have a right to redeem the bonds at par at any time prior to maturity and the Group is committed to honor such redemption requests. The redemption price is calculated as the par value of the treasury bond plus unpaid interest in accordance with the terms of the related early redemption arrangement.

As at 30 June 2014, the nominal value of treasury bonds the Group was obligated to redeem prior to maturity was RMB39,598 million (31 December 2013: RMB37,913 million). The original maturities of these bonds vary from 1 to 5 years. Management of the Group expects the amount of redemption before the maturity dates of these bonds will not be material.

The MOF will not provide funding for the early redemption of these bonds on a back-to-back basis, but will settle the principal and interest upon maturity.

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**48 TRANSFERRED FINANCIAL ASSETS**

The Group enters into transactions in the normal course of business by which it transfers recognized financial assets to third parties or to structured entities. In some cases 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 recognize the transferred assets.

**Securitization transactions**

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.

The Group may retain interests in the form of subordinated tranches which may give rise to the Group's continuing involvement in the transferred assets. Those financial assets are recognized on the condensed consolidated interim statement of financial position to the extent of the Group's continuing involvement. The extent of the Group's continuing involvement is the extent to which the Group is exposed to changes in the value of the transferred assets.

As at 30 June 2014, loans with an original carrying amount of RMB2,122 million (31 December 2013: None) have been securitized by the Group under arrangements in which the Group retains a continuing involvement in such assets in the form of subordinated tranches. As at 30 June 2014, the carrying amount of assets that the Group continues to recognize was RMB107 million (31 December 2013: None) and the assets were classified as loans and advances to customers. Arising from this continuing involvement, the Group has recognized continuing involvement assets and continuing involvement liabilities of RMB107 million, respectively.

**49 FINANCIAL RISK MANAGEMENT**

**Overview**

The Group's primary risk management objective is to maintain risk within acceptable parameters to meet the requirements of regulators, depositors and other stakeholders, as well as to maximize return for investors within an acceptable level of risk.

The Group has designed risk management policies, which address, among other things, the establishment of risk limits and controls to identify, analyze, monitor and report risks. Relevant and timely information used to conduct these risk management activities is provided through information systems maintained by the Group and intended to address the Group's information needs in this area. The Group regularly reviews its risk management policies and systems to address changes in markets, products and emerging best practices.

The most significant types of risk to which the Group is exposed are credit risk, market risk and liquidity risk. Market risk includes foreign exchange rate risk, interest rate risk and other price risk.

**Risk management framework**

The Board of Directors is responsible for establishing the overall risk appetite of the Group and reviewing and approving its risk management objectives and strategies.

Within this framework, the Group's senior management has overall responsibility for managing all aspects of risk, including implementing risk management strategies, initiatives and credit policies and approving internal rules, measures and procedures related to risk management. The Risk Management Department of the Group implements procedures for managing the significant risks to which the Group is exposed.

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#### 49 FINANCIAL RISK MANAGEMENT (Continued)

##### 49.1 Credit risk

###### Credit risk management

Credit risk represents the potential loss that may arise from a customer or counterparty's failure to meet its obligation when due. Credit risk can also arise from operational failures that result in an unauthorized or inappropriate advance, commitment or investment. The Group's major credit risks arise from loans and receivables, treasury operations and off-balance sheet related credit risk exposures.

The Group performs standardized credit management procedures, including credit due diligence and proposal submission, credit underwriting review, loan disbursement, post-lending monitoring and non-performing loans management. The Group enhances its credit risk management by strictly complying with its credit management procedures; strengthening customer investigation, credit rating, lending approval and post-lending monitoring measures; enhancing risk mitigation effect of loans through collateral; accelerating disposal process of non-performing loans and continuously upgrading the credit management system.

Apart from the credit risk exposures on credit-related assets, the credit risk arising from treasury business is managed by selecting counterparties with acceptable credit quality, balancing credit risk and return, referencing to both internal and external credit rating information where available, applying appropriate limits subject to different level of management authority, and by reviewing and adjusting credit limit through system. In addition, the Group also provides loan commitments and financial guarantee services to customers which may require the Group to make payments on behalf of customers upon their failure to perform under the terms of the related contract. Risks arising from loan commitments and financial guarantees are similar to those associated with loans and advances. These transactions are, therefore, subject to the same risk management policies and procedures.

###### Impairment assessment

###### Key factors related to the Group's impairment assessment

In accordance with the "Guideline for Loan Credit Risk Classification" issued by the CBRC, the Group has established a loan credit risk classification system and performs credit risk management based on loan classification in one of five categories. The Group classifies loans into the following five categories: normal, special-mention, substandard, doubtful and loss. Loans classified as substandard, doubtful and loss are regarded as non-performing loans. The primary factors considered in loan impairment assessment include probability of loan repayment and recoverability of principal and interest, which reflect borrowers' repayment ability, repayment record and intention, projected profitability, guarantees or collateral and legal responsibility of repayment. The allowance for impairment losses is assessed collectively or individually, as appropriate.



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#### 49 FINANCIAL RISK MANAGEMENT (Continued)

##### 49.1 Credit risk (Continued)

###### Impairment assessment (Continued)

The five categories of loan classification into which the Group classifies its loans and advances to customers are set out below:

Normal	Borrowers can honor the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.
Special-mention	Borrowers are able to service their loans currently, although repayment may be adversely affected by specific factors.
Substandard	Borrowers' ability to service their loans is in question and they cannot rely entirely on normal operating revenues to repay principal and interest. Losses may ensue even when collateral or guarantees are invoked.
Doubtful	Borrowers cannot repay principal and interest in full and significant losses will need to be recognized even when collateral or guarantees are invoked.
Loss	Only a small portion or none of the principal and interest can be recovered after taking all possible measures and exhausting all legal remedies.

With respect to investments in debt securities other than held for trading or designated at fair value through profit or loss, the Group assesses for indicators of impairment at the end of each reporting period based on objective evidence and performs impairment assessment individually or collectively, as appropriate. For impaired available-for-sale investments, the amount of the impairment allowance is equal to the existing unrealized loss, which is recorded as a charge in the condensed consolidated interim income statement.

###### Maximum exposure to credit risk before taking into account any collateral held or other credit enhancements

The maximum exposure to credit risk represents the credit risk exposure to the Group at the end of each reporting period, without taking into account any collateral held or other credit enhancements. The exposure to credit risk at the end of each reporting period primarily arises from credit and treasury operations; as well as off-balance sheet items such as loan commitments, credit card commitments, bank acceptances, guarantee and letters of guarantee and letters of credit, as credit risks arising from these items are similar to those associated with loans and receivables.

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**49 FINANCIAL RISK MANAGEMENT (Continued)**

**49.1 Credit risk (Continued)**

**Maximum exposure to credit risk before taking into account any collateral held or other credit enhancements (Continued)**

A summary of the maximum exposure to credit risk is as follows:

	30 June 2014	31 December 2013
Balances with central banks	2,757,924	2,504,043
Deposits with banks and other financial institutions	523,899	397,678
Placements with and loans to banks and other financial institutions	547,064	308,655
Financial assets held for trading	59,487	53,814
Financial assets designated at fair value through profit or loss	291,266	267,997
Derivative financial assets	6,592	8,186
Financial assets held under resale agreements	750,986	737,052
Loans and advances to customers	7,503,254	6,902,522
Available-for-sale financial assets	823,311	778,944
Held-to-maturity investments	1,636,625	1,523,815
Debt instruments classified as receivables	596,824	592,090
Other financial assets	134,533	103,024
	<u>15,631,765</u>	<u>14,177,820</u>
Subtotal		
Credit commitments	<u>1,675,009</u>	<u>1,481,945</u>
Total	<u>17,306,774</u>	<u>15,659,765</u>

The Group has implemented specific policies and credit enhancement practices to mitigate credit risk exposure to an acceptable level. The most typical practice is obtaining guarantee deposits, collateral and guarantees. The amount and type of acceptable collateral are determined by credit risk evaluations of borrowers. The Group implements guidelines on the acceptability of specific classes of collateral and evaluation parameters.

The main types of collateral obtained are as follows:

- Mortgage loans to retail customers are generally collateralized by mortgages over residential properties;
- Other personal lending and corporate loans and advances are primarily collateralized by charges over land and properties or other assets of the borrowers; and
- Financial assets held under resale agreements transactions are primarily collateralized by debts securities, bills and loans.

The Group monitors the market value of collateral periodically and requests for additional collateral in accordance with the underlying agreement when necessary.

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49 FINANCIAL RISK MANAGEMENT (Continued)

49.1 Credit risk (Continued)

Loans and advances to customers

The following tables set out the concentration of risk for loans and advances to customers by geographical area and industry.

- (1) The composition of loans and advances to customers by geographical area is analyzed as follows:

	30 June 2014		31 December 2013	
	Amount	% of total	Amount	% of total
Corporate loans and advances				
Head Office	135,213	2.4	115,027	2.2
Yangtze River Delta	1,297,693	23.5	1,225,018	23.9
Pearl River Delta	658,305	11.9	622,736	12.1
Bohai Rim	1,005,619	18.2	958,418	18.7
Central China	642,893	11.6	605,634	11.8
Western China	1,170,142	21.1	1,101,790	21.5
Northeastern China	203,958	3.7	193,057	3.8
Overseas and Others	419,574	7.6	307,401	6.0
Subtotal	5,533,397	100.0	5,129,081	100.0
Personal loans and advances				
Head Office	105	-	110	-
Yangtze River Delta	589,694	25.6	555,257	26.5
Pearl River Delta	417,771	18.1	390,258	18.6
Bohai Rim	332,569	14.4	292,778	14.0
Central China	323,482	14.0	288,221	13.8
Western China	544,358	23.6	482,475	23.0
Northeastern China	96,388	4.2	84,206	4.0
Overseas and Others	3,143	0.1	2,327	0.1
Subtotal	2,307,510	100.0	2,095,632	100.0
Gross loans and advances to customers	7,840,907		7,224,713	

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49 FINANCIAL RISK MANAGEMENT (Continued)

49.1 Credit risk (Continued)

Loans and advances to customers (Continued)

(2) The composition of loans and advances to customers by industry is analyzed as follows:

	30 June 2014		31 December 2013	
	Amount	% of total	Amount	% of total
Corporate loans and advances				
Manufacturing	1,482,740	26.8	1,429,765	27.9
Transportation, logistics and postal services	693,450	12.5	618,900	12.1
Retail and wholesale	622,872	11.3	593,434	11.6
Real estate	605,745	10.9	549,592	10.7
Production and supply of power, heat, gas and water	516,579	9.3	492,082	9.6
Leasing and commercial services	357,616	6.5	330,123	6.4
Mining	233,294	4.2	223,518	4.4
Water, environment and public utilities management	202,341	3.7	205,931	4.0
Construction	222,666	4.0	204,281	4.0
Telecommunications, IT services and software	22,226	0.4	28,156	0.5
Others	573,868	10.4	453,299	8.8
Subtotal	5,533,397	100.0	5,129,081	100.0
Personal loans and advances				
Residential mortgage	1,449,913	62.9	1,292,038	61.6
Personal business	277,563	12.0	256,245	12.2
Personal consumer	205,879	8.9	204,448	9.8
Credit cards	210,446	9.1	194,330	9.3
Others	163,709	7.1	148,571	7.1
Subtotal	2,307,510	100.0	2,095,632	100.0
Gross loans and advances to customers	7,840,907		7,224,713	

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49 FINANCIAL RISK MANAGEMENT (Continued)

49.1 Credit risk (Continued)

Loans and advances to customers (Continued)

- (3) The composition of loans and advances to customers by contractual maturity and security type is analyzed as follows:

	30 June 2014			Total
	Less than 1 year	1 to 5 years	Over 5 years	
Unsecured loans	802,252	305,363	602,855	1,710,470
Guaranteed loans	807,665	287,136	307,192	1,401,993
Loans secured by collateral	1,162,154	690,328	1,936,716	3,789,198
Pledged loans	471,214	55,104	412,928	939,246
<b>Total</b>	<b>3,243,285</b>	<b>1,337,931</b>	<b>3,259,691</b>	<b>7,840,907</b>

	31 December 2013			Total
	Less than 1 year	1 to 5 years	Over 5 years	
Unsecured loans	763,479	301,703	556,910	1,622,092
Guaranteed loans	769,611	231,430	295,572	1,296,613
Loans secured by collateral	1,131,696	661,376	1,719,816	3,512,888
Pledged loans	366,943	41,668	384,509	793,120
<b>Total</b>	<b>3,031,729</b>	<b>1,236,177</b>	<b>2,956,807</b>	<b>7,224,713</b>

- (4) Past due loans

	30 June 2014				Total
	Up to 90 days	91-360 days	361 days to 3 years	Over 3 years	
Unsecured loans	6,516	3,386	1,365	381	11,648
Guaranteed loans	10,058	11,624	6,331	5,271	33,284
Loans secured by collateral	31,105	18,487	13,165	8,451	71,208
Pledged loans	2,097	2,482	943	1,659	7,181
<b>Total</b>	<b>49,776</b>	<b>35,979</b>	<b>21,804</b>	<b>15,762</b>	<b>123,321</b>

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49 FINANCIAL RISK MANAGEMENT (Continued)

49.1 Credit risk (Continued)

Loans and advances to customers (Continued)

(4) Past due loans (Continued)

	31 December 2013				Total
	Up to 90 days	91-360 days	361 days to 3 years	Over 3 years	
Unsecured loans	5,211	4,379	1,282	442	11,314
Guaranteed loans	8,075	6,078	7,005	6,913	28,071
Loans secured by collateral	20,067	10,324	14,201	10,174	54,766
Pledged loans	1,540	1,129	1,326	2,278	6,273
<b>Total</b>	<b>34,893</b>	<b>21,910</b>	<b>23,814</b>	<b>19,807</b>	<b>100,424</b>

When either loan principal or interest is past due by one day in any period, the whole loan is classified as past due loan.

(5) Credit quality of loans and advances to customers

		30 June 2014	31 December 2013
Neither past due nor impaired	(i)	7,708,884	7,112,117
Past due but not impaired	(ii)	34,550	24,815
Impaired	(iii)	97,473	87,781
<b>Subtotal</b>		<b>7,840,907</b>	<b>7,224,713</b>
Allowance for impairment losses of loans and advances to customers		(337,653)	(322,191)
<b>Loans and advances to customers</b>		<b>7,503,254</b>	<b>6,902,522</b>

(i) Loans and advances neither past due nor impaired

	30 June 2014		
	Normal	Special- mention	Total
Corporate loans and advances	5,188,333	253,820	5,442,153
Personal loans and advances	2,264,526	2,205	2,266,731
<b>Total</b>	<b>7,452,859</b>	<b>256,025</b>	<b>7,708,884</b>

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49 FINANCIAL RISK MANAGEMENT (Continued)

49.1 Credit risk (Continued)

Loans and advances to customers (Continued)

(5) Credit quality of loans and advances to customers (Continued)

(i) Loans and advances neither past due nor impaired (Continued)

	31 December 2013		
	Normal	Special- mention	Total
Corporate loans and advances	4,800,374	252,101	5,052,475
Personal loans and advances	2,057,357	2,285	2,059,642
<b>Total</b>	<b>6,857,731</b>	<b>254,386</b>	<b>7,112,117</b>

(ii) Loans and advances past due but not impaired

	30 June 2014				Fair value of collateral
	Up to 30 days	31-60 days	61-90 days	Total	
Corporate loans and advances	9,129	859	861	10,849	12,966
Personal loans and advances	16,187	4,575	2,939	23,701	24,186
<b>Total</b>	<b>25,316</b>	<b>5,434</b>	<b>3,800</b>	<b>34,550</b>	<b>37,152</b>

	31 December 2013				Fair value of collateral
	Up to 30 days	31-60 days	61-90 days	Total	
Corporate loans and advances	4,017	187	30	4,234	4,303
Personal loans and advances	14,070	4,033	2,478	20,581	24,986
<b>Total</b>	<b>18,087</b>	<b>4,220</b>	<b>2,508</b>	<b>24,815</b>	<b>29,289</b>

(iii) Impaired loans and advances

	30 June 2014		
	Book value	Allowance for impairment losses	Net book value
Individually assessed	80,391	(52,288)	28,103
Collectively assessed	17,082	(12,521)	4,561
<b>Total</b>	<b>97,473</b>	<b>(64,809)</b>	<b>32,664</b>

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49 FINANCIAL RISK MANAGEMENT (Continued)

49.1 Credit risk (Continued)

Loans and advances to customers (Continued)

(5) Credit quality of loans and advances to customers (Continued)

(iii) Impaired loans and advances (Continued)

	31 December 2013		
	Book value	Allowance for impairment losses	Net book value
Individually assessed	72,355	(50,127)	22,228
Collectively assessed	15,426	(10,440)	4,986
<b>Total</b>	<b>87,781</b>	<b>(60,567)</b>	<b>27,214</b>

Including:

	30 June 2014	31 December 2013
Individually assessed and impaired	80,391	72,355
Individually assessed and impaired as a percentage of gross loans and advances of the Group	1.03%	1.00%
Fair value of collateral	16,727	9,237

The composition of impaired loans and advances to customers by geographical area is analyzed as follows:

	30 June 2014		31 December 2013	
	Amount	% of total	Amount	% of total
Head Office	3	-	3	-
Yangtze River Delta	23,904	24.5	19,373	22.1
Pearl River Delta	15,808	16.2	12,407	14.1
Bohai Rim	16,254	16.7	16,603	19.0
Central China	15,358	15.8	14,075	16.0
Western China	20,794	21.3	19,523	22.2
Northeastern China	4,482	4.6	4,927	5.6
Overseas and Others	870	0.9	870	1.0
<b>Total</b>	<b>97,473</b>	<b>100.0</b>	<b>87,781</b>	<b>100.0</b>



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49 FINANCIAL RISK MANAGEMENT (Continued)

49.1 Credit risk (Continued)

Loans and advances to customers (Continued)

(6) Rescheduled loans and advances

Rescheduled loans and advances arise from renegotiating terms of contract, and such loans and advances require continuous monitoring. Rescheduled loans and advances as at 30 June 2014 amounted to RMB11,140 million (31 December 2013: RMB10,376 million).

(7) Assets foreclosed under credit enhancement arrangement

Such assets are disclosed as foreclosed assets in Note 29 Other Assets.

Debt instruments

Credit quality of debt instruments

The table below represents the carrying value and accumulated impairment charges of held-to-maturity investments and debt instruments classified as receivables:

	30 June 2014	31 December 2013
Neither past due nor impaired	2,234,887	2,116,801
Impaired	46	45
Subtotal	<u>2,234,933</u>	<u>2,116,846</u>
Individually assessed	(45)	(44)
Collectively assessed	<u>(1,439)</u>	<u>(897)</u>
Allowance for impairment losses	<u>(1,484)</u>	<u>(941)</u>
Total held-to-maturity investments and debt instruments classified as receivables, net	<u><u>2,233,449</u></u>	<u><u>2,115,905</u></u>

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49 FINANCIAL RISK MANAGEMENT (Continued)

49.1 Credit risk (Continued)

Debt instruments (Continued)

Credit quality of debt instruments (Continued)

(1) Debt instruments neither past due nor impaired

	30 June 2014				
	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity investments	Debt instruments classified as receivables	Total
Government bonds	7,174	144,198	533,701	-	685,073
Public sector and quasi-government bonds	49,534	431,995	899,364	66,102	1,446,995
Financial institution bonds	4,246	69,289	48,507	31,213	153,255
Corporate bonds	18,569	174,661	155,824	31,712	380,766
Special government bond	-	-	-	93,300	93,300
Receivable from the MOF	-	-	-	362,054	362,054
Certificate treasury bonds and savings treasury bonds	-	-	-	4,345	4,345
Interests in trust products	187,209	-	-	-	187,209
Other debt instruments	65,190	-	-	8,765	73,955
<b>Total</b>	<b>331,922</b>	<b>820,143</b>	<b>1,637,396</b>	<b>597,491</b>	<b>3,386,952</b>

	31 December 2013				
	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity investments	Debt instruments classified as receivables	Total
Government bonds	13,700	149,808	519,265	-	682,773
Public sector and quasi-government bonds	50,056	409,322	808,838	66,485	1,334,701
Financial institution bonds	11,495	48,702	29,688	27,124	117,009
Corporate bonds	24,768	167,724	166,623	30,973	390,088
Special government bond	-	-	-	93,300	93,300
Receivable from the MOF	-	-	-	362,054	362,054
Certificate treasury bonds and savings treasury bonds	-	-	-	6,037	6,037
Interests in trust products	171,280	-	-	-	171,280
Other debt instruments	38,710	-	-	6,414	45,124
<b>Total</b>	<b>310,009</b>	<b>775,556</b>	<b>1,524,414</b>	<b>592,387</b>	<b>3,202,366</b>

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49 FINANCIAL RISK MANAGEMENT (Continued)

49.1 Credit risk (Continued)

Debt instruments (Continued)

Credit quality of debt instruments (Continued)

(2) Impaired debt instruments

	30 June 2014		
	Held-to-maturity investments	Debt instruments classified as receivables	Total
Corporate bonds	-	46	46
Allowance for impairment losses	-	(45)	(45)
Impaired held-to-maturity investments and debt instruments classified as receivables, net	-	1	1
	31 December 2013		
	Held-to-maturity investments	Debt instruments classified as receivables	Total
Corporate bonds	-	45	45
Allowance for impairment losses	-	(44)	(44)
Impaired held-to-maturity investments and debt instruments classified as receivables, net	-	1	1

The Group's available-for-sale debt instruments were individually assessed for impairment. As at 30 June 2014, the carrying amount of the impaired available-for-sale debt instruments of the Group was RMB3,168 million (31 December 2013: RMB3,388 million), among which the total impairment losses recognized for these impaired available-for-sale debt instruments as at 30 June 2014 was RMB300 million (31 December 2013: RMB331 million).

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**49 FINANCIAL RISK MANAGEMENT (Continued)**

**49.1 Credit risk (Continued)**

**Debt instruments (Continued)**

Credit quality of debt instruments (Continued)

**(3) Debt instruments analyzed by credit rating**

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

	30 June 2014					Total
	Unrated(i)	AAA	AA	A	Below A	
Government bonds	677,241	5,613	992	1,227	-	685,073
Public sector and quasi-government bonds	1,334,845	96,657	10,898	4,486	-	1,446,886
Financial institution bonds	75,948	47,457	11,700	14,652	5,970	155,727
Corporate bonds(ii)	49,881	269,724	13,054	42,196	5,278	380,133
Special government bond	93,300	-	-	-	-	93,300
Receivable from the MOF	362,054	-	-	-	-	362,054
Certificate treasury bonds and savings treasury bonds	4,345	-	-	-	-	4,345
Interests in trust products(iii)	187,209	-	-	-	-	187,209
Other debt instruments(iii)	73,955	-	-	-	-	73,955
<b>Total</b>	<b>2,858,778</b>	<b>419,451</b>	<b>36,644</b>	<b>62,561</b>	<b>11,248</b>	<b>3,388,682</b>

	31 December 2013					Total
	Unrated(i)	AAA	AA	A	Below A	
Government bonds	680,349	637	1,707	80	-	682,773
Public sector and quasi-government bonds	1,251,211	79,857	3,057	443	-	1,334,568
Financial institution bonds	24,284	49,902	31,531	9,340	5,074	120,131
Corporate bonds(ii)	23,452	230,604	118,313	11,935	5,287	389,591
Special government bond	93,300	-	-	-	-	93,300
Receivable from the MOF	362,054	-	-	-	-	362,054
Certificate treasury bonds and savings treasury bonds	6,037	-	-	-	-	6,037
Interests in trust products(iii)	171,280	-	-	-	-	171,280
Other debt instruments(iii)	45,124	-	-	-	-	45,124
<b>Total</b>	<b>2,657,091</b>	<b>361,000</b>	<b>154,608</b>	<b>21,798</b>	<b>10,361</b>	<b>3,204,858</b>

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**49 FINANCIAL RISK MANAGEMENT (Continued)**

**49.1 Credit risk (Continued)**

**Debt instruments (Continued)**

Credit quality of debt instruments (Continued)

**(3) Debt instruments analyzed by credit rating (Continued)**

- (i) Unrated debt investments held by the Group are bonds issued primarily by policy banks and the Chinese government.
- (ii) The ratings of super short-term commercial papers amounted to RMB38,404 million (31 December 2013: RMB66,938 million), as included in corporate bonds above are based on issuer rating for this credit risk analysis.
- (iii) The trust products and other debt instruments are classified within Level 3 and the related credit risk is described in Note 51 Fair Value of Financial Instruments.

**49.2 Liquidity risk**

Liquidity risk is the risk that funds will not be available to meet liabilities as they fall due. This may arise from cash flows or maturity mismatches of assets and liabilities.

The Group's Assets and Liabilities Management Department manages its liquidity risk through:

- Optimizing asset and liability structure;
- Maintaining stability of deposit base;
- Making projections of future cash flows, and evaluating the appropriate current asset position;
- Maintaining an efficient internal funds transfer mechanism within the Group; and
- Performing stress testing on a regular basis.

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49 FINANCIAL RISK MANAGEMENT (Continued)

49.2 Liquidity risk (Continued)

Analysis of the remaining contractual maturity of financial assets and financial liabilities

The tables below summarize the maturity analysis of financial assets and financial liabilities by remaining contractual maturities at the end of each reporting period.

	30 June 2014							Total
	Past due	On demand	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	
Cash and balances with central banks	-	274,970	10,887	-	-	-	-	2,851,344
Deposits with banks and other financial institutions	-	82,844	39,980	42,039	259,664	99,372	-	523,899
Placements with and loans to banks and other financial institutions	-	-	350,297	95,752	103,066	57,949	-	547,064
Financial assets held for trading	-	21	7,287	7,585	23,452	17,023	4,140	59,508
Financial assets designated at fair value through profit or loss	-	-	66,170	44,251	109,247	69,020	2,578	291,865
Derivative financial assets	-	-	1,119	1,137	2,843	1,248	245	6,592
Financial assets held under resale agreements	-	-	494,562	167,558	88,366	500	-	750,986
Loans and advances to customers	21,527	-	442,524	744,676	2,344,539	1,595,345	2,354,643	7,503,254
Available-for-sale financial assets	-	-	16,109	48,724	105,461	467,581	185,436	826,749
Held-to-maturity investments	-	-	19,061	55,386	192,563	795,489	574,126	1,636,625
Debt instruments classified as receivables	1	61	1,208	1,051	26,967	76,884	490,652	596,824
Other financial assets	1,297	23,406	30,105	41,074	38,372	256	23	134,533
<b>Total financial assets</b>	<b>22,825</b>	<b>381,302</b>	<b>1,479,309</b>	<b>1,189,233</b>	<b>3,294,540</b>	<b>3,180,667</b>	<b>3,611,843</b>	<b>15,729,243</b>
Borrowings from central bank	-	(30)	(30)	-	(81)	-	-	(141)
Deposits from banks and other financial institutions	-	(324,349)	(38,357)	(84,162)	(72,202)	(393,242)	(400)	(912,712)
Placements from banks and other financial institutions	-	-	(78,388)	(82,550)	(68,062)	(1,197)	(931)	(231,128)
Financial liabilities held for trading	-	(10,643)	(5,652)	(7,624)	(4,233)	-	-	(28,152)
Financial liabilities designated at fair value through profit or loss	-	-	(80,704)	(72,549)	(114,027)	(12,295)	(35)	(279,610)
Derivative financial liabilities	-	-	(671)	(988)	(2,439)	(1,125)	(380)	(5,603)
Financial assets sold under repurchase agreements	-	-	(22,298)	(95,106)	(5,920)	(598)	-	(123,922)
Due to customers	-	(7,247,652)	(660,013)	(954,039)	(2,749,297)	(1,198,323)	(180)	(12,809,504)
Debt securities issued	-	-	(13,541)	(28,881)	(94,503)	(38,701)	(99,932)	(275,358)
Other financial liabilities	-	(83,046)	(14,788)	(89,841)	(73,088)	(59,149)	(23,192)	(343,104)
<b>Total financial liabilities</b>	<b>-</b>	<b>(7,665,720)</b>	<b>(914,442)</b>	<b>(1,415,540)</b>	<b>(3,183,852)</b>	<b>(1,704,630)</b>	<b>(125,050)</b>	<b>(15,009,234)</b>
<b>Net position</b>	<b>22,825</b>	<b>(7,284,418)</b>	<b>564,867</b>	<b>(226,307)</b>	<b>110,688</b>	<b>1,476,037</b>	<b>3,486,793</b>	<b>2,569,524</b>

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49 FINANCIAL RISK MANAGEMENT (Continued)

49.2 Liquidity risk (Continued)

Analysis of the remaining contractual maturity of financial assets and financial liabilities (Continued)

	31 December 2013							Total
	Past due	On demand	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	
Cash and balances with central banks	-	200,278	1,178	-	-	-	-	2,603,802
Deposits with banks and other financial institutions	-	48,464	49,142	55,092	145,639	99,341	-	397,678
Placements with and loans to banks and other financial institutions	-	-	162,547	19,083	87,668	39,357	-	308,655
Financial assets held for trading	-	2	4,554	3,805	24,003	17,702	3,750	53,864
Financial assets designated at fair value through profit or loss	-	-	56,835	61,947	93,573	55,611	31	269,018
Derivative financial assets	-	-	780	949	2,105	3,897	455	8,186
Financial assets held under resale agreements	-	-	439,889	119,212	177,951	-	-	737,052
Loans and advances to customers	17,843	-	408,485	710,351	2,165,795	1,474,567	2,124,981	6,902,522
Available-for-sale financial assets	-	-	16,579	29,761	114,846	437,173	180,585	781,311
Held-to-maturity investments	-	-	6,179	31,417	203,297	719,537	563,385	1,523,815
Debt instruments classified as receivables	1	113	10,635	1,775	44,367	55,104	480,095	592,090
Other financial assets	785	15,666	22,433	30,725	33,155	203	57	103,024
Total financial assets	18,629	264,523	1,179,236	1,064,617	3,092,399	2,902,492	3,353,339	14,281,017
Borrowings from central bank	-	(30)	-	-	(74)	-	-	(104)
Deposits from banks and other financial institutions	-	(252,802)	(32,408)	(13,820)	(43,910)	(386,414)	-	(729,354)
Placements from banks and other financial institutions	-	-	(69,464)	(65,740)	(37,427)	(1,732)	-	(174,363)
Financial liabilities held for trading	-	(9,598)	(4,209)	(2,525)	(4,473)	-	-	(20,805)
Financial liabilities designated at fair value through profit or loss	-	-	(110,696)	(94,884)	(58,302)	(21,538)	(34)	(285,454)
Derivative financial liabilities	-	-	(912)	(1,713)	(2,291)	(2,064)	(655)	(7,635)
Financial assets sold under repurchase agreements	-	-	(22,225)	(1,714)	(2,489)	(359)	-	(26,787)
Due to customers	-	(6,993,059)	(566,840)	(1,009,991)	(2,159,729)	(1,081,790)	(2)	(11,811,411)
Debt securities issued	-	-	(3,261)	(26,195)	(94,704)	(16,961)	(125,140)	(266,261)
Other financial liabilities	-	(98,269)	(14,171)	(42,008)	(57,676)	(58,631)	(16,894)	(287,649)
Total financial liabilities	-	(7,353,758)	(824,186)	(1,258,590)	(2,461,075)	(1,569,489)	(142,725)	(13,609,823)
Net position	18,629	(7,089,235)	355,050	(193,973)	631,324	1,333,003	3,210,614	2,405,782
								671,194

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**49 FINANCIAL RISK MANAGEMENT (Continued)**

**49.2 Liquidity risk (Continued)**

**Analysis of the undiscounted contractual cash flows**

Assets available to meet obligations related to the Group's liabilities and outstanding credit commitments primarily include Cash and Balances with Central Banks, Deposits with Banks and Other Financial Institutions, Placements with and Loans to Banks and Other Financial Institutions, Financial Assets at Fair Value through Profit or Loss, and Financial Assets Held under Resale Agreements. In the normal course of business, the majority of customer deposits repayable on demand or on maturity are expected to be retained. In addition, the Group is able to sell the Available-for-Sale Financial Assets to repay matured liabilities, if necessary.



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49 FINANCIAL RISK MANAGEMENT (Continued)

49.2 Liquidity risk (Continued)

Analysis of the undiscounted contractual cash flows (Continued)

The tables below present the cash flows of non-derivative financial assets and financial liabilities by remaining contractual maturities at the end of each reporting period:

	30 June 2014							Total
	Past due	On demand	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	
<b>Non-derivative financial assets</b>								
Cash and balances with central banks	-	274,970	10,887	1,105	-	-	-	2,852,449
Deposits with banks and other financial institutions	-	82,844	41,250	43,881	276,300	103,296	-	547,571
Placements with and loans to banks and other financial institutions	-	-	350,561	38,543	108,658	60,242	-	558,004
Financial assets held for trading	-	21	7,375	7,923	24,741	19,441	-	64,263
Financial assets designated at fair value through profit or loss	-	-	68,082	51,675	111,227	76,392	599	311,204
Financial assets held under resale agreements	-	-	498,208	171,420	90,602	568	-	760,798
Loans and advances to customers	71,070	-	506,283	846,184	2,702,720	2,451,691	3,593,475	10,171,423
Available-for-sale financial assets	-	-	18,719	55,890	127,230	541,740	217,083	964,100
Held-to-maturity investments	-	-	24,918	67,227	239,892	976,876	704,409	2,013,322
Debt instruments classified as receivables	46	61	1,626	6,929	31,799	90,596	525,923	656,980
Other financial assets	-	23,406	3,548	10,729	1,627	-	8	39,318
<b>Total non-derivative financial assets</b>	<b>71,116</b>	<b>381,302</b>	<b>1,531,457</b>	<b>1,301,506</b>	<b>3,714,796</b>	<b>4,320,842</b>	<b>5,048,889</b>	<b>18,939,432</b>
<b>Non-derivative financial liabilities</b>								
Borrowings from central bank	-	(30)	(30)	-	(81)	-	-	(141)
Deposits from banks and other financial institutions	-	(324,349)	(38,686)	(86,129)	(79,174)	(415,553)	(400)	(944,291)
Placements from banks and other financial institutions	-	-	(78,701)	(83,405)	(69,443)	(1,370)	(1,048)	(233,967)
Financial liabilities held for trading	-	(10,643)	(5,897)	(7,763)	(4,571)	-	-	(28,874)
Financial liabilities designated at fair value through profit or loss	-	-	(81,578)	(73,984)	(118,703)	(13,231)	(44)	(287,540)
Financial assets sold under repurchase agreements	-	-	(22,499)	(96,227)	(5,949)	(814)	-	(125,489)
Due to customers	-	(7,252,383)	(673,343)	(978,287)	(2,870,751)	(1,377,019)	(180)	(13,151,963)
Debt securities issued	-	-	(13,606)	(28,886)	(101,435)	(64,035)	(112,794)	(320,756)
Other financial liabilities	-	(79,304)	(814)	(68,355)	(1,282)	(547)	(21,579)	(171,881)
<b>Total non-derivative financial liabilities</b>	<b>-</b>	<b>(7,666,709)</b>	<b>(915,154)</b>	<b>(1,423,036)</b>	<b>(3,251,389)</b>	<b>(1,872,569)</b>	<b>(136,045)</b>	<b>(15,264,902)</b>
<b>Net position</b>	<b>71,116</b>	<b>(7,285,407)</b>	<b>616,303</b>	<b>(121,530)</b>	<b>463,407</b>	<b>2,448,273</b>	<b>4,912,844</b>	<b>3,674,530</b>

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49 FINANCIAL RISK MANAGEMENT (Continued)

49.2 Liquidity risk (Continued)

Analysis of the undiscounted contractual cash flows (Continued)

	Past due	On demand	31 December 2013						Total
			Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Undated	
<b>Non-derivative financial assets</b>									
Cash and balances with central banks	-	200,278	1,178	1,153	-	-	-	2,402,346	2,604,955
Deposits with banks and other financial institutions	-	48,496	50,276	56,664	155,291	102,998	-	-	413,725
Placements with and loans to banks and other financial institutions	-	-	164,128	20,528	91,973	41,194	-	-	317,823
Financial assets held for trading	-	2	4,730	3,927	25,471	19,989	4,208	48	58,375
Financial assets designated at fair value through profit or loss	-	-	57,269	63,174	97,889	59,294	53	1,021	278,700
Financial assets held under resale agreements	-	-	442,670	122,239	183,822	-	-	-	748,731
Loans and advances to customers	64,722	-	466,646	804,865	2,487,474	2,245,244	3,232,695	-	9,301,646
Available-for-sale financial assets	-	-	19,240	34,582	138,445	513,619	213,689	2,367	921,942
Held-to-maturity investments	-	-	8,564	42,404	248,001	878,663	685,041	-	1,862,673
Debt instruments classified as receivables	45	113	10,974	2,109	51,609	74,562	505,591	-	645,003
Other financial assets	-	15,331	1,944	9,371	1,348	-	8	-	28,002
<b>Total non-derivative financial assets</b>	<b>64,767</b>	<b>264,220</b>	<b>1,227,619</b>	<b>1,161,016</b>	<b>3,481,323</b>	<b>3,935,563</b>	<b>4,641,285</b>	<b>2,405,782</b>	<b>17,181,575</b>
<b>Non-derivative financial liabilities</b>									
Borrowings from central bank	-	(30)	-	-	(74)	-	-	-	(104)
Deposits from banks and other financial institutions	-	(252,893)	(33,610)	(20,668)	(50,639)	(433,243)	-	-	(791,053)
Placements from banks and other financial institutions	-	-	(69,890)	(66,373)	(38,244)	(1,770)	-	-	(176,277)
Financial liabilities held for trading	-	(9,598)	(4,226)	(2,540)	(4,503)	-	-	-	(20,867)
Financial liabilities designated at fair value through profit or loss	-	-	(111,814)	(96,388)	(60,587)	(22,723)	(45)	-	(291,557)
Financial assets sold under repurchase agreements	-	-	(22,237)	(1,736)	(2,498)	(439)	-	-	(26,910)
Due to customers	-	(6,996,955)	(578,178)	(1,040,462)	(2,256,545)	(1,246,341)	(2)	(12,118,483)	(20,118,483)
Debt securities issued	-	-	(3,304)	(26,700)	(102,947)	(42,022)	(144,077)	-	(319,050)
Other financial liabilities	-	(94,256)	(1,052)	(9,784)	(1,411)	(925)	(16,893)	-	(124,321)
<b>Total non-derivative financial liabilities</b>	<b>-</b>	<b>(7,353,732)</b>	<b>(824,311)</b>	<b>(1,264,651)</b>	<b>(2,517,448)</b>	<b>(1,747,463)</b>	<b>(161,017)</b>	<b>-</b>	<b>(13,868,622)</b>
<b>Net position</b>	<b>64,767</b>	<b>(7,089,512)</b>	<b>403,308</b>	<b>(103,635)</b>	<b>963,875</b>	<b>2,188,100</b>	<b>4,480,268</b>	<b>2,405,782</b>	<b>3,312,953</b>

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49 FINANCIAL RISK MANAGEMENT (Continued)

49.2 Liquidity risk (Continued)

Derivative cash flows

*Derivatives settled on a net basis*

The fair values of the Group's derivatives that will be settled on a net basis are primarily related to interest rate products. The tables below present the undiscounted contractual cash flows of the Group's net derivative positions based on their remaining contractual maturities:

	30 June 2014					Total
	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	
Interest rate derivatives	47	2	(10)	(171)	(14)	(146)

	31 December 2013					Total
	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	
Interest rate derivatives	1	(13)	(251)	(118)	66	(315)

*Derivatives settled on a gross basis*

The fair values of the Group's derivatives that will be settled on a gross basis are primarily related to foreign exchange rates and precious metal products. The tables below present the undiscounted contractual cash flows of the Group's gross derivative positions based on their remaining contractual maturities:

	30 June 2014					Total
	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	
Derivatives settled on a gross basis						
- Cash inflow	231,229	182,757	398,306	49,024	3,133	864,449
- Cash outflow	(229,843)	(182,489)	(398,350)	(48,786)	(3,184)	(862,652)
Total	1,386	268	(44)	238	(51)	1,797

	31 December 2013					Total
	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	
Derivatives settled on a gross basis						
- Cash inflow	194,523	138,784	262,107	55,253	1,998	652,665
- Cash outflow	(194,832)	(139,651)	(259,969)	(55,220)	(1,998)	(651,670)
Total	(309)	(867)	2,138	33	-	995

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**49 FINANCIAL RISK MANAGEMENT (Continued)**

**49.2 Liquidity risk (Continued)**

**Credit commitments**

The tables below summarize the amounts of credit commitments by remaining maturity.

	30 June 2014			Total
	Less than 1 year	1-5 years	Over 5 years	
Loan commitments	100,639	144,933	214,114	459,686
Bank acceptances	462,576	-	-	462,576
Credit card commitments	236,111	-	-	236,111
Guarantee and letters of guarantee	127,848	77,906	41,939	247,693
Letters of credit	266,739	2,204	-	268,943
<b>Total</b>	<b>1,193,913</b>	<b>225,043</b>	<b>256,053</b>	<b>1,675,009</b>

	31 December 2013			Total
	Less than 1 year	1-5 years	Over 5 years	
Loan commitments	65,822	143,778	260,669	470,269
Bank acceptances	404,852	-	-	404,852
Credit card commitments	219,682	-	-	219,682
Guarantee and letters of guarantee	77,638	72,772	40,663	191,073
Letters of credit	192,953	2,680	436	196,069
<b>Total</b>	<b>960,947</b>	<b>219,230</b>	<b>301,768</b>	<b>1,481,945</b>

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**49 FINANCIAL RISK MANAGEMENT (Continued)**

**49.3 Market risk**

Market risk represents the potential loss arising from changes in market rates of interest and foreign exchange, as well as commodity and equity prices. Market risk arises from both the Group's proprietary positions and customer driven transactions, in both cases related to on- and off-balance sheet activities.

The Group is primarily exposed to interest rate risk through its lending, fixed-income and funding activities. Interest rate risk is inherent in many of the Group's businesses and this situation is common among large banks. It fundamentally arises through mismatches between the maturity and repricing dates of interest-earning assets and interest-bearing liabilities. As discussed further below, interest rate risk is actively managed.

Foreign exchange rate risk is the potential loss related to changes in foreign exchange rates affecting the translation of foreign currency denominated monetary assets and liabilities. The risk of loss results from movements in foreign currency exchange rates.

The Group is also exposed to commodity risk, primarily related to gold and other precious metals. The risk of loss results from movements in commodity price. The Group manages the risk related to gold price together with foreign exchange rate risk.

The Group has determined that the levels of market risk related to changes in equity prices and commodity prices other than gold, with respect to the related exposures in its trading and investment portfolios, are immaterial.

**Segregation of Trading Book and Banking Book**

To enhance the effectiveness of market risk management, as well as the accuracy of determining the levels of regulatory capital required related to market risk, the Group segregates all financial instruments and commodities, both on- and off-balance sheet, into either the trading book or banking book. The trading book is comprised of financial instruments and commodity positions held for trading, including all derivatives instruments. Any other financial instruments are included in the banking book.

**Market Risk Management for Trading Book**

The Group manages market risk in the trading book through methodologies that include Value at Risk (VaR), monitoring and management of established limits, sensitivity analysis, duration analysis, exposure analysis and stress testing.

The Group has formulated policies, which are subject to review annually or as circumstances otherwise dictate, to manage market risk. Further, in this regard, the Group's market risk management is focused on movements in domestic and global financial markets, as well as the composition of the trading book and management's trading strategies, within approved limits. Moreover, the Group has implemented more specific policies for financial instruments, closely monitoring the exposure to specific issuers and counterparties, as well as the tenor of individual positions and trading strategies. The foundation of the Group's limit and risk monitoring system is based on VaR, which is used consistently to monitor all classes of financial instruments in the trading book.

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49 FINANCIAL RISK MANAGEMENT (Continued)

49.3 Market risk (Continued)

Market Risk Management for Trading Book (Continued)

The Group has adopted an historical simulation method, with a confidence level of 99% based on holding period of 1 day and historical data for 250 days to calculate the VaR of the trading books, which includes the Head Office, domestic branches and overseas branches. Based on the differences between domestic and overseas markets, the Group selected applicable parameters for model and risk factors in order to reflect the actual market risk levels. The Group verified the accuracy and reliability of market risk measurements through data analysis, parallel modeling and back-testing of the market risk measurements.

VaR Analysis for the Trading Book

	The Bank			
	Six months ended 30 June 2014			
	At the end of the period	Average	Maximum	Minimum
Interest rate risk	56	75	87	55
Exchange rate risk (1)	58	125	247	54
Commodity risk	8	17	34	2
Overall VaR	90	178	289	86

	The Bank			
	Six months ended 30 June 2013			
	At the end of the period	Average	Maximum	Minimum
Interest rate risk	43	29	43	17
Exchange rate risk (1)	14	59	122	8
Commodity risk	3	20	54	2
Overall VaR	55	81	151	36

The Group calculates VaR for the Bank's trading book (excluding RMB foreign currency settlement contracts with customers under relevant regulations).

The Bank conducts stress testing for its trading book quarterly. The specific areas subject to this testing include the major areas of exposure, such as bonds, interest rate derivatives, foreign exchange derivatives and gold. The stress testing uses a range of scenarios, to assess the potential impact on profit and loss.

- (1) VaR related to gold is recognized as a component of foreign exchange rate risk.

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49 FINANCIAL RISK MANAGEMENT (Continued)

49.3 Market risk (Continued)

**Market Risk Management for Banking Book**

The Group manages market risk related to the banking book by consistently applying techniques across the Group that include exposure limit management, stress testing, scenario analysis and gap analysis.

*Interest Rate Risk Management*

The interest rate risk existing in the banking book broadly relates to the mismatch of the maturity or re-pricing dates of interest rate-sensitive financial assets and financial liabilities, as well as inconsistencies in the change of the benchmark interest rates on which most domestic interest rate-sensitive financial assets and financial liabilities are based.

The Group closely monitors changes in the macro-economic environment and the monetary policies of the PBOC, enabling it to timely and flexibly adjust its pricing strategy. The Group establishes comprehensive interest rate risk management policies and protocols and has improved the consistency of interest rate risk measurement, monitoring, analysis and management of interest rate risk across the Group.

The Group regularly measures and analyzes the Group's interest rate risk by conducting gap analysis, sensitivity analysis, scenario analysis and stress testing to manage interest rate risk within established limits.

*Foreign Exchange Rate Risk Management*

Foreign exchange rate risk relates to the mismatch of foreign currency denominated monetary assets and liabilities, and the potential loss related to changes in foreign exchange rates, which largely arises through operational activities.

The Group performs monitoring and sensitivity analysis of foreign exchange rate risk exposure, manages the mismatch of foreign currency denominated assets and liabilities to effectively manage foreign exchange rate risk exposure within acceptable limits.

**Market Risk Exposure Limit Management**

Market risk exposure limits are classified as either directive limits or indicative limits, based on the character of the underlying instruments or transactions. This distinction improves, among other things, exposure limit monitoring, enforcement of stop-loss limit, VaR limits, and stress testing limits.

The Group is committed to continuous improvement of its market risk exposure limit management. The Group establishes exposure limits more closely to its risk appetite and continuously refines the categorization of market risk exposure limits. Further, it regularly monitors, reports, refines, and implements improvements to the market risk exposure limit process.

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49 FINANCIAL RISK MANAGEMENT (Continued)

49.3 Market risk (Continued)

Foreign exchange rate risk

The Group primarily conducts its business activities in RMB, with certain transactions denominated in USD, HKD and, to a lesser extent, other currencies. Transactions in foreign currencies mainly arise from the Group's foreign currency operations and treasury exposures.

The composition of all financial assets and liabilities at the end of each reporting period analyzed by currency is as follows:

	30 June 2014				
	RMB (RMB equivalent)	USD (RMB equivalent)	HKD (RMB equivalent)	Other currencies (RMB equivalent)	Total
Cash and balances with central banks	2,826,313	23,368	955	708	2,851,344
Deposits with banks and other financial institutions	439,360	73,841	4,570	6,128	523,899
Placements with and loans to banks and other financial institutions	485,204	59,982	1,667	211	547,064
Financial assets held for trading	59,440	68	-	-	59,508
Financial assets designated at fair value through profit or loss	283,554	3,809	4,502	-	291,865
Derivative financial assets	1,715	4,277	34	566	6,592
Financial assets held under resale agreements	750,892	94	-	-	750,986
Loans and advances to customers	7,016,374	435,773	35,159	15,948	7,503,254
Available-for-sale financial assets	777,326	44,120	1,283	4,020	826,749
Held-to-maturity investments	1,630,324	5,935	159	207	1,636,625
Debt instruments classified as receivables	596,739	-	-	85	596,824
Other financial assets	125,850	6,306	894	1,483	134,533
Total financial assets	14,993,091	657,573	49,223	29,356	15,729,243
Borrowings from central bank	(141)	-	-	-	(141)
Deposits from banks and other financial institutions	(742,179)	(168,700)	(889)	(944)	(912,712)
Placements from banks and other financial institutions	(67,509)	(121,593)	(28,922)	(13,104)	(231,128)
Financial liabilities held for trading	(28,152)	-	-	-	(28,152)
Financial liabilities designated at fair value through profit or loss	(278,835)	(707)	(8)	(60)	(279,610)
Derivative financial liabilities	(3,464)	(1,627)	(79)	(433)	(5,603)
Financial assets sold under repurchase agreements	(116,208)	(7,714)	-	-	(123,922)
Due to customers	(12,514,519)	(252,112)	(29,630)	(13,243)	(12,809,504)
Debt securities issued	(197,955)	(58,398)	(16,527)	(2,478)	(275,358)
Other financial liabilities	(331,676)	(8,258)	(1,405)	(1,765)	(343,104)
Total financial liabilities	(14,280,638)	(619,109)	(77,460)	(32,027)	(15,009,234)
Net on-balance sheet position	712,453	38,464	(28,237)	(2,671)	720,009
Net notional amount of derivatives	(51,816)	8,390	34,266	8,486	(674)
Credit commitments	1,433,363	223,511	5,950	12,185	1,675,009



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49 FINANCIAL RISK MANAGEMENT (Continued)

49.3 Market risk (Continued)

Foreign exchange rate risk (Continued)

	31 December 2013				Total
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Other currencies (RMB equivalent)	
Cash and balances with central banks	2,591,348	10,141	1,705	608	2,603,802
Deposits with banks and other financial institutions	354,025	29,913	9,279	4,461	397,678
Placements with and loans to banks and other financial institutions	286,869	20,828	472	486	308,655
Financial assets held for trading	53,864	-	-	-	53,864
Financial assets designated at fair value through profit or loss	256,157	7,474	5,387	-	269,018
Derivative financial assets	2,695	4,362	487	642	8,186
Financial assets held under resale agreements	737,052	-	-	-	737,052
Loans and advances to customers	6,520,161	332,795	33,709	15,857	6,902,522
Available-for-sale financial assets	727,690	47,290	2,605	3,726	781,311
Held-to-maturity investments	1,521,466	1,990	157	202	1,523,815
Debt instruments classified as receivables	592,089	-	-	1	592,090
Other financial assets	92,736	8,683	946	659	103,024
<b>Total financial assets</b>	<b>13,736,152</b>	<b>463,476</b>	<b>54,747</b>	<b>26,642</b>	<b>14,281,017</b>
Borrowings from central bank	(104)	-	-	-	(104)
Deposits from banks and other financial institutions	(591,172)	(136,898)	(1,087)	(197)	(729,354)
Placements from banks and other financial institutions	(69,272)	(76,661)	(19,225)	(9,205)	(174,363)
Financial liabilities held for trading	(20,805)	-	-	-	(20,805)
Financial liabilities designated at fair value through profit or loss	(285,172)	(152)	(24)	(106)	(285,454)
Derivative financial liabilities	(1,814)	(4,166)	(1,505)	(150)	(7,635)
Financial assets sold under repurchase agreements	(23,653)	(3,134)	-	-	(26,787)
Due to customers	(11,604,979)	(158,648)	(34,279)	(13,505)	(11,811,411)
Debt securities issued	(202,197)	(44,444)	(18,870)	(750)	(266,261)
Other financial liabilities	(277,167)	(8,358)	(1,984)	(140)	(287,649)
<b>Total financial liabilities</b>	<b>(13,076,335)</b>	<b>(432,461)</b>	<b>(76,974)</b>	<b>(24,053)</b>	<b>(13,609,823)</b>
<b>Net on-balance sheet position</b>	<b>659,817</b>	<b>31,015</b>	<b>(22,227)</b>	<b>2,589</b>	<b>671,194</b>
<b>Net notional amount of derivatives</b>	<b>(28,817)</b>	<b>232</b>	<b>26,246</b>	<b>3,295</b>	<b>956</b>
<b>Credit commitments</b>	<b>1,288,368</b>	<b>167,463</b>	<b>6,811</b>	<b>19,303</b>	<b>1,481,945</b>

# AGRICULTURAL BANK OF CHINA LIMITED

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2014 (Amounts in millions of Renminbi, unless otherwise stated)

### 49 FINANCIAL RISK MANAGEMENT (Continued)

#### 49.3 Market risk (Continued)

##### Foreign exchange rate risk (Continued)

The table below indicates the potential effect on profit before tax arising from a 1% appreciation or depreciation of RMB spot and forward foreign exchange rates against a basket of all other currencies on the net positions of foreign currency monetary assets and liabilities of the Group's Domestic Operations in the condensed consolidated interim statement of financial position. Foreign currency position of the Group's Overseas Operations is not included in this assessment.

	Profit before tax	
	30 June 2014	31 December 2013
1% appreciation	41	202
1% depreciation	(41)	(202)

The effect on profit before tax is calculated based on the assumption that the Group's foreign currency sensitive exposures and foreign currency derivative instruments net position at the end of each reporting period remain unchanged. The Group mitigates its foreign exchange rate risk through active management of its foreign currency exposures and the appropriate use of derivative instruments, based on management expectation of future foreign currency exchange rate movements. Such analysis does not take into account the correlation effect of changes in different foreign currencies, nor any further actions that could be taken by management to mitigate the effect of foreign exchange differences. Therefore, the sensitivity analysis above may differ from actual results occurring through changes in foreign exchange rates.

##### Interest rate risk

The Group's interest rate risk arises from the mismatches between contractual maturities or repricing dates of interest-generating assets and interest-bearing liabilities. The Group's interest-generating assets and interest-bearing liabilities are primarily denominated in RMB. The PBOC established RMB benchmark interest rates for loans with a floor and such policy was eliminated with effect 20 July 2013 whereby financial institutions are in a position to price their loans based on commercial and market factors. The PBOC continues to establish RMB benchmark interest rates for deposits with a cap.

The Group manages its interest rate risk by:

- Regularly monitoring the macro-economic factors that potentially impact the PBOC benchmark interest rates;
- Optimizing the management over the differences in timing between contractual maturities or repricing dates of interest-generating assets and interest-bearing liabilities; and
- Enhancing the interest rate margin on interest-generating assets and interest-bearing liabilities, with reference to the prevailing PBOC benchmark interest rates where appropriate.

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**49 FINANCIAL RISK MANAGEMENT (Continued)**

**49.3 Market risk (Continued)**

**Interest rate risk (Continued)**

The tables below summarize the contractual maturity or repricing date, whichever is earlier, of the Group's financial assets and financial liabilities at the end of each reporting period.

	30 June 2014					Total
	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over Non-interest bearing 5 years	
Cash and balances with central banks	2,593,410	-	-	-	-	2,593,410
Deposits with banks and other financial institutions	147,834	35,914	239,365	99,372	-	523,899
Placements with and loans to banks and other financial institutions	350,792	36,743	102,486	57,043	-	547,064
Financial assets held for trading	8,439	9,159	23,821	13,955	21	59,508
Financial assets designated at fair value through profit or loss	82,231	67,874	92,702	45,881	599	291,865
Derivative financial assets	-	-	-	-	6,592	6,592
Financial assets held under resale agreements	494,562	167,558	88,366	500	-	750,986
Loans and advances to customers	1,054,383	1,392,767	4,781,079	122,728	152,297	7,503,254
Available-for-sale financial assets	42,732	82,328	144,957	385,104	168,190	826,749
Held-to-maturity investments	25,676	68,799	219,242	767,296	555,612	1,636,625
Debt instruments classified as receivables	1,208	1,051	36,942	66,909	62	596,824
Other financial assets	-	-	-	-	134,533	134,533
<b>Total financial assets</b>	<b>4,801,267</b>	<b>1,862,193</b>	<b>5,728,960</b>	<b>1,558,788</b>	<b>1,373,442</b>	<b>15,729,243</b>
Borrowings from central bank	(30)	-	(81)	-	(30)	(141)
Deposits from banks and other financial institutions	(377,493)	(80,613)	(65,941)	(387,882)	(400)	(912,712)
Placements from banks and other financial institutions	(79,266)	(83,202)	(67,663)	(997)	-	(231,128)
Financial liabilities held for trading	(5,652)	(7,624)	(4,233)	-	(10,643)	(28,152)
Financial liabilities designated at fair value through profit or loss	(80,704)	(72,549)	(114,027)	(12,295)	(35)	(279,610)
Derivative financial liabilities	-	-	-	-	(5,603)	(5,603)
Financial assets sold under repurchase agreements	(22,298)	(95,106)	(5,920)	(598)	-	(123,922)
Due to customers	(7,755,302)	(954,039)	(2,749,297)	(1,198,323)	(180)	(12,809,504)
Debt securities issued	(18,720)	(40,116)	(80,534)	(11,069)	(124,919)	(275,358)
Other financial liabilities	-	-	-	-	(343,104)	(343,104)
<b>Total financial liabilities</b>	<b>(8,339,465)</b>	<b>(1,333,249)</b>	<b>(3,087,696)</b>	<b>(1,611,164)</b>	<b>(125,534)</b>	<b>(15,009,234)</b>
<b>Interest rate gap</b>	<b>(3,538,198)</b>	<b>528,944</b>	<b>2,641,264</b>	<b>(52,376)</b>	<b>1,247,908</b>	<b>720,009</b>

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49 FINANCIAL RISK MANAGEMENT (Continued)

49.3 Market risk (Continued)

Interest rate risk (Continued)

	31 December, 2013					Total	
	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years		Non-interest bearing
Cash and balances with central banks	2,372,965	-	-	-	-	230,837	2,603,802
Deposits with banks and other financial institutions	116,138	50,929	129,431	98,968	-	2,212	397,678
Placements with and loans to banks and other financial institutions	162,657	21,862	86,453	37,683	-	-	308,655
Financial assets held for trading	6,289	5,759	23,673	14,370	3,723	50	53,864
Financial assets designated at fair value through profit or loss	71,322	77,635	90,059	28,950	31	1,021	269,018
Derivative financial assets	-	-	-	-	-	8,186	8,186
Financial assets held under resale agreements	439,869	119,212	177,951	-	-	-	737,052
Loans and advances to customers	2,397,715	1,355,109	2,909,162	100,804	139,732	-	6,902,522
Available-for-sale financial assets	52,362	72,720	141,801	351,271	160,790	2,367	781,311
Held-to-maturity investments	11,522	67,157	234,029	669,875	541,232	-	1,523,815
Debt instruments classified as receivables	10,635	1,775	54,372	45,099	480,095	114	592,090
Other financial assets	-	-	-	-	-	103,024	103,024
<b>Total financial assets</b>	<b>5,641,494</b>	<b>1,772,158</b>	<b>3,846,931</b>	<b>1,347,020</b>	<b>1,325,603</b>	<b>347,811</b>	<b>14,281,017</b>
Borrowings from central bank	-	-	(74)	-	-	(30)	(104)
Deposits from banks and other financial institutions	(296,210)	(13,109)	(43,112)	(376,853)	-	(70)	(729,354)
Placements from banks and other financial institutions	(69,464)	(55,740)	(37,427)	(1,732)	-	-	(174,363)
Financial liabilities held for trading	(4,209)	(2,525)	(4,473)	-	-	(9,598)	(20,805)
Financial liabilities designated at fair value through profit or loss	(110,696)	(94,884)	(58,302)	(21,538)	(34)	-	(285,454)
Derivative financial liabilities	-	-	-	-	-	(7,635)	(7,635)
Financial assets sold under repurchase agreements	(22,225)	(1,714)	(2,489)	(359)	-	-	(26,787)
Due to customers	(7,415,705)	(1,009,991)	(2,159,729)	(1,081,790)	(2)	(144,194)	(11,811,411)
Debt securities issued	(14,846)	(35,979)	(81,761)	(8,534)	(125,141)	-	(266,261)
Other financial liabilities	-	-	-	-	-	(287,649)	(287,649)
<b>Total financial liabilities</b>	<b>(7,933,355)</b>	<b>(1,223,942)</b>	<b>(2,387,367)</b>	<b>(1,490,806)</b>	<b>(125,177)</b>	<b>(449,176)</b>	<b>(13,609,823)</b>
<b>Interest rate gap</b>	<b>(2,291,861)</b>	<b>548,216</b>	<b>1,459,564</b>	<b>(143,786)</b>	<b>1,200,426</b>	<b>(101,365)</b>	<b>671,194</b>

## AGRICULTURAL BANK OF CHINA LIMITED

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2014 (Amounts in millions of Renminbi, unless otherwise stated)

#### 49 FINANCIAL RISK MANAGEMENT (Continued)

##### 49.3 Market risk (Continued)

###### Interest rate risk (Continued)

The following table illustrates the potential pre-tax impact, of a parallel upward or downward shift of 100 basis points in relevant RMB, USD and HKD interest rate curves on the Group's net interest income and equity for the next twelve months from the reporting date, based on the Group's positions of interest-earning assets and interest-bearing liabilities at the end of each reporting period. This analysis assumes that interest rates of all maturities move by the same amount, and does not reflect the potential impact of unparallel yield curve movements.

The sensitivity analysis on net interest income is based on reasonably possible changes in interest rates with the assumption that the structure of financial assets and financial liabilities held at the period end remains unchanged, and does not take changes in customer behavior, basis risk or any prepayment options on debt securities into consideration.

The sensitivity analysis on equity reflects only the effect of changes in fair value of those financial instruments classified as available-for-sale financial assets held, whose fair value changes are recorded as an element of equity.

	30 June 2014		31 December 2013	
	Net interest income	Equity	Net interest income	Equity
+100 basis points	(19,595)	(20,009)	(11,922)	(19,330)
- 100 basis points	19,595	20,009	11,922	19,330

The assumptions do not reflect actions that might be taken under the Group's capital and interest rate risk management policy to mitigate changes to the Group's interest rate risk. Therefore the above analysis may differ from the actual situation.

In addition, the presentation of interest rate sensitivity above is for illustration purposes only, showing the potential impact on net interest income and equity of the Group under different parallel yield curve movements, relative to their position at period-end.

##### 49.4 Insurance risk

The Group engages in its insurance business primarily in Mainland China. Insurance risk refers to the financial impact resulting from the unexpected occurrence of insured events. These risks are actively managed by the Group through effective sales management, underwriting control, reinsurance management and claim management. Through effective sales management, the risk of mis-selling could be reduced and the accuracy of information used for underwriting is improved. Through underwriting control, risk of adverse selection could be reduced and moreover differential pricing policy based on the level of each kind of risk could be utilized. Through reinsurance, the Group's insurance capacity could be enhanced and targeted risks could be mitigated. Effective claims management is designed to ensure that insurance payments are controlled according to established criteria.

Uncertainty in the estimation of future benefit payments and premium receipts for long-term life insurance contracts arises from the unpredictability of long-term changes in overall levels of mortality. The Group conducts experience analysis of mortality rate and surrender rate, in order to improve its risk assessment and as a basis for reasonable estimates.

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#### 50 CAPITAL MANAGEMENT

The Group's capital management objectives are as follows:

- maintain an adequate capital base to support the development of its business;
- support the Group's financial stability and profitable growth;
- allocate capital through an efficient and risk based approach to optimize risk-adjusted return to shareholders; and
- safeguard the long-term sustainability of the Group's franchise so that it can continue to provide sufficient shareholder returns and benefits for other stakeholders.

In 2012, the CBRC issued the "Capital Rules for Commercial Banks (Provisional)" which took effect from 1 January 2013. Upon the effectiveness of this new regulation, the existing "Measures for the Management of Capital Adequacy Ratio of Commercial Banks", issued by the CBRC, was superseded in full.

The "Capital Rules for Commercial Banks (Provisional)", includes, among other things, requirements for minimum capital, additional capital for systemically important banks, capital reserves, countercyclical capital and Pillar II capital. Of these, the minimum regulatory requirements for Core Tier-one Capital Adequacy Ratio, Tier-one Capital Adequacy Ratio and Capital Adequacy Ratio are 5%, 6% and 8%, respectively; and systemically important banks in Mainland China are required to maintain an additional 1% of Core Tier-one Capital. At the same time, according to the CBRC's "Notice of Transitional Arrangements for the Implementation of the 'Capital Rules for Commercial Banks (Provisional)'", Core Tier-one capital reserve requirements, will be introduced gradually during the transitional period. Additionally, if the regulators require countercyclical capital under particular circumstances or regulators impose additional Pillar II capital requirements for specific banks, these requirements should be met within the specified time limits.

The Group has been using the Weighted approach and the Basic Indicator approach to measure its Credit Risk-weighted Assets and Operational Risk-weighted Assets, respectively, for the purpose of calculating its Capital Adequacy Ratios. In April 2014, the CBRC has officially approved the Group to adopt the Internal Ratings-Based approach to measure its Credit Risk-weighted Assets for both retail and non-retail risk exposures and the Standardized approach to measure its Operational Risk-weighted Assets, respectively. The CBRC will determine the parallel run period for the Group, which should last for at least three years. During the parallel run period, the Group should calculate its Capital Adequacy Ratios under the above two approaches, and should conform to the capital floor requirements as stipulated in the "Capital Rules for Commercial Banks (Provisional)".

As at 30 June 2014 and 31 December 2013, the Group adopted the Standardized approach for Market Risk-weighted Assets measurement.

Capital adequacy and the utilization of regulatory capital are closely monitored by the Group's management in accordance with the guidelines developed by the Basel Committee and relevant regulations promulgated by the CBRC. Required information related to capital levels and utilization is filed quarterly with the CBRC.

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50 CAPITAL MANAGEMENT (Continued)

The table below summarizes the Capital Adequacy Ratios and capital composition as at 30 June 2014 calculated pursuant to the "Capital Rules for Commercial Banks (Provisional)" and under the Internal Ratings-Based approach for Credit Risk-weighted Assets and the Standardized approach for Market Risk-weighted Assets and Operational Risk-weighted Assets, respectively, as approved by the CBRC in April 2014.

		30 June 2014
Core Tier-one Capital Adequacy Ratio	(1)	8.65%
Tier-one Capital Adequacy Ratio	(1)	8.65%
Capital Adequacy Ratio	(1)	<u>11.89%</u>
Core Tier-one Capital	(2)	906,524
Deductible Items from Core Tier-one Capital	(3)	<u>(5,361)</u>
Net Core Tier-one Capital		901,163
Additional Tier-one Capital	(4)	<u>2</u>
Net Tier-one Capital		901,165
Tier-two Capital	(5)	<u>337,810</u>
Net Capital		<u>1,238,975</u>
Risk-weighted Assets	(6)	<u>10,422,045</u>

As at 31 December 2013, the Group's Capital Adequacy Ratio, Tier-one Capital Adequacy Ratio and Core Tier-one Capital Adequacy Ratio with Credit Risk-weighted Assets, Market Risk-weighted Assets and Operational Risk-weighted Assets measured under the Weighted approach, the Standardized approach, and the Basic Indicator approach, respectively, were 11.86%, 9.25% and 9.25%, respectively.

Pursuant to the "Capital Rules for Commercial Banks (Provisional)":

- (1) The scope of consolidation related to the calculation of the Group's Capital Adequacy Ratios includes domestic institutions, overseas institutions and affiliated financial subsidiaries specified in the Regulation.

The Core Tier-one Capital Adequacy Ratio is calculated as Net Core Tier-one Capital divided by Risk-weighted Assets. The Tier-one Capital Adequacy Ratio is calculated as Net Tier-one Capital divided by Risk-weighted Assets. The Capital Adequacy Ratio is calculated as Net Capital divided by Risk-weighted Assets.

- (2) The Group's Core Tier-one Capital includes: ordinary share capital, the capital reserve (subject to regulatory limitations), the surplus reserve, the general reserve, retained earnings, minority interests (to the extent permitted in the Core Tier-one Capital under the Regulation), and the foreign currency translation reserve.
- (3) The Group's Deductible Items from Core Tier-one Capital include: other intangible assets (excluding land-use rights), and Core Tier-One capital investments made in financial institutions over which the Group has control but are outside the regulatory consolidation scope for the Capital Adequacy Ratios calculation.
- (4) The Group's Additional Tier-one Capital includes: minority interests (to the extent permitted in the Additional Tier-one Capital definition under the Regulation).

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#### 50 CAPITAL MANAGEMENT (Continued)

- (5) The Group's Tier-two Capital includes: Tier-two capital instruments and related premium (to the extent allowed under the Regulation), excessive allowance for loan losses, and minority interests (to the extent permitted in the Tier-two Capital definition under the Regulation).
- (6) Risk-weighted Assets include Credit Risk-weighted Assets, Market Risk-weighted Assets and Operational Risk-weighted Assets.

#### 51 FAIR VALUE OF FINANCIAL INSTRUMENTS

The majority of the Group's assets and liabilities in the condensed consolidated interim statement of financial position are financial assets and financial liabilities. Fair value measurement of non-financial assets and non-financial liabilities do not have a material impact on the Group's financial position and operations, taken as a whole.

The Group did not have any financial assets or financial liabilities subject to non-recurring fair value measurements in the current interim period or for the year ended 31 December 2013.

##### 51.1 Valuation technique, input and process

The fair value of the Group's financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions, traded in active, liquid markets are determined with reference to quoted market bid prices and ask prices, respectively;
- discounted cash flow analysis using the applicable yield curve for the duration of the instruments is used for non-option-type derivatives, and option pricing models are used for option-type derivatives;
- the fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models or discounted cash flow analysis using prices from observable current market transactions for similar instruments. If there are no available observable current market transactions prices for similar instruments, the quoted price from the transaction counterparty is used for the valuation, and management performs analysis on this price.

The Group has established an independent valuation process for financial assets and financial liabilities. The Finance Market Department is responsible for the valuation of financial assets and financial liabilities, and the Risk Management Department performs an independent review of the valuation methodologies, inputs, assumptions and valuation results. The Operations Department records the accounting for these items and prepares the disclosure of the financial assets and financial liabilities, based on the independently reviewed valuation.

The Group's valuation policies and procedures for different types of financial instruments are approved by the Risk Management Committee. Any change to the valuation policies, or the related procedures, must be reported to the Risk Management Committee for approval before they are implemented.

During the current interim period, there was no significant change in the valuation techniques or inputs used to determine fair value measurements as compared to those used in the annual consolidated financial statements for the year ended 31 December 2013.



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**51 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)**

**51.2 Fair value hierarchy**

The Group classifies financial assets and financial liabilities into the following three levels based on the extent to which inputs to valuation techniques used to measure fair value of the financial assets and financial liabilities are observable.

Level 1: fair value measurements are those derived from quoted prices (unadjusted) in an active market for identical assets or liabilities;

Level 2: fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (i.e. derived from prices); and

Level 3: fair value measurements are not based on observable market data (that is, unobservable inputs).

**51.3 Financial assets and financial liabilities not measured at fair value on the condensed consolidated interim statement of financial position**

The tables below summarize the carrying amounts and fair values of those financial assets and financial liabilities not measured in the condensed consolidated interim statement of financial position at their fair value. Financial assets and financial liabilities for which the carrying amounts approximate fair value, such as Balances with Central Banks, Deposits with Banks and Other Financial Institutions, Placements with and Loans to Banks and Other Financial Institutions, Financial Assets Held under Resale Agreements, Loans and Advances to Customers, Receivable from the MOF, Special Government Bond, Borrowings from Central Bank, Deposits and Placements from Banks and Other Financial Institutions, Due to Customers, Financial Assets Sold under Repurchase Agreements, Certificates of Deposit Issued and Interbank Certificate of Deposits Issued are not included in the tables below. Fair value of the following financial assets and financial liabilities are classified within Level 2.

	<b>30 June 2014</b>		<b>31 December 2013</b>	
	<b>Carrying amount</b>	<b>Fair value</b>	<b>Carrying amount</b>	<b>Fair value</b>
<b>Financial assets</b>				
Held-to-maturity investments	1,636,625	1,611,676	1,523,815	1,444,898
Debt instruments classified as receivables	141,470	140,274	136,736	131,214
<b>Total</b>	<b>1,778,095</b>	<b>1,751,950</b>	<b>1,660,551</b>	<b>1,576,112</b>
<b>Financial liabilities</b>				
Bonds issued	151,952	144,218	156,300	146,741
<b>Total</b>	<b>151,952</b>	<b>144,218</b>	<b>156,300</b>	<b>146,741</b>

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51 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

51.4 Financial assets and financial liabilities measured at fair value on the condensed consolidated interim statement of financial position

The tables below summarize the fair values of the financial assets and financial liabilities measured in the condensed consolidated interim statement of financial position at their fair value.

	30 Jun 2014			Total
	Level 1	Level 2	Level 3	
Financial assets held for trading				
- Debt securities	-	40,656	-	40,656
- Precious metal contracts	-	18,852	-	18,852
Subtotal	-	59,508	-	59,508
Financial assets designated at fair value through profit or loss				
- Debt securities	-	38,867	-	38,867
- Interest in trust products	-	-	187,209	187,209
- Other debt instruments	-	-	65,190	65,190
- Equity instruments	-	-	599	599
Subtotal	-	38,867	252,998	291,865
Derivative financial assets				
- Exchange rate derivatives	-	5,355	146	5,501
- Interest rate derivatives	-	981	37	1,018
- Precious metal contracts	-	73	-	73
Subtotal	-	6,409	183	6,592
Available-for-sale financial assets				
- Debt securities	8,018	815,147	146	823,311
- Equity instruments	465	-	621	1,086
- Fund investments	1,134	-	-	1,134
- Others	-	-	957	957
Subtotal	9,617	815,147	1,724	826,488
Total	9,617	919,931	254,905	1,184,453
Financial liabilities held for trading				
- Financial liabilities related to precious metals	-	(28,152)	-	(28,152)
Financial liabilities designated at fair value through profit or loss				
- Principal guaranteed wealth management products	-	-	(279,610)	(279,610)
Derivative financial liabilities				
- Exchange rate derivatives	-	(3,964)	(270)	(4,234)
- Interest rate derivatives	-	(1,080)	(64)	(1,144)
- Precious metal contracts	-	(225)	-	(225)
Subtotal	-	(5,269)	(334)	(5,603)
Total	-	(33,421)	(279,944)	(313,365)

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51 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

51.4 Financial assets and financial liabilities measured at fair value on the condensed consolidated interim statement of financial position (Continued)

	31 December 2013			Total
	Level 1	Level 2	Level 3	
Financial assets held for trading				
- Debt securities	-	42,012	-	42,012
- Equity instruments	48	-	-	48
- Precious metal contracts	-	11,804	-	11,804
Subtotal	48	53,816	-	53,864
Financial assets designated at fair value through profit or loss				
- Debt securities	-	58,007	-	58,007
- Interest in trust products	-	-	171,280	171,280
- Other debt instruments	-	-	38,710	38,710
- Equity instruments	-	-	1,021	1,021
Subtotal	-	58,007	211,011	269,018
Derivative financial assets				
- Exchange rate derivatives	-	5,623	292	5,915
- Interest rate derivatives	-	1,582	55	1,637
- Precious metal contracts	-	634	-	634
Subtotal	-	7,839	347	8,186
Available-for-sale financial assets				
- Debt securities	6,802	771,946	196	778,944
- Equity instruments	549	-	29	578
- Fund investments	988	-	-	988
- Others	-	560	-	560
Subtotal	8,339	772,506	225	781,070
Total	8,387	892,168	211,583	1,112,138
Financial liabilities held for trading				
- Financial liabilities related to precious metals	-	(20,805)	-	(20,805)
Financial liabilities designated at fair value through profit or loss				
- Principal guaranteed wealth management products	-	-	(285,454)	(285,454)
Derivative financial liabilities				
- Exchange rate derivatives	-	(5,123)	(571)	(5,694)
- Interest rate derivatives	-	(1,820)	(120)	(1,940)
- Others	-	-	(1)	(1)
Subtotal	-	(6,943)	(692)	(7,635)
Total	-	(27,748)	(286,146)	(313,894)

## AGRICULTURAL BANK OF CHINA LIMITED

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2014 (Amounts in millions of Renminbi, unless otherwise stated)

#### 51 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

##### 51.4 Financial assets and financial liabilities measured at fair value on the condensed consolidated interim statement of financial position (Continued)

Substantially all financial assets and financial liabilities classified within Level 3 of the fair value hierarchy are credit assets and other financial assets and financial liabilities designated at fair value through profit or loss. Generally, these assets are the investments into which wealth management products have invested, and for which the Group has provided investors with a principal, and/or return guarantee. The related liability, the wealth management product itself, is also designated at fair value through profit or loss. These designations offset the accounting mismatch.

The nature of the assets classified within Level 3 is primarily investment products issued by domestic trust companies or other financial institutions, underlying assets of which include credit assets, deposits with financial institutions and debt securities. The counterparties of the underlying deposits are primarily commercial banks in Mainland China. The credit assets and debt securities are loans and advances to corporate customers and, plain vanilla bonds or notes issued by corporates or financial institutions in Mainland China. As not all of the inputs needed to estimate the fair value of deposits, credit assets and debt securities in the investment products are observable, the Group classified the investment product as a whole within Level 3. The significant unobservable inputs related to the credit assets are those around credit risk and liquidity risk. This largely relates to the lack of historical default and liquidity information through one or more economic cycles, which Mainland China has not experienced. Management has made assumptions, based on observed indicators of impairment or significant changes in yield, but the actual value realized from these assets in a current arm's length sale could differ from those disclosed.

There were no significant transfers between levels of the fair value hierarchy during the period ended 30 June 2014 and the year ended 2013.

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51 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

51.4 Financial assets and financial liabilities measured at fair value on the condensed consolidated interim statement of financial position (Continued)

The reconciliation of Level 3 fair value measurements of financial assets and financial liabilities presented at fair value on the condensed consolidated interim statement of financial position is as follows:

	Six months ended 30 June 2014				
	Financial assets designated at fair value through profit or loss	Derivative financial assets	Available - for-sale financial assets	Financial liabilities designated at fair value through profit or loss	Derivative financial liabilities
1 January 2014	211,011	347	225	(285,454)	(692)
Purchases	200,272	-	1,543	-	-
Issues	-	-	-	(2,418,627)	-
Settlements/disposals	(162,727)	(3)	(53)	2,431,000	28
Total gains/(losses) recognized in					
- Profit or loss	4,442	(161)	10	(6,529)	330
- Other comprehensive income	-	-	(1)	-	-
30 June 2014	252,998	183	1,724	(279,610)	(334)
Change in unrealized gains/(losses) for the period included in profit or loss for assets/liabilities held at the end of the period	540	(161)	-	(136)	330
	2013				
	Financial assets designated at fair value through profit or loss	Derivative financial assets	Available - for-sale financial assets	Financial liabilities designated at fair value through profit or loss	Derivative financial liabilities
1 January 2013	127,094	796	5,741	(155,071)	(1,856)
Purchases	433,011	-	-	-	-
Issues	-	-	-	(1,201,295)	-
Settlements/disposals	(357,601)	(48)	(5,536)	1,080,965	232
Total gains/(losses) recognized in					
- Profit or loss	8,507	(401)	22	(10,053)	932
- Other comprehensive income	-	-	(2)	-	-
31 December 2013	211,011	347	225	(285,454)	(692)
Change in unrealized gains/(losses) for the year included in profit or loss for assets/liabilities held at the end of the year	647	(401)	-	(693)	932

In Level 3 of the fair value hierarchy, total gains or losses included in profit or loss for the period are presented in Net Trading Gain and Net Gain on Investment Securities of the condensed consolidated interim income statement.

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**52 EVENTS AFTER THE REPORTING PERIOD**

Pursuant to the approval by the CBRC and the PBOC, the Bank issued Tier-two Capital Bonds in the amount of RMB30 billion with a tenor of 10 years bearing interest at 5.8% per annum on 18 August 2014, to replenish its Tier-two Capital.

**53 COMPARATIVES**

Certain comparative amounts have been reclassified to conform with the current period's presentation.

## AGRICULTURAL BANK OF CHINA LIMITED

### UNREVIEWED SUPPLEMENTARY FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2014

(Amounts in millions of Renminbi, unless otherwise stated)

According to Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Banking (Disclosure) Rules, the Group discloses the following supplementary information:

#### 1 LIQUIDITY RATIOS

	30 June 2014	31 December 2013
RMB current assets to RMB current liabilities	47.94%	43.57%
Foreign currency current assets to foreign currency current liabilities	<u>109.12%</u>	<u>114.95%</u>

The liquidity ratios are calculated in accordance with the relevant provisions of the PBOC and the CBRC, and based on the data determined under the PRC GAAP.

#### 2 CURRENCY CONCENTRATIONS

	Equivalent in millions of RMB			
	USD	HKD	Other	Total
<b>30 June 2014</b>				
Spot assets	662,064	49,484	29,835	741,383
Spot liabilities	(617,482)	(77,381)	(31,594)	(726,457)
Forward purchases	396,778	40,445	65,294	502,517
Forward sales	(389,011)	(6,179)	(56,774)	(451,964)
Net options position	3,238	-	(631)	2,607
Net long position	<u>55,587</u>	<u>6,369</u>	<u>6,130</u>	<u>68,086</u>
Net structural position	<u>3,384</u>	<u>4,323</u>	<u>674</u>	<u>8,381</u>
<b>31 December 2013</b>				
Spot assets	467,323	54,544	27,100	548,967
Spot liabilities	(428,295)	(75,469)	(23,903)	(527,667)
Forward purchases	300,777	45,524	51,068	397,369
Forward sales	(301,283)	(19,278)	(47,915)	(368,476)
Net options position	702	-	(82)	620
Net long position	<u>39,224</u>	<u>5,321</u>	<u>6,268</u>	<u>50,813</u>
Net structural position	<u>3,081</u>	<u>4,082</u>	<u>675</u>	<u>7,838</u>

**AGRICULTURAL BANK OF CHINA LIMITED**

**UNREVIEWED SUPPLEMENTARY FINANCIAL INFORMATION**

FOR THE SIX MONTHS ENDED 30 JUNE 2014

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**3 CROSS-BORDER CLAIMS**

The Group is principally engaged in business operations within Mainland China, and regards all the claims on third parties outside Mainland China as cross-border claims.

Cross-border claims include Balances with Central Banks, Deposits with Banks and other Financial Institutions, Placements with and Loans to Banks and Other Financial Institutions, Financial Assets Held for Trading, Financial Assets Designated at Fair Value through Profit or Loss, Loans and Advances to Customers, Financial Assets Held under Resale Agreements, Available-for-Sale Financial Assets, Held-to-Maturity Investments and Debt Instruments Classified as Receivables.

Cross-border claims are disclosed based on different countries or regions. A country or region is reported where it constitutes 10% or more of the aggregate amount of cross-border claims, after taking into account any risk transfers. Risk transfer is 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.

	<b>Banks and other financial institutions</b>	<b>Public sector entities</b>	<b>Others</b>	<b>Total</b>
<b>30 June 2014</b>				
Asia Pacific excluding Mainland China	13,051	3,739	63,120	79,910
- of which attributable to Hong Kong	5,414	3,169	51,915	60,498
Europe	21,212	-	1,949	23,161
North and South America	28,691	3,017	6,412	38,120
Africa	61	-	-	61
<b>Total</b>	<b>63,015</b>	<b>6,756</b>	<b>71,481</b>	<b>141,252</b>
	<b>Banks and other financial institutions</b>	<b>Public sector entities</b>	<b>Others</b>	<b>Total</b>
<b>31 December 2013</b>				
Asia Pacific excluding Mainland China	13,501	2,205	48,013	63,719
- of which attributable to Hong Kong	5,715	1,572	41,759	49,046
Europe	12,471	309	2,466	15,246
North and South America	23,890	3,356	5,057	32,303
Africa	61	73	-	134
<b>Total</b>	<b>49,923</b>	<b>5,943</b>	<b>55,536</b>	<b>111,402</b>



**AGRICULTURAL BANK OF CHINA LIMITED****UNREVIEWED SUPPLEMENTARY FINANCIAL INFORMATION**

FOR THE SIX MONTHS ENDED 30 JUNE 2014

(Amounts in millions of Renminbi, unless otherwise stated)

**4 OVERDUE AND RESCHEDULED ASSETS****(1) Gross amount of overdue loans and advances to customers**

	<b>30 June 2014</b>	<b>31 December 2013</b>
Overdue		
within 3 months	49,776	34,893
between 3 and 6 months	18,433	6,832
between 6 and 12 months	17,546	15,078
over 12 months	37,566	43,621
	<u>123,321</u>	<u>100,424</u>
Total		
	<u>123,321</u>	<u>100,424</u>
Percentage of overdue loans and advances to customers in total loans		
within 3 months	0.63%	0.48%
between 3 and 6 months	0.24%	0.09%
between 6 and 12 months	0.22%	0.22%
over 12 months	0.48%	0.60%
	<u>1.57%</u>	<u>1.39%</u>
Total		
	<u>1.57%</u>	<u>1.39%</u>

**(2) Overdue and rescheduled loans and advances to customers**

	<b>30 June 2014</b>	<b>31 December 2013</b>
Total rescheduled loans and advances to customers	11,140	10,376
Including: rescheduled loans and advances to customers overdue for not more than 3 months	8,416	7,960
Percentage of rescheduled loans and advances to customers overdue for not more than 3 months in total loans	0.11%	0.11%

**(3) Gross amount of overdue Placements with and Loans to Banks and Other Financial Institutions**

The gross amount of the Group's overdue Placements with and Loans to Banks and Other Financial Institutions as at 30 June 2014 and 31 December 2013 were not material.