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# 中国农业银行

AGRICULTURAL BANK OF CHINA

**AGRICULTURAL BANK OF CHINA LIMITED**

**中國農業銀行股份有限公司**

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

**(Stock Code: 1288)**

## **OVERSEAS REGULATORY ANNOUNCEMENT**

This announcement is made in accordance with Rule 13.10B of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Pursuant to the relevant laws and regulations of the People's Republic of China, Agricultural Bank of China Limited (the “**Bank**”) has published the **2014 Capital Adequacy Ratio Report** on the website of Shanghai Stock Exchange.

The above report is set out in this announcement for your information.

By Order of the Board  
**Agricultural Bank of China Limited**  
**ZHU Gaoming**  
*Company Secretary*

Beijing, PRC  
24 March 2015

*As at the date of this announcement, our executive directors are Mr. LIU Shiyu, Mr. ZHANG Yun and Mr. LOU Wenlong; our non-executive directors are Mr. ZHAO Chao, Mr. ZHOU Ke, Mr. ZHANG Dinglong, Mr. CHEN Jianbo, Mr. HU Xiaohui and Mr. XU Jiandong; and our independent non-executive directors are Mr. Anthony WU Ting-yuk, Mr. QIU Dong, Mr. Frederick MA Si-hang, Mr. WEN Tiejun, Mr. Francis YUEN Tin-fan and Ms. XIAO Xing.*

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## **2014 CAPITAL ADEQUACY RATIO REPORT**

# Contents

<b>1 Overview</b>	<b>3</b>
1.1 Profile	3
1.2 Capital Adequacy Ratio	3
1.3 Disclosure Statement	6
<b>2 Risk Management System</b>	<b>7</b>
2.1 Firm-wide Risk Management Framework	7
2.2 Risk Appetite	7
2.3 Structure and Organization of Risk Management	8
2.4 Risk Management Policies	11
2.5 Risk Management Tools and Systems	11
<b>3 Information on Composition of Capital</b>	<b>15</b>
3.1 Scope for Calculating Capital Adequacy Ratio	15
3.2 Regulatory Capital Shortfall of Investees	17
3.3 Restrictions on Intra-group Capital Transfers	17
3.4 Contrast Between Regulatory Consolidation and Accounting Consolidation	17
3.5 Composition of Capital	20
3.6 Main Features of Eligible Capital Instruments	25
3.7 Threshold Deductions Limit and Limit of Excess Loan Loss Provisions	35
3.8 Changes in Paid-in Capital	37
3.9 Significant Capital Investments	37
<b>4 Credit Risk</b>	<b>38</b>
4.1 Credit Risk Management	38
4.2 Credit Risk Exposure	39
4.3 Internal Ratings-Based Approach	41
4.4 Credit Risk Exposure Uncovered under Internal Ratings-Based Approach	43
4.5 Credit Risk Mitigation	45
4.6 Loans and Advances to Customers	48
<b>5 Market Risk</b>	<b>54</b>

5.1 Market Risk Management	54
5.2 Market Risk Exposure	54
<b>6 Operational Risk</b>	<b>55</b>
6.1 Operational Risk Management	55
6.2 Operational Risk Exposure	56
<b>7 Other Risks</b>	<b>57</b>
7.1 Securitization	57
7.2 Counterparty Credit Risk	61
7.3 Equity Risk of Banking Book	62
7.4 Interest Rate Risk of Banking Book	63
7.5 Liquidity Risk	64
<b>8 Internal Capital Adequacy Assessment</b>	<b>66</b>
8.1 Internal Capital Adequacy Assessment	66
8.2 Capital Planning and Capital Adequacy Ratio Management Plan	66
<b>9 Remuneration</b>	<b>68</b>
<b>10 Outlook</b>	<b>70</b>

# 1 Overview

## 1.1 Profile

The predecessor of Agricultural Bank of China (the "Bank") is Agricultural Cooperative Bank established in 1951. Since the late 1970s, the Bank has evolved from a state-owned specialized bank to a wholly state-owned commercial bank and subsequently a state-controlled commercial bank. The Bank was restructured into a joint stock limited liability company in January 2009. The Bank was listed on the Shanghai Stock Exchange and the Hong Kong Stock Exchange, respectively in July 2010, which marked the completion of our transformation into a public shareholding commercial bank.

As one of the major integrated financial service providers in China, the Bank is committed to catering to the needs of “Sannong” and capitalizing on the synergy between the Urban Areas and the Rural Areas. The Bank strives to expand into the international market and provides diversified services so as to become a large international first-class commercial bank. Capitalizing on the comprehensive business portfolio, extensive distribution network and advanced IT platform, the Bank provides range of corporate and retail banking products and services for a broad range of customers and conducts treasury operations for our own accounts or on behalf of customers. Our business scope includes, among other things, investment banking, fund management, financial leasing and life insurance. At the end of 2014, the Bank had total assets of RMB15,974,152 million, loan and advances to customers of RMB8,098,067 million, and deposits of RMB12,533,397 million. Our capital adequacy ratio was 12.82%, and achieved a net profit of RMB179,510 million in 2014.

The Bank had 23,612 domestic branch outlets, including the Head Office, the Business Department of the Head Office, 3 specialized business units managed by the Head Office, 37 tier-1 branches (including branches directly managed by the Head Office), 353 tier-2 branches (including business departments of branches in provinces), 3,515 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), 19,647 sub-branch business establishments and 55 other establishments. Our overseas branch outlets consisted of 8 overseas branches and 2 overseas representative offices. The Bank had fourteen major subsidiaries consisted of 9 domestic subsidiaries and 5 overseas subsidiaries.

In 2014, the Bank was included in the Global Systemically Important Banks (G-SIBs) for the first time. The Bank ranked No. 47 in Fortune’s Global 500, and ranked No. 9 in The Banker’s “Top 1000 World Banks” list in terms of Tier 1 capital. The Bank’s issuer credit ratings were assigned A/A-1 by Standard & Poor’s; the Bank’s deposits ratings were assigned A1/P-1 by Moody’s Investors Service; and the long-/short-term foreign-currency issuer default ratings

were assigned A/F1 by Fitch Ratings. The Bank's outlook ratings assigned by the above credit rating agencies were stable.

## 1.2 Capital Adequacy Ratio

On 2 April 2014, the China Banking Regulatory Commission (hereinafter referred to as the "CBRC") approved the Bank's use of foundation Internal Ratings-Based (IRB) approach for non-retail exposures, IRB approach for retail exposures and standardized approach for operational risk on bank and group levels. The Bank is one of the first batch of banks which were approved for adopting advanced approaches of capital management. In accordance with the requirements under the Capital Rules for Commercial Banks (Provisional), CBRC determines the parallel run period for a commercial bank approved to adopt the advanced approaches of capital management. During the parallel run period, the banks shall calculate its capital adequacy ratios under both advanced approaches and other approaches, and shall comply with the capital floor requirements. Due to the changes in measurement approach, requirements on regulatory calibration and the capital floor requirement, the result of capital adequacy ratio was affected to some extent. In the end of 2014, the Bank adopted the foundation IRB approach for non-retail exposures and IRB approach for retail exposures to measure credit risk-weighted assets, weighting approach to measure credit risk-weighted assets uncovered by Internal Ratings-Based approach, standardized measurement approach to measure market risk-weighted assets and operational risk-weighted assets. The table below sets out the net capital, risk-weighted assets and capital adequacy ratios pursuant to the Capital Rules for Commercial Banks (Provisional) calculated by the Bank.

Unless otherwise specified, such information as regulatory capital, risk exposure, capital requirement and risk-weighted assets contained herein were made by regulatory consolidation.

*In millions of RMB, except for percentages*

<b>Table 1.2A: Capital Adequacy Ratio</b>				
	31 December 2014		31 December 2013	
Item	The Group	The Bank	The Group	The Bank
CET 1 capital after deduction	986,206	976,752	838,473	831,648
Additional CET 1 capital after deduction	39,946	39,944	1	—

Tier 1 capital after deduction	1,026,152	1,016,696	838,474	831,648
Tier 2 capital after deduction	365,407	364,678	236,493	235,772
Total capital after deduction	1,391,559	1,381,374	1,074,967	1,067,420
Risk-weighted assets	10,852,619	10,782,764	9,065,631	9,004,578
Credit risk-weighted assets	8,839,230	8,763,153	8,220,434	8,162,538
Market risk-weighted assets	69,557	68,449	57,123	56,806
Operational risk-weighted assets	862,357	858,605	788,074	785,234
Additional risk-weighted assets due to the requirement of the capital floor	1,081,475	1,092,557	—	—
CET 1 capital adequacy ratio	9.09%	9.06%	9.25%	9.24%
Tier 1 capital adequacy ratio	9.46%	9.43%	9.25%	9.24%
Capital adequacy ratio	12.82%	12.81%	11.86%	11.85%

Note: 1. At 31 December 2013, the Bank adopted the weighting approach for credit risk-weighted assets, the standardized measurement approach for market risk-weighted assets and the basic indicator approach for operational risk-weighted assets. According to which, the CET 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio of the Bank on 31 December 2014 were 9.50%, 9.89% and 12.46%, respectively.

2. At 31 December 2014, excess loan loss provisions calculated in accordance with the *Capital Rules for Commercial Banks (Provisional)* were qualified as Tier 2 capital. That is, during the parallel run period, while calculating the credit risk-weighted assets by the Internal Ratings-Based (IRB) approach, the amount of excess loans loss provisions beyond the provision coverage rate cap of 150% were all qualified as Tier 2 capital. Besides, with the requirement of capital floor adjustment coefficients as 95%, the difference between excess loan loss provisions qualified as Tier 2 capital calculated using the advanced capital measurement approach and those calculated using other approaches was multiplied by 9.52 and recorded in risk-weighted assets.

The table below sets out the consolidated and unconsolidated capital adequacy ratios during the phase-in period, calculated in accordance with the *Rules on Capital Adequacy of Commercial Banks* (Decree of CBRC[2007] No.11) issued by the CBRC.

Table 1.2B: Capital Adequacy Ratio		
	31 December 2014	31 December 2013

Item	The Group	The Bank	The Group	The Bank
Core capital adequacy ratio	9.91%	9.92%	9.81%	9.82%
Capital adequacy ratio	12.77%	12.76%	12.57%	12.55%

### 1.3 Disclosure Statement

Since 2013, the Bank has been disclosing to investors and the public the Capital Adequacy Ratio Report through public channels in accordance with the requirements of the *Capital Rules for Commercial Banks (Provisional)*. With a view to regulating the disclosure of the Capital Adequacy Ratio Report, the Bank formulated the *Administrative Measures on Information Disclosure of Capital Adequacy Ratio*, which was considered and approved by the Board of Directors of the Bank. Our information disclosure of capital adequacy ratio can be classified into provisional disclosure and regular disclosure. Where changes arise from the common stocks and other capital instruments of the Bank, a provisional disclosure will be made in a timely manner. The Bank makes regular quarterly, interim and annual disclosures. The quarterly and interim disclosures are included in the quarterly and interim reports of the Bank, while the annual disclosure is presented as a separate report published in the Bank's website (<http://www.abchina.com/cn/>) under the heading of Investor Relations.

This report was prepared pursuant to the regulatory requirements including the *Capital Rules for Commercial Banks (Provisional)* and the *Notice of the China Banking Regulatory Commission on Issuing the Supporting Policy Documents for the Capital Regulation of Commercial Banks* (Yin Jian Fa [2013] No.33) issued by the CBRC. On 24 March 2015, the Board of Directors of the Bank considered and approved this report in the second meeting of 2015. On 24 March 2015, the Board of Supervisors of the Bank reviewed and approved this report in the third meeting of 2015.

It should be noted that this report is compiled in accordance with the regulatory requirements of the CBRC, while the annual report of the listed company is compiled in accordance with the PRC accounting standards and the International Financial Reporting Standards. As such, certain information in this report on capital adequacy ratio is not directly comparable to the financial information contained in the annual report of the listed company.

The report contains forward-looking statements on the Bank's financial positions, operation results and business development. The statements are made on basis of existing plans, estimates and forecast. The Bank believes that the expectations made in these forward-looking statements are reasonable, but the Bank considers that the actual operation condition is related to the future external events or internal finance, business or other performance, therefore, investors shall not heavily relied on these expectations.



## **2 Risk Management System**

### **2.1 Firm-wide Risk Management Framework**

The firm-wide risk management, through the integration of elements of risk management including risk appetite, policies, organizations, tools and models, data systems and risk culture, refers to the timely identification, measurement, monitoring and control of existing or potential risks in all aspects of business operation, processes and staff, so as to ensure the effectiveness in decision making, implementation and supervision of risk management.

The Bank continuously pushed forward the construction of a firm-wide risk management framework on the principles for the governance of modern commercial banks. The Bank stipulated *Construction Outline for Firm-wide Risk Management Framework* and *Risk Management Plan for 2013-2015* in 2009 and 2013 respectively, which set forth the general objective, main content, working focus and practical measures for all the phases of firm-wide risk management framework construction. In 2014, the Bank further perfected the risk management framework in accordance with the planned objective, completed the risk management organizational structure with the principle of “all-encompassing”, strengthened the system construction and implemented the risk prevention and control responsibilities, at the same time, the Bank also enhanced the initiative and sensitivity of risk prevention and control, and improved the risk mitigation capability. The Bank did a great job on risk management in important areas and industries, strengthened the management of financial services and interbank businesses, carried out self-assessment and special assessment on operational risk, and the general risk condition of the Bank was maintained stable. The advanced approaches of capital management had been approved by regulatory authority and the risk management technology has made a major breakthrough. Risk management tools for rural areas, agriculture and farmers had been optimized, and increased support on the policies had been applied in county-level loan business. The Bank continuously strengthened the management concept of "comprehensive risk", and achieved a comprehensive coverage of management and control of all types of risks, which provided powerful support for the products innovation, business development and operation transformation of the Bank.

### **2.2 Risk Appetite**

Risk appetite is a term that refers to the types and levels of risks acceptable to the Bank as determined by the Board of Directors, which depends on the expectations and constraints of the Bank’s major stakeholders, external operating environment and the conditions of the Bank, in order to achieve strategic targets and effective risk management. The risk appetite statement and the administrative measures for risk appetite described the types and levels of risks acceptable to the Bank during the course of operations. It established the risk limitation, specified the basic principles for formulating various risk management policies and set up the general rules for the formulation, adjustment, management duties and implementation of risk appetite. The Bank

maintains a sound and innovative risk appetite. The Bank is devoted to positioning itself as a first-class modern commercial bank, maintaining sound and innovative risk appetite, operating in compliance with regulatory and legal requirements, and consistently implementing the New Basel Capital Accord and the new regulatory standards. At the same time, the Bank seeks to achieve moderate returns with reasonable levels of risk by maintaining security, profitability and liquidity and insisting on having an appropriate balance among capital, risk and revenue. The Bank maintains sufficient risk allowance and capital adequacy, aim to improve the Bank's overall risk management capability for business development and innovation and create value through risk management, so as to effectively support the realization of the Bank's strategic targets. In 2014, the Bank adhered to the strategy of comprehensive, balanced and effective risk management and strictly implemented sound and innovative risk appetite. Taking into account of the balance among capital, risk and revenue, the Bank strengthened the guiding function of the economic capital. The Bank implemented risk limit management comprehensively, and refined credit, market and operating risk limit management system. The Bank adhered to its risk limitation policies and facilitated the effective integration of risk management and business development to improve its risk management capability.

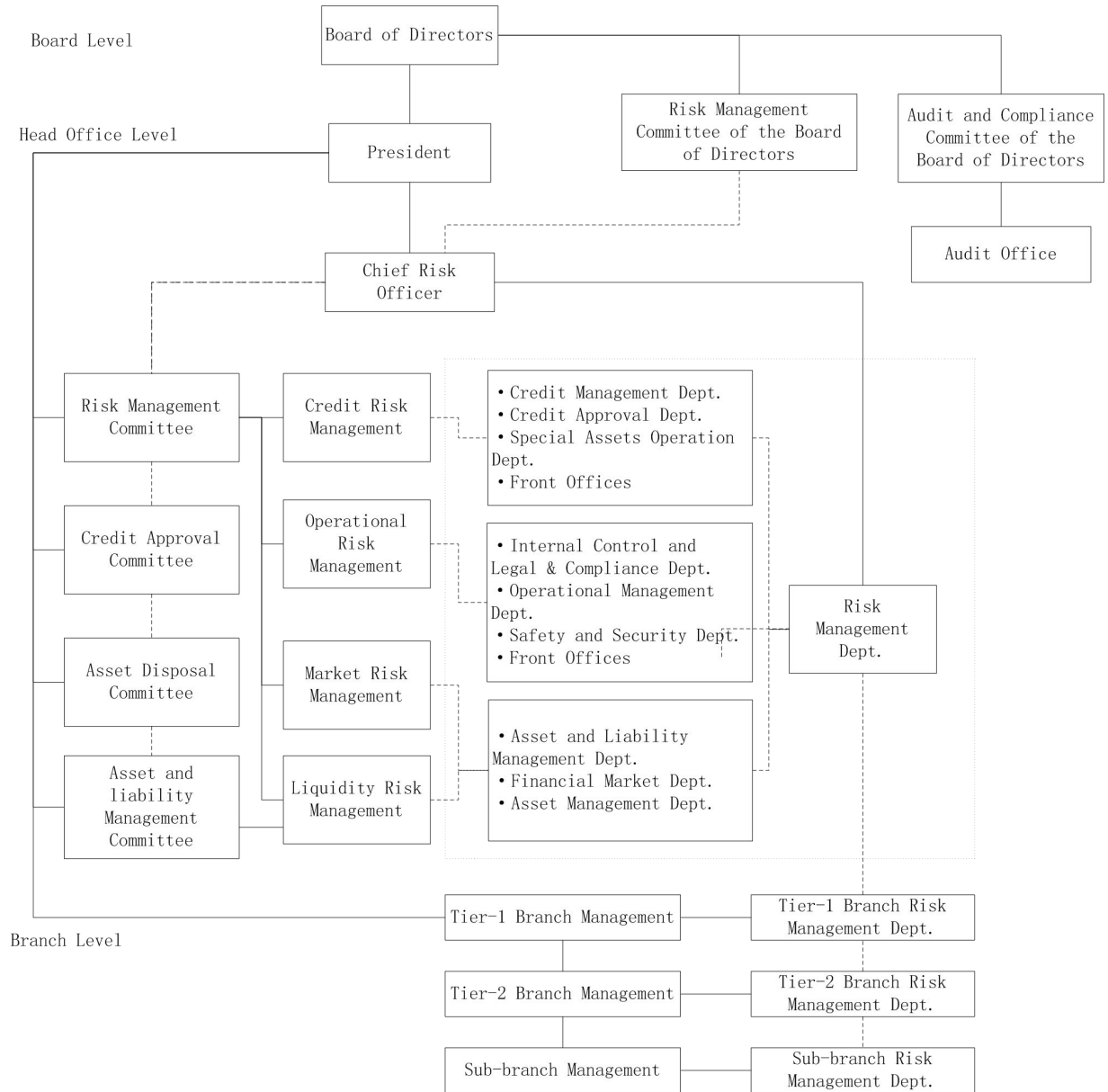
## **2.3 Structure and Organization of Risk Management**

The Board of Directors assumes the ultimate responsibility for risk management. The Risk Management Committee, the Audit and Compliance Committee under the Board of Directors perform the risk management functions, review the key risk management issues and supervise and evaluate the establishment of risk management system and the risk condition of the Bank. Senior Management is the organizer and executor of risk management of the Bank. Under the Senior Management oversight, the Bank has various risk management committees with different functions, including Risk Management Committee (with three sub-committees, namely credit risk management committee, market risk management committee and operational risk management committee), Credit Approval Committee, Asset and Liability Management Committee and Asset Disposal Committee. Risk Management Committee is primarily responsible for considering material risk management issues, studying and drafting risk management policies, system and tools, analyzing and evaluating the overall risk condition of the Bank, and coordinating, guiding and reviewing the risk management of all departments and branches. In 2014, the Bank further refined the risk management organizational structure and post functions in its branches and sub-branches. The Bank actively facilitated the establishment of risk management departments in sub-branches, effective allocation of human resources and satisfactory staff performance in order to ensure the efficient execution of risk management functions at its branch outlets. Risk management training was carried out to strengthen capability and performance of the risk management teams of the Bank.

The Bank's major subsidiaries have set up boards of directors to assume the organization's ultimate responsibility for risk management. The senior management is responsible for organizing the daily operations regarding risk management in the organization. The Risk

Management Department of the Bank is responsible for the implementation of consolidated risk management for subsidiaries, and the relevant functional departments perform their management duties over subsidiaries accordingly.

## Risk Management Organizational Chart



## **2.4 Risk Management Policies**

The Bank established a clear, scientifically applicable and comprehensive systemic framework with respect to risk policies, which includes basic policies on risk management consisting of risk appetite and risk planning, and general and specialized measures regarding risk management system, detailed instructions and operation procedures for daily operations related to risk management. The basic policies on risk management establish the general requirements and fundamental principles for comprehensive risk management and serve as the basis of business operations and risk management activities of the Bank. General and specialized measures regarding risk management system cover the main types of risks the Bank assumes, namely credit risk, market risk, operational risk, liquidity risk, reputation risk and strategy risk. The Bank continues to refine the administrative measures for various business operations and integrates risk management, internal control and compliance requirements into these administrative measures for various business operations, such as credit underwriting, transactions and investments as well as payment and settlement, in an effort to ensure the risk appetite and risk policies are implemented consistently. Under the leadership of the Board of Directors and Senior Management, rules and policies are always available to follow in various risk management operations, and risk identification, measurement, monitoring, control, and reporting are conducted effectively.

In 2014, the Bank continued to refine its risk management policy system. For credit risk management, the Bank formulated administrative measures on credit concentration risk. Amendments were made to administrative measures and implementation rules on the internal ratings-based risk exposure classification of credit risk for banking book, quantification of internal ratings-based risk parameter, validation of internal rating system, internal rating for credit risk and calculation and management of risk-weighted assets. For market risk, the Bank formulated the administrative measures on management policies for annual treasury transaction and investment and market risks management, value at risk (VaR) measurement, market risk model validation and emergency plan for material market risks. The Bank also made amendments to the administrative measures on valuation of fund transaction and investment business. For operational risk, the Bank formulated operational risk management policies.

## **2.5 Risk Management Tools and Systems**

### *Implementation of the advanced approaches for capital management*

In April 2014, with the approval of CBRC, the Bank became one of the first batch of domestic banks implementing advanced approaches of capital management within the scope of non-retail foundation IRB approach, retail IRB approach and standardized approach for operational risk.

In respect of credit risk, the Bank launched the foreign and domestic non-retail Internal Ratings-Based (IRB) system in 2007 and 2009 respectively, and the retail IRB system was brought online in 2011. The IRB system of the Bank has a solid data base, and its model is scientifically designed. It has good risk identification ability and can perform cautious and reliable evaluation of risk parameters. Its policies and procedures are scientific and effective while its rating results are thoroughly applied, and principles for the measurement of risk weighted asset are prudent and reasonable. The Bank fully revised the non-retail rating management measures and implementation rules, optimized the risk parameters and improved the forecast capability of Internal Ratings-Based model. Based on the enhancement of the prudent management of rating, the Bank established dynamic adjustment mechanism for rating, with the aim to mitigate the credit risk with the rating adjustment. Function of the rating system had been further perfected, and automatic level of default early-warning had been improved. The Bank comprehensively validated the retail individual loans as well as the scoring model of credit card, and optimized some of the scoring card, which further improved the risk identification capacity and business applicability. The Bank also deepened the application of the scoring result, enhanced the prudent management of the scoring, optimized the retail rating related systems and improved the operation convenience of systems.

In respect of market risk, the Bank launched Internal Models Approach (IMA) in 2012 and established the advanced measurement and management system for market risk with regard to organizational structure, policies and procedures, measurement methods and IT systems. In 2014, The Bank actively carried out the validation of the internal model approach, consistently optimized the market risk measurement model and data quality, enhanced the promotion strength of internal modal approach, gradually covered the foreign institutions and comprehensively improved the market risk management and measurement level of the Bank, which laid a foundation for the implementation of advanced measurement approaches for market risk.

In respect of operational risk, the Bank kept on promoting the implementation of the advanced measurement approaches for operational risk, collected the internal loss data since 2008 and established an advanced measurement approach system focusing on the loss distribution approach, which was applied to measuring operational risk economic capital commencing from January 2014. During the internal operation procedure of the advanced approaches, the Bank perfected the reporting standards and reporting principles for the internal loss data, and built a data quality review mechanism, meanwhile the Bank also enriched measurement models, optimized measurement engines and improved the stability and accuracy of measurement. The Bank optimized the operational risk management scoring card, and incorporated the business condition and internal control data closely related to the risk of the Bank in the measurement model, which strengthened the sensitivity and perspectiveness to the indication of risk.

The Bank accelerated the construction of internal capital adequate assessing procedures, and carried out the work of assessing internal capital adequacy for the year of 2014, the report of which has been reviewed and passed by the board of directors. Special auditing work for the internal capital adequacy assessing procedure for the year of 2014 has been conducted, which has consolidated the basis of capital management.

Information disclosure for the capital adequacy ratio has been carried out in a timely manner. The Bank compiled *2013 Capital Adequacy Ratio Report*, and disclosed to the public. Interim and the third quarter capital adequacy ratio of 2014 were measured by the advanced approaches for capital management approved by regulatory authority, and the information relating to capital and risk was disclosed.

### *Tools and measures for risk management*

The Bank perfected the firm-wide risk management system, promoted the implementation and achievements application of the advanced approaches for capital management, and established an operation and transmission mechanism of risk management that is able to balance capital, risks and return by using various risk management tools, such as economic capital, risk limits, rating classification, impairment provision, stress test and risk appraisal. As such, the capability of risk identification, measurement, monitoring, control and reporting has been fully enhanced. The scope of economic capital measurement of the Bank includes credit risk, market risk and operational risk, which fully covers the risk exposures of on- and off-balance sheet assets, domestic and foreign branches, and parent company and subsidiaries. The Bank continued to refine the management system of credit risk, market risk and operational risk limits and expand the coverage of industry-specific credit risk limits to include governmental financing platforms, real estate and all industries with characters of high pollution, high energy consumption and with excess production capacity. It established a multi-level limitation system for market risk and liquidity risk which set amount limits, risk limits, sensitivity limits, stop-loss limits and stress testing limits for proprietary trading, proprietary investment and financial services. The Bank included key operational risk indicators in economic capital measurement, implemented limit control, and provided guidance for branches to enhance operational risk management proactively. The Bank continuously enhanced the risk monitoring report by using the reporting system to improve the promptness of information delivery, and report the risk profile to the management regularly. The Bank consistently conducted risk monitoring in important sectors, regions and industries and publish risk warnings. A risk evaluation system in vertical and horizontal has been established by the Bank, in which evaluation indicators were set up from aspects of risk level, change, compensation, disposal and report, and using the system to complete the procedures of indicator data collection, indicator calculation and publication, thus to improve the efficiency, accuracy and transparency of risk evaluation and assessing. The Bank established the risk evaluation mechanism from the vertical and horizontal sides, realized the

data acquisition of evaluation, the measurement and release of evaluation result through system, and enhanced the efficiency, accuracy and transparency of risk evaluation. The Bank established risk data warehouses regarding credit risk, market risk and operational risk, and set up risk management information systems related to the core business management information systems of the Bank. It also launched and upgraded various IT information systems for customer rating, risk-weighted asset calculation engine, risk categorization and operational risk management. The risk management tools, data warehouses and information systems established and used by the Bank have laid a solid foundation for the refinement and scientization of risk management and provided effective support to decision making in relation to business operation and management.

In 2014, according to the state economic development layout, the Bank actively looked for opportunities from regional development such as “one belt and one road”, increased credit support efforts to the important regions, national special economic zones and industry parks which have been supported by governmental policies, established regional and differentiated credit policies, dynamically adjusted and perfected them according to performance, in order to improve the quality and level of service to real economy. Facing the “new normal situation ” of the macro-economy development, the Bank further increased management of asset quality and risk prevention and control, implemented strict credit access management, continuously to implement the corporate client list system management, strengthened the limits control and management, enhanced the risk investigation and monitoring, carried out special risk governance in important regions, industries, products and guarantee groups, and timely withdrew from high risk customers, and to improve risk mitigation measures. By increasing efforts to dispose of non-performing loans, broadening disposal channels, conducting mass transferring of non-performing loans, and accelerating the progress of non-performing loans write off, the Bank maintained the stability of asset quality.



## 3 Information on Composition of Capital

### 3.1 Scope for Calculating Capital Adequacy Ratio

The scope for calculating the Bank's consolidated capital adequacy ratio includes the Bank and the financial institutions in which the Bank has direct or indirect investments in compliance with the requirements of the *Capital Rules for Commercial Banks (Provisional)*. The scope for calculating the Bank's unconsolidated capital adequacy ratio includes all the domestic and foreign branches of the Bank.

The main difference between the scope of regulatory consolidation and the scope of accounting consolidation is that ABC Life Insurance Co., Ltd., which is controlled by the Bank, is not included in the scope of regulatory consolidation. As of the end of 2014, the Bank had 14 major subsidiaries. Pursuant to *Capital Rules for Commercial Banks (Provisional)*, capital deduction is adopted for investments in ABC Life Insurance Co., Ltd., while the remaining 13 subsidiaries are included in the scope of regulatory consolidation.

<b>Table 3.1A Consolidation Treatments for Different Invested entities</b>		
No.	Classification of Invested entities	Consolidation Treatments
1	Financial institutions included in financial consolidation scope (excluding insurance company)	Include into the scope of regulatory consolidation
2	Financial institutions not included in financial consolidation scope (excluding insurance company)	Not include into the scope of regulatory consolidation
3	Insurance companies	Not include into the scope of regulatory consolidation
4	Other industrial and commercial enterprises	Not include into the scope of regulatory consolidation

The following table sets out basic information of invested entities within the calculation scope of consolidated capital adequacy ratio according to the balance of equity investment.

<b>Table 3.1B: Basic information of the invested entities within the calculation scope of consolidated capital adequacy</b>						
No.	Name of invested entity	Date of establishment	Place of incorporation	Paid-in capital	Proportion of aggregated shareholdi	Business nature and principal activities

					ng (%)	
1	ABC International Holdings Limited	2009	Hong Kong, PRC	HKD 4,113,392,450	100	Investment
2	ABC Financial Leasing Co., Ltd.	2010	Shanghai, PRC	RMB 3,000,000,000	100	Financial Leasing
3	China Agricultural Finance Co., Ltd.	1988	Hong Kong, PRC	HKD 588,790,000	100	Investment
4	Agricultural Bank of China (UK) Limited	2011	London, UK	USD 100,000,000	100	Banking
5	ABC Zhejiang Yongkang Rural Bank Limited Liability Company	2012	Zhejiang, PRC	RMB 210,000,000	51	Banking
6	ABC-CA Fund Management Co., Ltd.	2008	Shanghai, PRC	RMB 200,000,001	51.67	Fund Management
7	ABC Xiamen Tong'an Rural Bank Limited Liability Company	2012	Fujian, PRC	RMB 100,000,000	51	Banking
8	ABC Jixi Rural Bank Limited Liability Company	2010	Anhui, PRC	RMB 29,400,000	51.02	Banking
9	ABC Ansai Rural Bank Limited Liability Company	2010	Shaanxi, PRC	RMB 20,000,000	51	Banking
10	ABC Hubei Hanchuan Rural Bank Limited Liability Company	2008	Hubei, PRC	RMB 31,000,000	50	Banking

11	ABC Hexigten Rural Bank Limited Liability Company	2008	Inner Mongolia, PRC	RMB 19,600,000	51.02	Banking
12	Agricultural Bank of China (Luxembourg) Limited	2014	Luxembourg	EUR20,000,000	100	Banking
13	Agricultural Bank of China (Mexico) Limited	2014	Mexico, Russia	INR1,400,000,000	100	Banking

**Table 3.1C: Basic information about the invested entity subjected to deduction treatment**

No.	Name of invested entity	Date of establishment	Place of incorporation	Paid-in capital	Proportion of aggregated shareholding (%)	Business nature and principal activities
1	ABC Life Insurance Co., Ltd.	2005	Beijing, PRC	RMB 2,032,653,061	51	Insurance

### 3.2 Regulatory Capital Shortfall of Investees

There was no regulatory capital shortfall of the investees in which the Bank has a majority equity interest or control.

### 3.3 Restrictions on Intra-group Capital Transfers

The Bank carried out intra-group capital transfers pursuant to the *Law of the People's Republic of China on Commercial Banks*, the *Measures for Implementation of Administrative Licensing Matters Concerning Chinese-funded Commercial Banks*, other related laws and regulations as well as related requirements of regulatory authorities.

### 3.4 Contrast Between Regulatory Consolidation and Accounting Consolidation

The Bank compiled the balance sheet within the scope of regulatory consolidation in accordance with the *Capital Rules for Commercial Banks (Provisional)* and the *Notice of the China Banking Regulatory Commission on Issuing the Supporting Policies for the Capital Regulation of*

*Commercial Banks.* The contrast between the items of regulatory consolidation and accounting consolidation is shown in the table below.

*In millions of RMB*

**Table 3.4: Balance sheet as in financial statement and as under regulatory consolidation**

Item	Balance sheet as in financial statement	Balance sheet under regulatory consolidation	Code
<b>Assets</b>			
Cash and balances at central banks	2,743,065	2,743,027	A01
Deposits with banks and other financial institutions	572,805	567,167	A02
Placements with banks and other financial institutions	407,062	407,062	A03
Financial assets designated at fair value and changes included into the profits and losses for the period	414,660	414,660	A04
Derivative financial instruments	7,195	7,195	A05
Financial assets held under resale agreements	509,418	509,418	A06
Interest receivables	97,948	97,464	A07
Loans and advances to customers	7,739,996	7,739,629	A08
Available-for-sale financial assets	927,903	918,977	A09
Hold-to-maturity investments	1,710,950	1,703,508	A10
Accounts receivable investment	522,117	511,370	A11
Long term equity investment	-	2,852	A12
Fixed assets	154,950	154,481	A13
Land use rights	23,524	23,506	A14
Deferred tax assets	78,640	78,639	A15
Goodwill	1,381	-	A16
Intangible assets	2,593	2,407	A17
Other assets	59,945	46,487	A18

<b>Total assets</b>	<b>15,974,152</b>	<b>15,927,849</b>	<b>A00</b>
<b>Liabilities</b>			
Borrowings from central bank	80,121	80,121	L01
Deposits from banks and other financial institutions	831,141	833,606	L02
Placements from banks and other financial institutions	224,923	224,923	L03
Financial liabilities designated at fair value and changes included into the profits and losses for the period	372,493	372,497	L04
Financial assets sold under repurchase agreements	131,021	126,950	L05
Due to customers	12,533,397	12,533,412	L06
Derivative financial liabilities	7,240	7,240	L07
Bond payables and certificate of deposit issued	325,167	325,167	L08
Employee salary payables	40,511	40,354	L09
Taxes payables	48,873	48,860	L10
Interest payables	192,876	192,910	L11
Deferred tax liabilities	43	5	L12
Provisions	13,902	13,902	L13
Other liabilities	139,825	96,191	L14
<b>Total liabilities</b>	<b>14,941,533</b>	<b>14,896,138</b>	<b>L00</b>
<b>Owner's equity</b>			
Paid-in capital	324,794	324,794	E01
Other equity instruments	39,944	39,944	E02
Capital reserve	101,891	101,841	E03
Surplus reserve	78,594	78,593	E04
General risk reserve	156,707	156,707	E05
Undistributed profits	329,989	330,182	E06
Foreign currency translation reserve	(853)	(853)	E07
Minority interests	1,553	503	E08

<b>Total owner's equity</b>	<b>1,032,619</b>	<b>1,031,711</b>	<b>E00</b>
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### 3.5 Composition of Capital

Pursuant to the *Capital Rules for Commercial Banks (Provisional)*, the composition of regulatory capital is shown in the table below.

*In millions of RMB*

<b>Table 3.5: Composition of capital</b>			
<b>CET-1 capital</b>		Balance at the end of the reporting period	Code
1	Paid-in capital	324,794	E01
2	Retained earnings	565,482	
2a	Surplus reserve	78,593	E04
2b	General reserve	156,707	E05
2c	Undistributed profits	330,182	E06
3	Accumulated other comprehensive income and disclosed reserve	100,988	
3a	Capital reserve	101,841	E03
3b	Others	(853)	E07
4	Directly issued capital subject to phase out from CET-1 capital (only applicable to non-joint stock companies, banks of joint stock companies just fill with "0")	-	
5	Common share capital issued by subsidiaries and held by third parties	165	
<b>6</b>	<b>CET-1 capital before regulatory adjustments</b>	<b>991,429</b>	
<b>CET-1 capital: regulatory adjustments</b>			
7	Prudential valuation adjustments	-	
8	Goodwill (net of deferred tax liability)	-	A16
9	Other intangible assets other than land use rights (net of deferred tax liability)	2,407	A17
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	

11	Cash-flow hedge reserve to the items not calculated at fair value	-	
12	Shortfall of provisions to expected losses on loans	-	
13	Securitization gain on sale	-	
14	Unrealized gains and losses due to changes in own credit risk on fair valued liabilities	-	
15	Defined-benefit pension fund net assets (net of deferred tax liability)	-	
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	-	
17	Reciprocal cross-holdings in common equity	-	
18	Deductable amount of the CET-1 capital from insignificant minority capital investment of the financial institutions outside the scope of consolidation	-	
19	Deductable amount of the CET-1 capital from significant minority capital investment of the financial institutions outside the scope of consolidation	-	
20	Mortgage servicing rights	-	
21	Other deductible amount in the net deferred tax asset that rely on future profitability of the bank	-	
22	Significant investments in the capital of financial institutions outside the scope of regulatory consolidation and other net deferred tax assets that rely on the Bank's future profitability (amount exceeding the 15% of the CET-1 capital)	-	
23	of which: significant investments in the capital of financial institutions	-	
24	of which: mortgage servicing rights	-	
25	of which: deductible amount in other net deferred tax assets that rely on the Bank's future profitability	-	
26a	Investment in CET-1 capital of financial institutions outside the scope of regulatory consolidation but in which the Bank has the control	2,816	
26b	Shortfall of CET-1 capital of financial institutions outside the scope of regulatory consolidation but in which the Bank has the control	-	

26c	Total other items deductible from CET-1 capital	-	
27	Regulatory adjustments applied to CET-1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-	
<b>28</b>	<b>Total regulatory adjustments to CET-1 capital</b>	<b>5,223</b>	
<b>29</b>	<b>CET-1 capital</b>	<b>986,206</b>	
<b>Additional Tier 1 capital</b>			
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	39,944	
31	of which: classified as equity	39,944	E02
32	of which: classified as liabilities	-	
33	Directly issued capital instruments subjects to phase out from Additional Tier 1	-	
34	Minority interest given recognition in Tier 1	2	
35	of which: instruments issued by subsidiaries subject to phase out	(3)	
<b>36</b>	<b>Additional Tier 1 capital before regulatory adjustments</b>	<b>39,946</b>	
<b>Additional Tier 1 capital: regulatory adjustments</b>			
37	Investments in own Additional Tier 1 instruments	-	
38	Reciprocal cross-holdings in Additional Tier 1 instruments	-	
39	Additional Tier 1 capital from insignificant minority capital investment of the financial institutions outside the scope of consolidation	-	
40	Additional Tier 1 capital from significant minority capital investment of the financial institutions outside the scope of consolidation	-	
41a	Investments in Additional Tier 1 capital of financial institutions outside the scope of consolidation but in which the Bank has the control	-	
41b	Shortfall of Additional Tier 1 capital of financial institutions outside the scope of consolidation but in which the Bank has the control	-	
41c	Other items deductible from Additional Tier 1 capital	-	
42	Amount deductible from Additional Tier 2 capital but not	-	



	yet deducted		
<b>43</b>	<b>Total regulatory adjustments to Additional Tier 1 capital</b>		-
<b>44</b>	<b>Additional Tier 1 capital</b>	<b>39,946</b>	
<b>45</b>	<b>Tier 1 capital (CET-1 capital + Additional Tier 1 capital)</b>	<b>1,026,152</b>	
<b>Tier 2 capital</b>			
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	150,000	
47	Directly issued capital instruments subject to phase out from Tier 2	120,000	
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	9	
49	of which: Portions not given recognition after the transition period	(2)	
50	Provisions	215,398	
<b>51</b>	<b>Tier 2 capital before regulatory adjustments</b>	<b>365,407</b>	
<b>Tier 2 capital: regulatory adjustments</b>			
52	Investments in own Tier 2 instruments	-	
53	Reciprocal cross-holdings in Tier 2 instruments	-	
54	Tier 2 capital from insignificant minority capital investment of the financial institutions outside the scope of consolidation	-	
55	Tier 2 capital from significant minority capital investment of the financial institutions outside the scope of consolidation	-	
56a	Investments in Tier 2 capital of financial institutions outside the scope of consolidation but in which the Bank has the control	-	
56b	Shortfall of Tier 2 capital of financial institutions outside the scope of consolidation but in which the Bank has the control	-	
56c	Other items deductible from Tier 2 capital	-	
<b>57</b>	<b>Total regulatory adjustments to Tier 2 capital</b>	-	
<b>58</b>	<b>Tier 2 capital</b>	<b>365,407</b>	

59	Total capital (Tier 1 capital + Tier 2 capital)	1,391,559	
60	Total risk weighed assets	10,825,619	
<b>Capital adequacy ratios and reserve capital requirements</b>			
61	CET-1 capital adequacy ratio	9.09%	
62	Tier 1 capital adequacy ratio	9.46%	
63	Capital adequacy ratio	12.82%	
64	Institution specific capital requirement	8.50%	
65	of which: reserve capital requirement	2.50%	
66	of which: countercyclical capital requirement	0%	
67	of which: additional capital requirement for G-SIB	1%	
68	CET-1 capital available to meet buffers (as a percentage of risk weighted assets)	3.46%	
<b>National minima</b>			
69	CET-1 capital adequacy ratio	5%	
70	Tier 1 capital adequacy ratio	6%	
71	Capital adequacy ratio	8%	
<b>Amounts not deducted from the thresholds for deduction</b>			
72	Non-significant investments in the capital of other unconsolidated financial institutions	43,973	
73	Significant investments in the common stock of unconsolidated financial institutions	511	
74	Mortgage servicing rights (net of related tax liability)	N/A	
75	Other net deferred tax assets relying on the Bank's future profitability (net of deferred tax liabilities)	78,634	A15-L12
<b>Applicable caps on the inclusion of over-provision for loss on loans in Tier 2 capital</b>			
76	Provisions for loan loss actually provided under the weight approach	30,295	
77	Provisions eligible for inclusion in Tier 2 capital excess loan loss under the weight approach	22,659	
78	Provisions for loan loss actually provided under the Internal Ratings-Based approach	197,463	

79	Provisions eligible for inclusion in Tier 2 capital excess loan loss under the Internal Ratings-Based approach	192,739	
<b>Capital instruments subject to phase-out arrangements</b>			
80	Amount included in CET-1 capital due to transitional arrangements	-	
81	Amount excluded from CET-1 capital due to transitional arrangements	-	
82	Amount included in Additional Tier 1 capital due to transitional arrangements	-	
83	Amount excluded from Additional Tier 1 capital due to transitional arrangements	-	
84	Amount included in Tier 2 instruments due to transitional arrangements	120,000	
85	Amount excluded from Tier 2 due to transitional arrangements	5,000	

### 3.6 Main Features of Eligible Capital Instruments

As of the end of 2014, the eligible capital instruments of the Bank include common stocks, preference shares and Tier 2 capital instrument. As at 15 July 2010, A shares of Agricultural Bank of China Limited were listed on the Shanghai Stock Exchange, and H shares of Agricultural Bank of China Limited were listed on the Hong Kong Stock Exchange as at 16 July 2010. As at September 2014, the Bank was approved to privately issue no more than 800 million preference shares in China to raise no more than RMB80 billion with multiple issuances. As at 13 November 2014, the Bank accomplished the first issuance of 400 million preference shares, with RMB40 billion raised. The preference shares issued during the period were listed on the Shanghai Stock Exchange for transfer on 28 November.

During the period from 2009 to 2012, the Bank issued in aggregate subordinated bonds amounting to RMB150 billion in the PRC inter-bank bond market. Pursuant to the requirement of *Capital Rules for Commercial Banks (Provisional)*, since 2013, the amount of conventional subordinated bonds that can be included in regulatory capital shall be reduced year by year, and as of the end of 2014, the aggregate amount that could be included in Tier 2 capital was RMB120 billion. As at 18 August 2014, with the approval from the CBRC and PBOC, the Bank successfully issued Tier 2 capital bonds amounting to RMB30 billion in national inter-banks securities market, all of which included into Tier 2 capital. The following table sets forth the main features of eligible capital instruments of the Bank.

**Table 3.6: Main features of eligible capital instruments**

		Ordinary Share of A Shares	Ordinary Share of H shares	Preference Shares	Tier 2 Capital Instruments
1	Issuer	Agriculture Bank of China Limited	Agriculture Bank of China Limited	Agriculture Bank of China Limited	Agriculture Bank of China Limited
2	Unique code	601288	1288	360001	1428012
3	Governing laws	“Company Law of the People’s Republic of China”, “Securities Law of the People’s Republic of China”, “Law of the People’s Republic of China on Commercial Banks”, “Rules Governing the Listing of Stocks on Shanghai Stock Exchange”, etc.	“Company Law of the People’s Republic of China”, “Securities Law of the People’s Republic of China”, “Law of the People’s Republic of China on Commercial Banks”, “Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited”, etc.	“Company Law of the People’s Republic of China”, “Securities Law of the People’s Republic of China”, “the Administrative Measures on the Pilot Scheme of Preference Shares”, etc.	“Law of the People’s Republic of China on Commercial Banks”, “Capital Rules for Commercial Banks (Provisional)”, “Measures for the Administration of the Issuance of Financial Bonds in the National Inter-bank Bond Market”, etc.
	Regulatory treatments				
4	of which: Application of <i>Capital Rules for Commercial Banks (Provisional )</i> transitional rules	CET-1 capital	CET-1 capital	Additional Tier 1 capital	
5	of which: Application of <i>Capital</i>	CET 1 capital	CET 1 capital	Additional Tier 1 capital	Tier 2 capital

	<i>Rules for Commercial Banks (Provisional)</i> post-transitional rules				
6	of which: Eligible at the Bank / the Group	the Bank and the Group	the Bank and the Group	the Bank and the Group	the Bank and the Group
7	Instrument type	Ordinary stock	Ordinary stock	Preference shares	Tier 2 capital bonds
8	Recognized in regulatory capital (in million RMB, most recent reporting date)	294,055	30,739	39,944	30,000
9	Par value	RMB1	RMB1	RMB100	RMB100
10	Accounting classification	Equity	Equity	Equity	Liability
11	Original date of issuance	2010-07-15	2010-07-16	2014-10-31	2014-08-18
12	Perpetual or dated	Perpetual	Perpetual	Perpetual	Dated
13	of which: Original maturity dates	No maturity date	No maturity date	No maturity date	2024-08-18
14	Issuer call subject to prior regulatory	No	No	No	Yes (subject to prior regulatory

	approval				approval)
15	of which: Optional call date, contingent call dates and redemption amount	-	-	-	2019-08-18
16	Of which: Subsequent call dates, if applicable	-	-	-	-
	Bonus or Dividends				
17	of which: Fixed or floating dividend / bonus	Floating	Floating	The coupon rate of the preference shares will be adjusted every 5 years. The dividend of the preference shares under the Issuance will be paid at an agreed fixed coupon rate during each dividend adjustment period.	Fixed
18	of which: coupon rate and any related index	Subject to the Board's decision	Subject to the Board's decision	Coupon rate of the first dividend adjustment period is 6%	5.8%
19	of which:	No	No	Yes	No

	Existence of a dividend stopper				
20	of which: Whether fully discretionary in cancellation of bonus or dividend	Full discretionary	Full discretionary	Full discretionary	Without discretionary
21	of which: Existence of step up or other incentive to redeem	No	No	No	No
22	of which: Non-cumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	No	No	Yes	No
24	of which: If convertible, specify	-	-	(1) If the CET 1 capital adequacy rate of the Bank decreased to 5.125% (or below), the preference shares issued will be fully or partially transferred to	-

	conversion trigger(s)		<p>ordinary shares of A share, in order to make the CET 1 capital adequacy rate resumed to above 5.125%.</p> <p>In case of partial transfer, all preference shares issued will be transferred in proportion on the same conditions.</p> <p>(2) All preference shares issued will be transferred into ordinary shares of A share in case of the earlier occurrence of the following two situations:</p> <p>① the CBRC considers that the Bank could not survive in case no conversion will be carried out; ② relevant authority considers that the Bank could not survive in case no capital injection with public departments or no provision of support with the same effectiveness.</p> <p>If the Bank mandatorily transfer the issued preference shares to ordinary shares, it shall report to the CBRC for investigation and making decision, and shall performance the obligations of disclosure temporary reports and announcements in accordance with <i>Securities Law of the People's Republic of China</i> and relevant requirements of</p>	
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				the CBRC.	
25	of which: If convertible, fully or partially	-	-	Fully or partially	-
26	of which: If convertible, determine methods for conversion price	-	-	<p>The initial conversion price of the preference shares under the Issuance shall be the average trading price of the ordinary shares of the A Share of the Bank in 20 trading days preceding the date of the Board resolution on the Issuance Plan (i.e. RMB2.43 per share).</p> <p>After the date of the Board resolution, in the event the Bank issues stock dividends, converts capital reserves to share capital, conducts follow-on issuances of shares (excluding the ordinary shares that may be converted from the convertible capital instruments issued by the Bank such as preference shares and convertible corporate bonds, among others), conducts a rights issue or acts under similar circumstances, the Bank will adjust the conversion price on a cumulative basis</p>	-

				<p>in accordance with the sequence of occurrences of the foregoing events. The specific adjustment measures are as follows:</p> <p>In the event of issuing stock dividends or converting capital reserves to share capital:  <math display="block">P1=P0/(1+n);</math></p> <p>In the event of conducting follow-on issuances of shares or rights issue:  <math display="block">P1=P0 \times (N+Q \times (A/M)) / (N+Q);</math></p> <p>Among which: “P0” is the conversion price before the adjustment; “n” is the ratio of stock dividends or converting capital reserves to share capital; “Q” is the number of ordinary shares issued in the follow-on issuances of shares or the rights issue; “N” is the total number of the Bank’s ordinary shares before the increase or rights issue; “A” is the subscription price of the follow-on issuances of shares or rights issue; “M” is the newly issued shares’ closing price on the trading day one day prior to the date of the effective and irrevocable announcement on offering</p>
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				<p>results in the follow-on issuances of shares or rights issue; P1 is the adjusted conversion price.</p> <p>When the above changes in the Bank's shares and/or shareholder's interests occur, the Bank will adjust the conversion price in sequence, and will make corresponding information disclosure in accordance with relevant requirements. The mandatory conversion price of the preference shares will not be adjusted according to the Bank's distribution of cash dividends on ordinary shares.</p>	
27	of which: If convertible, mandatory or optional conversion	-	-	Yes	-
28	of which: If convertible, specify instrument	-	-	Ordinary Shares	-

	nt type convertible into				
29	of which: If convertible, specify issuer of instrument it converts into	-	-	Agricultural Bank of China Limited	-
30	Write-down feature	No	No	No	Yes
31	of which: If write-down, write-down trigger(s)	-	-	-	Triggers refer to the occurrence of the earlier of the following two events: (1) the CBRC considers that the issuer could not survive if no write-down carried out; (2) relevant authority considers that the issuer could not survive in case no capital injection with public departments or no provision of support with the same effectiveness.
32	of which: If write-down,	-	-	-	Full write-down

	full or partial				
33	of which: If write-down, permanent or temporary	-	-	-	Permanent
34	of which: If temporary write-down, description of write-up mechanism	-	-	-	-
35	Position in subordination hierarchy in liquidation (instrument type immediately senior to instrument)	Subordinate to the depositors, creditors, junior debt and Additional Tier 1 capital instruments	Subordinate to the depositors, creditors, junior debt and Additional Tier 1 capital instruments	Subordinate to the depositors, creditors, junior debt, prior to CET 1 capital instruments	Subordinate to the depositors and creditors, and prior to other Tier 1 capital instrument
36	Non-eligible transitioned features	No	No	No	No
37	of which: If yes, specify non-eligible features	-	-	-	-

### 3.7 Threshold Deductions Limit and Limit of Excess Loan Loss Provisions

According to *Capital Rules for Commercial Banks (Provisional)*, the Bank's non-significant minority capital investments in financial institutions outside the scope of consolidation, significant minority capital investment in financial institutions outside the scope of consolidation and other net deferred tax assets that rely on future profitability of the bank are not meet the threshold deduction limit, details of which are as followings.

*In millions of RMB*

**Table 3.7A: Threshold Deduction Limit**

Items applied threshold deduction approach	Amount	Capital Deduction Limit		Difference up to the cap
		Items	Amount	
Non-significant minority capital investments in financial institutions outside the scope of consolidation, among which:	43,973	10% of the CET 1 capital <sup>1</sup> , net of regulatory deduction	98,621	54,648
CET 1 capital investment	546			
Additional Tier 1 capital	0			
Tier 2 capital	43,427			
CET 1 capital of significant minority capital investments to financial institutions outside the scope of consolidation	511	10% of the CET 1 capital <sup>2</sup> , net of regulatory deduction	98,621	98,110
Other net deferred tax assets that rely on future profitability of the bank	78,634		98,621	19,987
Un-deducted part of CET 1 capital in significant capital investment in financial institutions outside the scope of consolidation and additional net deferred tax assets rely on the Bank's profitability	79,145	15% of the CET 1 capital <sup>3</sup> , net of regulatory deduction	147,931	68,786

Notes: 1. The CET 1 capital, net of regulatory deduction refers to the balance after deducted all deductible items of the CET 1 capital.

2. The CET-capital, net of regulatory deduction refers to the balance after deducted all deductible items of the CET 1 capital and non-significant minority capital investment to financial institutions outside the consolidation.

3. The CET 1 capital, net of regulatory deduction refers to the balance after deducted all deductible items of the CET 1 capital, Non-significant minority capital investment of the financial institution outside the consolidation, CET 1 capital of significant minority capital investment of financial institutions outside the consolidation and other net deferred tax assets that rely on future profitability of the bank.

According to *Capital Rules for Commercial Banks (Provisional)*, under the weighting approach, provisions of excess loan loss included in the Tier 2 capital is the excess of the provision of the loan loss actually provided by the Bank over the minimum requirement, which is not allowed to exceed 1.25% of the credit risk weighted asset. Under the Internal Ratings-Based approach, provisions of excess loan loss included in the Tier 2 capital is the excess of the provision of the loan loss actually provided by the Bank over the expected loss, which is not allowed to exceed

0.6% of the credit risk weighted asset. In the parallel run period, the amount of provisions of excess loan loss with the coverage lower than 150% included into Tier 2 capital is not allowed to exceed 0.6% of the credit risk weighted asset, and the provisions of excess loan loss with the coverage higher than 150% could be all included into Tier 2 capital.

*In millions of RMB*

<b>Table 3.7B Limits of Excess Loan Loss Provisions Could be Included into the Tier 2 Capital</b>	
Items	Amount
Provisions for loan loss actually provided under the Weighting Approach	30,295
The amount of provisions eligible for inclusion in Tier 2 capital excess loan loss under the Weight Approach	22,659
The limit of provisions eligible for inclusion in Tier 2 capital excess loan loss under the Weight Approach	22,659
If not reach the provision cap, the difference up to the cap under the Weighting Approach	-
Provisions for loan loss actually provided under the Internal Ratings-Based Approach	197,463
The amount of provisions eligible for inclusion in Tier 2 capital excess loan loss under the Internal Ratings-Based Approach	192,739
The limit of provisions eligible for inclusion in Tier 2 capital excess loan loss under the Internal Ratings-Based Approach	-
If not reach the provision cap, the difference up to the cap under the Internal Ratings-Based approach	-

### 3.8 Changes in Paid-in Capital

During the Reporting Period, the Bank did not have any increase or decrease in its paid-in capital, separation and consolidation matters.

### 3.9 Significant Capital Investments

During year of 2014, the Bank had no significant capital investment.

## **4 Credit Risk**

### **4.1 Credit Risk Management**

Credit risk refers to the risk of loss from the default of an obligator or counterparty when payments fall due. The bank are exposed to credit risk that is primarily distributed among our loan portfolio, investment portfolio, guarantee business and various other on- and off-balance sheet credit risk. The Bank's objectives of credit risk management are to adhere to its risk appetite, and assume appropriate level of credit risk and earn returns commensurate with respective risks assumed based on its credit risk management capability and capital level, as well as to lower and control the loss for risk as a result of the default of obligators or counterparties, or the downgrading of credit rating or the weakening of contractual capability.

The Bank gradually established and consummated a clear, scientific and applicable and comprehensive credit risk management policy system which includes basic policies, systems and measures, based on needs of business development and comprehensive risk management of the Bank, coordinated business development with risk control, formulated a same goal for business development and risk control, ensured the consistency between policies and procedures. The basic policies of credit risk management mainly cover the industry-specific credit, professional reviewing and approval, risk categorization, transaction control, code of conduct, capital insurance, etc., which serves as the fundamental standard for credit risk management of the Bank as well as the fundamental basis for setting out management measures. Under the basic policies, sound systems and measures of credit risk management including credit reviewing and approval, limit management, internal rating, credit authority, draw-down management, collateral management, post-lending management, disposal or write-offs, etc were established to make sure each risk management activity complies with regulations. In addition, the Bank continuously clarified and perfected the specific management measures and operation procedures of each business, product, customer operation for each department and business line, ensuring that the credit risk management system be comprehensively implemented.

The Bank authorized presidents of branches to conduct business and delegation according to the risk management capability of the branches, and all businesses undertaking credit risk shall be conducted in accordance with procedures and permissions. The Bank designed and implemented the basic process of credit underwriting, i.e. customer's application and acceptance → business investigation (evaluation) → business examination, review by credit approval committee and approval by authorized person → (filing) → business implementation → post-business management → (management of non-performing assets) → recovery of loans, based on credit scale, complexity, and risk characteristics on the basic principles of "separating the loan initiation from approval, adopting checks and balance, achieving symmetry between powers and responsibilities, and maintaining clearance and efficiency". The bank implemented customer layering management. Based on the customer's risk level and the Bank's risk exposures,



customer management bank is determined. The business department of the customer management bank leads daily management of customers. Risk management department and credit management department at all levels supervise and control customer risks, oversee the post-lending management of relevant business departments, until the loan recovered upon the expiry of business. Where there is non-performing assets (including loan), disposal department of non-performing loan will take over the non-performing assets under required procedures and permissions by various disposal means until the non-performing assets reversed, recovered or written-off.

The Bank assesses the recoverability of loans due and classifies the loans by taking account of principle factors, including the borrower's repayment capacity, repayment record, willingness to repay the loan, profitability of the loan project, and the reliability of the secondary repayment source in accordance with the *Guidelines of Loan Credit Risk Classification* issued by the CBRC. The Bank classifies its loans into five categories, namely normal, special mention, substandard, doubtful and loss, in which loans classified as substandard, doubtful and loss are regarded as non-performing loans. Overdue loans refer to loans that customers fail to repay the principal or interest in accordance with the maturity dates stipulated in the contracts. The recognition and provision for impairment losses on loans are assessed individually and collectively. Provision made individually represents the aggregate allowance for impairment losses from corporate loans classified as substandard, doubtful and loss. Provision made collectively represents the aggregate allowance for impairment losses provided for corporate loans classified as normal and special mention, as well as retail loans (including card overdraft).

## 4.2 Credit Risk Exposure

The Bank calculates the non-retail credit risk-weighted assets by Foundation Internal Ratings-Based approach (FIRB), of which risk exposure of company and financial institution has been applied for ratification of regulatory authorities, and adopted the Internal Ratings-Based approach (IRB) for retail credit risk-weighted assets and the weighting approach for the part of credit risk-weighted assets not covered by IRB approach.

*In millions of RMB*

**Table 4.2A: Credit risk exposure covered by IRB approach**

Items	Risk exposure
Credit risk exposure covered by IRB approach	
Company	6,376,197
Sovereignty	-
Financial institutions	2,347,921

Retail	2,347,641
Asset securitization	-
Shareholding	-
Others	-
<b>Total</b>	<b>11,071,759</b>

*In millions of RMB*

**Table 4.2B: Credit risk exposure not covered by IRB approach**

Items	Risk exposures
Credit risk exposure not covered by IRB approach	
On-balance sheet credit risk exposure	6,186,981
Cash and cash equivalents	2,743,956
Debt issued by central governments and central banks	1,124,641
Loans to public sector entities	302,178
Loans to domestic financial institutions	837,747
Loans to foreign financial institutions	69,758
Loans to general enterprises	424,272
Loans to small and micro enterprises	4,803
Loans to individuals	263,033
Residual value of leasing assets	-
Equity investments	3,613
Real estate not for own use	2,938
Risk exposures from the settlement of security, commodity and foreign currency transactions	-
Others	404,008
Asset securitization items on balance sheet	6,034
Off-balance sheet credit risk exposure	410,265
Counterparty credit risk exposure	7,478
<b>Total</b>	<b>6,604,724</b>

## **4.3 Internal Ratings-Based Approach**

### **4.3.1 Introduction of Internal Ratings-Based Approach**

In April 2014, the IRB approach of the Bank was formally approved by the CBRC. The Bank calculated the non-retail credit risk-weighted assets by FIRB approach and retail by IRB approach.

Under the unified leadership of the Board of Directors and the senior management, the Bank implements the rating management mechanism of "initiated by customers' department, reviewed by credit management department and monitored by risk management department". Risk management department is the competent department of internal rating, responsible for managing the general internal rating for the Bank; departments of customers, credit management, audit, internal compliance, asset and liability management, science and technology, etc. perform their respective duties and jointly carry out the management of internal rating. In recent years, the Board of Directors, senior management and each relevant department of the Bank proactively performed their duties and effectively drove the construction and implementation of the internal rating system.

The Bank strengthened the rating management and enhanced its prudence in measuring the default risk. By leveraging the measuring results, the Bank improved its capability for risk decisions. Currently, the rating parameters have been widely used in credit approval, loan pricing, economic capital measurement, performance appraisal, risk monitor, risk report, loan clarification, limit management, risk appetite, reserve provision.

Customers with 90 days' overdue or occurred advance on its off-balance sheet credit assets such as letter of guarantee, acceptance, letter of credit, etc. will be deemed automatically as default by the system. As to circumstances of business deterioration or insolvency of debtor, it will be identified by the standardized and rigorous procedure. Among the customers of non-retail default during the year, nearly half of them were determined default by manpower.

The Bank has established a non-retail default database with date longer than 10 years, including 520 thousand non-default customers and 11 thousand default customers, and a retail default date base longer than 10 years, including over 20 million non-default customers and over 300 thousand default customers, providing a helpful data support for the development, validation, optimization of the rating model of the Bank, as well as for the work of stress test and quantitative measurement.

Based on the statistical regression methods, after generally considering the fluctuation of systematic risk and individual risk during a full economic cycle, the Bank established the risk prediction models of probability of default, loss at given default, and exposure at default. The Bank established probability of default model for non-retail sector, and prediction models of probability of default, loss at given default, exposure at default risk for retail sector. All of the major models are supported by sufficient data, which effectively ensured the accuracy and reliability of the models. The clarification ability of the models remains at a relatively high level.

Basic assumptions of the rating models mainly include that the internal and external environment have no material change, the structure of customers and assets of the Bank have no material adjustment and the historical data could be used to predict the future, etc.

#### 4.3.2 Non-retail credit risk exposure covered by IRB approach

Following table sets out non-retail risk exposure of the Bank classified by levels of probability of default as of the end of 2014.

*In millions of RMB, except for percentages*

<b>Table 4.3A: Non-retail risk exposure by probability of default</b>					
Probability of default	Exposure at default	Average PD	Exposure-weighted average LGD	Exposure-weighted average weight	Risk-weighted assets
1	1,731,389	0.03%	44.99%	18.57%	321,597
2	1,181,997	0.20%	38.61%	37.59%	444,327
3	808,544	0.42%	36.96%	52.51%	424,561
4	1,503,747	0.80%	42.06%	73.49%	1,105,146
5	985,437	1.23%	41.28%	84.61%	833,750
6	857,230	1.72%	40.11%	89.81%	769,909
7	724,958	2.41%	40.57%	98.36%	713,047
8	369,208	3.25%	39.73%	101.05%	373,088
9	225,006	4.45%	39.70%	106.53%	239,694
10	107,870	6.12%	40.94%	121.98%	131,577
11	70,514	8.95%	41.70%	138.22%	97,464
12	21,912	12.84%	41.35%	158.69%	34,772

13	5,091	18.47%	42.18%	166.96%	8,499
14	678	28.04%	42.85%	212.39%	1,440
15	25,670	42.86%	38.31%	176.66%	45,349
16	98,505	100.00%	43.19%	55.43%	54,597
<b>Total</b>	<b>8,717,756</b>	<b>-</b>	<b>-</b>	<b>64.22%</b>	<b>5,598,817</b>

Note: Counterparty credit risk exposure is excluded.

### 4.3.3 Retail credit risk exposure covered by IRB approach

Following table sets out retail risk exposure of the Bank by types as of the end of 2014.

*In millions of RMB, except for percentages*

<b>Table 4.3B Retail risk exposure by types</b>					
Items	Exposure at default	Average PD	Average LGD	Average risk weight	Risk-weighted assets
Personal residential mortgages	1,553,684	1.11%	21.47%	17.28%	268,427
Eligible circulation retail	307,388	2.29%	41.63%	22.78%	70,035
Other retail	486,569	2.62%	49.81%	46.21%	224,839
<b>Total</b>	<b>2,347,641</b>	<b>-</b>	<b>-</b>	<b>23.99%</b>	<b>563,301</b>

## 4.4 Credit risk exposure Uncovered under Internal Ratings-Based Approach

As of the end of 2014, the Bank calculated the part of credit risk exposure not covered by IRB approach by weighting approach, details of which are set out in the following table.

*In millions of RMB*

<b>Table 4.4A: Credit risk exposure not covered by IRB approach</b>		
Items	Risk exposures	Risk exposures after risk mitigation
<b>On-balance sheet credit risk exposure</b>	<b>6,186,981</b>	<b>5,836,185</b>
Cash and cash equivalents	2,743,956	2,743,956
Debts issued by central governments and central banks	1,124,641	1,124,641
Loans to public sector entities	302,178	302,178

Loans to domestic financial institutions	837,747	630,050
Loans to foreign financial institutions	69,758	69,758
Loans to general enterprises	424,272	292,619
Loans to small and micro enterprises	4,803	3,752
Loans to individuals	263,033	252,637
Residual value of leasing assets	-	-
Equity investments	3,613	3,613
Real estate not for own use	2,938	2,938
Risk exposures from the settlement of securities, commodity and foreign currency transactions	-	-
Others	404,008	404,008
Asset securitization items on balance sheet	6,034	6,034
<b>Off-balance sheet credit risk exposure</b>	<b>410,265</b>	<b>359,746</b>
<b>Counterparty credit risk exposure</b>	<b>7,478</b>	<b>7,478</b>
<b>Total</b>	<b>6,604,724</b>	<b>6,203,409</b>

The table below sets forth the risk exposures before and after risk mitigation classified by risk weights as of the end of 2014.

*In millions of RMB*

**Table 4.4B: Risk exposures before and after risk mitigation by risk weights**

Risk weights	Risk exposures	Risk exposures after risk mitigation
0%	3,872,316	3,872,316
20%	340,534	220,323
25%	314,339	309,939
50%	5,957	5,950
75%	272,298	260,858
100%	1,705,865	1,440,607
150%	129	129
250%	79,424	79,424
400%	1	1
1250%	6,384	6,384
<b>Total</b>	<b>6,597,246</b>	<b>6,195,931</b>

Note: On-balance sheet and off-balance sheet credit risk exposure is included, but counterparty credit risk exposure is excluded.

The following table sets forth the risk exposures of capital instruments held by the Bank that were issued by other commercial banks, equity investments in industrial and commercial enterprises as well as real estate not for own use as of the end of 2014.

*In millions of RMB*

**Table 4.4C: Risk exposures for the holdings of capital instruments issued by other commercial banks, equity investments in industrial and commercial enterprises and real estate not for own use**

Items	Risk exposures
CET 1 capital instruments issued by other commercial banks	96
Additional Tier 1 capital instruments issued by other commercial banks	-
Tier 2 capital instruments issued by other commercial banks	9,055
Equity investments of corporations	2,556
Real estate not for own use	2,938
<b>Total</b>	<b>14,645</b>

## 4.5 Credit Risk Mitigation

The Bank has attached great importance to the credit risk mitigation management and mainly uses collateral, pledges and guarantees such as financial pledges, real estate and receivables for credit risk mitigation. In specific business operations, qualified collateral, pledges and guarantees recognized by regulatory authorities are preferred, and connected guarantees among customers are strictly controlled. The overall profile of credit risk mitigation tools is sound and such tools have a sufficient capacity in risk mitigation. In 2014, the Bank proactively implemented the requirements of the *Capital Rules for Commercial Banks (Provisional)*, further refined its credit risk management system and business processes, enhanced the construction of positions responsible for collateral evaluation, perfected relevant management information systems, and constantly improved the share of qualified credit risk mitigation instruments and management level of credit risk mitigation. According to the regulatory requirements, the Bank amended the *Regulations on Guarantee of Credit Business* and consummated the credit risk mitigation management system. It also strengthened security and guarantee management, increased conditions for conducting security and guaranteed business and accession standard of guarantor. Besides, the Bank carried out rectification of guarantee circles, perfected the management of financing guarantee companies' list system and emphasized the control of guarantee risk. The Bank also strengthened collateral and pledges management and strictly

implemented the requirements regarding post-lending revaluation of collateral and pledges. The Bank organized qualification examinations for positions responsible for collateral evaluation, trying hard to improve the ability to mitigate the risk of collateral and pledges. It also established an information platform for credit risk mitigation management to improve the management and control competence.

Under the IRB approach, the Bank acknowledged the mitigation effect of risk mitigation instruments, such as qualified collateral and pledges, net amount settlement, guarantees etc. based on relevant requirements of the *Capital Rules for Commercial Banks (Provisional)*. The effect was reflected by the decrease of the loss at given default, exposure at default and probability of default. Eligible collateral and pledges include financial pledges, receivables, commercial and residential properties, and other collateral and pledges. Qualified guarantees mainly consist of guarantees provided by financing institutions and common companies. The Bank took a full consideration of the impact of currency mismatch and term mismatch on the value of the mitigation instruments and determined prudently result of mitigation. When a single risk exposure has various credit risk mitigation instruments, the Bank will consider its risk mitigation effect by subdividing the risk exposure into exposure covered by each risk mitigation instrument.

Under the weighting approach, the Bank identified eligible credit risk mitigation tools, and confirmed that the risk mitigation effect of the eligible collateral and pledges or of the guarantee provided by the eligible guarantors in accordance with the relevant requirements of the *Capital Rules for Commercial Banks (Provisional)*. Loans pledged by eligible collateral and pledges have the same risk weights as the collateral, or take the risk weights of the direct creditor rights against the collateral's issuers or acceptors. For loans with partial pledges, the portion being protected by pledges have a relatively lower risk weight. Any loan being fully guaranteed by the eligible guarantors directly has the risk weight of the guarantor. For the loans that are partly guaranteed, the part of which obtains a relatively lower risk weight.

*In millions of RMB*

**Table 4.5A: Credit risk mitigation quantitative information under Internal Ratings-Based approach**

Risk exposure type	Covered by qualified collateral and pledges				Covered by netting settlements	Covered by qualified guarantor	Covered by credit derivatives
	Covered by commercial and residential property	Covered by financial collateral	Covered by receivables	Covered by other collateral and pledges			



Company	1,165,683	342,048	30,970	38,001	-	453,685	-
Sovereignty	-	-	-	-	-	-	-
Financial institutes	-	333,566	119	1,222	-	619	-
Retail	-	-	-	-	-	-	-
Assets securitization	-	-	-	-	-	-	-
Equity	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-
<b>Total</b>	<b>1,165,683</b>	<b>675,614</b>	<b>31,089</b>	<b>39,223</b>	<b>-</b>	<b>454,304</b>	<b>-</b>

*In millions of RMB*

**Table 4.5B: Credit risk mitigation under weighted approach**

Items	Covered by netting settlements	Covered by financial collateral, and guarantees	Covered by other eligible mitigations
<b>On-balance sheet credit risk exposure</b>	-	<b>350,796</b>	-
Cash and cash equivalents	-	-	-
Debts issued by central governments and central banks	-	-	-
Loans to public sector entities	-	-	-
Loans to domestic financial institutions	-	207,697	-
Loans to foreign financial institutions	-	-	-
Loans to general enterprises	-	131,653	-
Loans to micro and small enterprises	-	1,050	-
Loans to individuals	-	10,396	-
Residual value of leasing assets	-	-	-
Equity investments	-	-	-
Others	-	-	-
Risk exposures from the settlement of	-	-	-

securities, commodity and foreign currency transactions			
Asset securitization items on balance sheet	-	-	-
<b>Off-balance sheet credit risk exposure</b>	-	<b>50,519</b>	-
<b>Counterparty credit risk exposure</b>	<b>3,032</b>	-	-
<b>Total</b>	<b>3,032</b>	<b>401,315</b>	-

## 4.6 Loans and Advances to Customers

As of the end of 2014, the total loans and advances to customers based on our accounting consolidation amounted to RMB8,098,067 million. The relevant data of loans and advances to customers in this section are prepared under the scope of the accounting consolidation. The distribution of the loans and advances to customers of the Bank is shown in the table below.

*In millions of RMB, except for percentages*

**Table 4.6A: Distribution of loans and advances to customers by geographical area**

Items	Amount	Percentage (%)
<b>Corporate loans and advances</b>		
Head Office	147,614	2.6
Yangtze River Delta	1,312,497	23.0
Pearl River Delta	669,532	11.8
Bohai Rim	1,036,523	18.2
Central China	684,153	12.0
Western China	1,236,514	21.7
Northeastern China	217,926	3.8
Overseas and Others	392,324	6.9
<b>Sub-total</b>	<b>5,697,083</b>	<b>100.0</b>
<b>Personal loans and advances</b>		
Head Office	107	-
Yangtze River Delta	606,026	25.2
Pearl River Delta	440,572	18.3

Bohai Rim	345,542	14.4
Central China	335,059	14.0
Western China	573,220	23.9
Northeastern China	96,113	4.0
Overseas and Others	4,345	0.2
<b>Sub-total</b>	<b>2,400,984</b>	<b>100.0</b>
<b>Total loans and advances to customers</b>	<b>8,098,067</b>	

*In millions of RMB, except for percentages*

**Table 4.6B: Distribution of loans and advances to customers by industry**

Items	Amount	Percentage (%)
<b>Corporate loans and advances</b>		
Manufacturing	1,459,857	25.6
Transportation, logistics and postal services	779,230	13.7
Wholesale and retail	629,609	11.1
Real estate	587,916	10.3
Production and supplying of power, thermal power, gas and water	551,929	9.7
Leasing and commercial services	399,910	7.0
Mining	261,932	4.6
Finance	218,286	3.8
Construction	212,961	3.7
Water, environment and public utilities	209,769	3.7
Other industries	385,684	6.8
<b>Sub-total</b>	<b>5,697,083</b>	<b>100.0</b>
<b>Personal loans and advances</b>		
Residential mortgage	1,550,702	64.6
Personal business	266,913	11.1
Personal consumption	204,102	8.5
Credit card overdraft	222,865	9.3

Loans to rural households	154,609	6.4
Others	1,793	0.1
<b>Sub-total</b>	<b>2,400,984</b>	<b>100.0</b>
<b>Total loans and advances to customers</b>	<b>8,098,067</b>	

*In millions of RMB*

**Table 4.6C: Distribution of loans and advances to customers by contractual maturity and security type**

Items	Less than 1 year	1 to 5 years	Over 5 years	Total
Unsecured loans	794,488	295,993	705,780	1,796,261
Guaranteed loans	785,858	285,079	317,351	1,388,288
Loans secured by mortgage	1,164,594	668,884	2,105,571	3,939,049
Pledged loans	476,414	52,629	445,426	974,469
<b>Total</b>	<b>3,221,354</b>	<b>1,302,585</b>	<b>3,574,128</b>	<b>8,098,067</b>

*In millions of RMB*

**Table 4.6D: Distribution of loans and advances to customers by period overdue**

Items	1 to 90 days past due	91 to 360 days past due	361 days to 3 years past due	Over 3 years past due	Total
Unsecured loans	9,442	4,744	616	371	15,173
Guaranteed loans	19,103	14,380	7,639	4,559	45,681
Loans secured by mortgage	40,740	32,292	13,845	7,585	94,462
Pledged loans	3,854	5,041	721	1,688	11,304
<b>Total</b>	<b>73,139</b>	<b>56,457</b>	<b>22,821</b>	<b>14,203</b>	<b>166,620</b>

*In millions of RMB, except for percentages*

**Table 4.6E: Five-category classification of loans and advances**

Item	Amount	Percentage (%)
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Normal	7,661,924	94.62
Special mention	311,173	3.84
Non-performing loans	124,970	1.54
Substandard	35,052	0.43
Doubtful	75,669	0.93
Loss	14,249	0.18
<b>Total</b>	<b>8,098,067</b>	<b>100.0</b>

*In millions of RMB, except for percentages*

**Table 4.6F: Non-performing loans by business type**

Item	Amount	Percentage (%)	Non-performing loan ratio (%)
<b>Corporate loans</b>	103,072	82.5	2.00
Of which: Short-term corporate loans	78,579	62.9	3.57
Medium- and long-term corporate loans	24,493	19.6	0.83
<b>Discounted bills</b>	-	-	-
<b>Retail loans</b>	21,052	16.8	0.88
Residential mortgage loans	4,980	4.0	0.32
Credit card overdraft	3,866	3.1	1.73
Personal consumption loans	2,048	1.6	1.00
Loans to private business	4,461	3.6	1.70
Loans to rural households	5,421	4.3	3.51
Others	276	0.2	20.25
<b>Overseas and other loans</b>	846	0.7	0.21
<b>Total</b>	<b>124,970</b>	<b>100.0</b>	<b>1.54</b>

*In millions of RMB, except for percentages*

**Table 4.6G: Non-performing loans by geographical area**

Item	Amount	Percentage (%)	Non-performing loan ratio (%)
Head Office	7	-	-
Yangtze River Delta	26,242	21.0	1.37

Pearl River Delta	16,790	13.4	1.51
Bohai Rim	26,727	21.4	1.93
Central China	18,656	14.9	1.83
Northeastern China	5,368	4.3	1.71
Western China	30,332	24.3	1.68
Overseas and others	848	0.7	0.21
<b>Total</b>	<b>124,970</b>	<b>100.0</b>	<b>1.54</b>

*In millions of RMB, except for percentages*

**Table 4.6H: Non-performing loans by industry to domestic enterprises**

Item	Amount	Percentage (%)	Non-performing loan ratio (%)
Manufacturing	51,360	49.7	3.69
Production and supply of power, thermal power, gas and water	2,324	2.3	0.44
Real estate	5,580	5.4	0.96
Transportation, logistics and postal services	2,734	2.7	0.36
Wholesale and retail	31,460	30.5	5.93
Water, environment and public utilities	586	0.6	0.28
Construction	1,705	1.7	0.82
Mining	2,046	2.0	0.80
Leasing and commercial services	604	0.6	0.15
Information transmission, software and information technology services	207	0.2	0.37
Others	145	0.1	0.86
<b>Total</b>	<b>4,321</b>	<b>4.2</b>	<b>1.96</b>
	<b>103,072</b>	<b>100.0</b>	<b>2.00</b>

*In millions of RMB*

**Table4.6I: Balance and changes to the allowance for impaired losses**

Item	Individually	Collectively	Total
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	assessed	assessed	
At 1 January 2014	50,127	272,064	322,191
Charge during the reporting period	48,603	16,460	65,063
-Additions	58,579	59,031	117,610
-Reversals	(9,976)	(42,571)	(52,547)
Write-offs	(25,772)	(3,450)	(29,222)
Transfer-in/out	136	(97)	39
-Recoveries of loans written-off in previous years	921	220	1,141
-Unwinding of discount on allowance	(688)	(314)	(1,002)
-Changes in exchange rate	(97)	(3)	(100)
At 31 December 2014	73,094	284,977	358,071

*In millions of RMB*

**Table 4.6J: Credit quality of loans and advances**

Item	Amount
Neither past due nor impaired	7,923,816
Past due but not impaired	49,281
Impaired	124,970
<b>Sub-total</b>	<b>8,098,067</b>
Less: Allowance for impairment losses of loans and advances to customers	(358,071)
Book value of loans and advances to customers	7,739,996

## 5 Market Risk

### 5.1 Market Risk Management

Market risk refers to the risk of loss in the on- and off-balance sheet businesses of banks as a result of an adverse change in market prices (interest rates, exchange rates, commodity prices and stock prices, etc.). The major market risks that the Bank is exposed to are interest rate risk, exchange rate risk and commodity price risk. The Bank's objectives of market risk management are to adhere to the sound risk appetite, identify, measure, monitor and control market risk of all trading and non-trading business activities, ensure that the level of market risk is controlled within a reasonable range.

In 2014, the Bank continuously improved its market risk management system, established systems and measures of valuation management for fund transaction and investment business and risk management of business among financial institution, etc; proactively carried out validation of internal model approach, optimized measurement model for market risk and the data quality; enhanced efforts of popularization of market risk internal model approach, gradually brought offshore institutions into the coverage of the firm-wide market risk management system, improved comprehensively the firm-wide market risk management and measurement capability, laying a solid foundation for the implementation of the advanced measurement approach for market risk.

### 5.2 Market Risk Exposure

As of the end of 2014, the Bank's market risk capital requirements measured by standardized approach are RMB5,565 million.

*In millions of RMB*

<b>Table 5.2: Market risk capital requirements measured by standardized approach</b>	
Item	Capital requirement
Interest rate risk	1,163
Equity risk	-
Foreign exchange risk	4,265
Commodity risk	137
Option risk	-
<b>Total</b>	<b>5,565</b>



## 6 Operational Risk

### 6.1 Operational Risk Management

Operational risk refers to the risk of loss resulting from inadequate or problematic internal control procedures, human or information system related factors, or external affairs, including legal risk, but not including strategy risk or reputation risk. The Bank's objectives of operational risk management are to adhere to its sound and innovative risk appetite and incessantly improve the capacity of operational risk management, control the operational risk within the tolerable range as well as maintain a balance among risk, cost and return. The Bank set up operational risk tolerance management mechanisms, based on which the strategy and strength of operational risk management were determined. The Bank established the process of operational risk management covering identification, assessment, monitoring, reporting, control / mitigation and measurement.

In 2014, the Bank enacted *Operational Risk Management Policies of ABC*, specifying the mechanism, process and approaches for operational risk management, with which the Bank standardized and guided the branches to improve the operational risk management and enhance the effectiveness of operational risk management. The Bank set up transmission mechanism for risk appetite, tolerance and limit management, avoiding inadequate control or over-control. The Bank also set up the mechanism of investigation and analysis, resolution and accountability for operational risk events, performing post-event management for operational risk. In 2014, the Bank perfected the Key Risk Indicators (KRI) system, and continuously monitored operational risk in major areas (such as operating management and key staff management), incorporated the indicator risk level into the economic capital measurement and pushed branches to reinforce management. Therefore, the risk indicators were significantly improved. With deep implementation of the Risk and Control Self-Assessment(RCSA), the Bank completed the entire self-assessment of operational risk and carried out specific risk assessments for third party payment as well as for new products and risk events, realized the organic integration between self-assessment and specific assessment, which further improved the initiative, comprehensiveness and objectiveness. Loss Database (LD) was further strengthened and the data completeness was improved by carrying out risk evaluation. Hierarchical reviewing and strict grading methods were adopted to improve the data quality, which laid a sound foundation for risk quantitative analysis and implementation of the advanced measurement approach. In 2014, the Bank started trial of the advanced measurement approach in operational risk economic capital measurement field, and set up internally the qualification criteria for the advanced measurement approach to push branches to improve their operational risk management level continually. During the trial period, the calculation engine was continually optimized and the stability and sensitivity of the calculation is improved. Construction of the disaster recovery centre was accelerated, and the firm-wide business impact analysis was carried out. Business continuity management was improved to enhance the tail risk management capabilities.

## **6.2 Operational Risk Exposure**

The Bank adopted standardized approach to measure the regulatory capital for operational risk, in which the regulatory capital requirement for the Group was RMB68,989 million, and that for the Bank was RMB68,688 million.

## **7 Other Risks**

### **7.1 Securitization**

#### **7.1.1 Information on Securitization Business**

Securitization refers to that the originator packages and transfers the asset to the special purpose vehicle which generates future cash flows and in turn issues securities supported by the future cash flow of the assets, with different payment order and credit ratings.

The Bank participates in securitization business, mainly serving as originator, investor and lending services provider.

##### *As Originator and Lending Services Provider*

To mobilize asset inventories, adjust the asset and liability proactively, enrich the risk management measures, improve the capital adequacy ratio and promote operational transformation, the Bank carried out two issues of credit asset securitization business in 2014-“ABC Credit Assets-backed Securities 2014 Issue I” and “ABC Credit Assets-backed Securities 2014 Issue II”. Both products are the loans of the Bank to industrial and commercial enterprises, with a total scale of RMB10,125 million and were issued at par value. In the two issues of credit asset securitization business, the Bank served as the originator, participating in the selection of the underlying assets, transaction structure design and road-show activities. As the lending services provider, the Bank provided post lending management, receiving the principal and the interest, fund transfer and information disclosure for the assets pool.

As of the end of 2014, the balance of the underlying assets in the securitization for the Bank as the originator was RMB6,501 million. There was no advance amortization of the credit asset securitization products issued by the Bank.

##### *As Investor*

As an investor in the assets-backed securities market, the Bank generates investment returns through purchasing and holding assets-backed securities and exposes to the relevant credit risk, market risk and liquidity risk. Investment amount is determined with reference to the annual investment strategy and security risk returns.

#### **7.1.2 Accounting Policies**

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 consolidated 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.

### 7.1.3 Securitization Risk Exposure

The Bank adopted the standardized approach to measure the risk-weighted assets in securitization in accordance with the *Capital Rules for Commercial Banks (Provisional)*. During the Reporting Period, the risk exposure of the Banks were amount to RMB6,034 million, and the capital requirements were RMB483 million.

*In millions of RMB*

**Table 7.1A: Securitization originated by the Bank and not settled during the Reporting Period**

Asset securitization product	Originating year	Exposure of underlying assets at origination	Exposure of underlying assets at the end of 2014	External credit rating institution
ABC Credit Assets-backed Securities 2014 Issue I	2014	2,122	1,523	China Chengxin International Credit Rating Co., Ltd. China Credit Rating Co., Ltd.
ABC Credit Assets-backed Securities 2014 Issue II	2014	8,003	4,978	China Chengxin International Credit Rating Co., Ltd. China Credit Rating Co., Ltd.

Note: The originating date is in 2013 and the issuing date is in 2014.

*In millions of RMB*

<b>Table 7.1B: Balance of risk exposures of securitization</b>		
Item	Balance of risk exposures of traditional asset securitization	Balance of risk exposures of synthetic asset securitization
As originator <sup>1</sup>	967	-
As investor	5,067	-
<b>Total</b>	<b>6,034</b>	<b>-</b>

Note: 1. Serving as originator refers to risk exposure arising from subordinated part in the assets securitization retained and issued by the Bank other than aggregate amount of the assets securitization program issued as the originator.

*In millions of RMB*

<b>Table 7.1C: Balance on risk exposure of securitization</b>		
Category	As originator <sup>1</sup>	As investor
Asset-backed securities	967	4,974
Mortgage-backed securities (MBS)	-	93
Credit enhancement	-	-
Liquidity facility	-	-
Interest rate or currency swap	-	-
Credit derivatives	-	-
Offset by tranche	-	-
Others	-	-
<b>Total</b>	<b>967</b>	<b>5,067</b>

Note: 1. Serving as originator refers to risk exposure arising from subordinated part in the assets securitization business retained and issued by the Bank other than aggregate amount of the assets securitization program issued as the originator.

*In millions of RMB*

**Table 7.1D: Risk exposures of securitization based on risk weights**

Risk weights	Risk exposures	Capital requirement
Risk weights $\leq$ 20%	5,043	404
20% < Risk weights $\leq$ 50%	-	-
50% < Risk weights $\leq$ 100%	-	-
100% < Risk weights $\leq$ 350%	-	-
350% < Risk weights $\leq$ 1250%	991	79
<b>Total</b>	<b>6,034</b>	<b>483</b>

*In millions of RMB*

**Table 7.1E: Securitization assets of originator**

Category	Balance of underlying assets	Balance of the non-performing assets	Balance of the overdue loans	Losses recognized during the Reporting Period <sup>1</sup>
Loans to corporate customers	6,501	-	-	73
Personal residential mortgage loans	-	-	-	-
Other personal loans	-	-	-	-
Re-securitization	-	-	-	-

Others	-	-	-	-
<b>Total</b>	<b>6,501</b>	-	-	<b>73</b>

Note: 1. Losses recognized during the reporting period refers to the impairment and write-off of the securitization retained by the Bank as originator during the reporting period.

## 7.2 Counterparty Credit Risk

Counterparty credit risk refers to the risk from the possible default of the counterparty to a transaction before the final settlement of the transaction's cash flows. The counterparty credit risk of Bank is mainly from OTC derivative transactions. The Bank continuously improved the management of counterparty credit risk, prudently selected counterparties with a view to avoiding credit risk, and accurately measured the counterparty credit risk. The Bank developed relevant management measures, which require clients to conduct risk rating assessment and pay a corresponding proportion of margins before entering into derivative transactions. The clients shall enter into derivative transactions on an as-required basis, so as to avoid clients conducting derivative transactions for speculative purpose and reduce wrong-way risk. Collateral were monitored periodically to keep abreast of changes in collateral. Where the Bank's credit rating is downgraded, the Bank could reduce such impact by providing sufficient amount of additional collateral and pledges, hedging in the market or adjusting trading strategies. The Bank adopted the current risk exposure approach to measure the counterparty credit risk exposure and took into account the risk mitigation effect of netting.

Details of counterparty credit risk of the Bank as of the end of 2014 are set forth in the tables below.

*In millions of RMB*

**Table 7.2A: Net credit risk exposures of counterparties**

Item	Risk exposures
Total positive contractual fair value (without netting)	6,741
Total current credit risk exposures (without netting)	15,322
Total current credit risk exposures (after netting)	13,840
Less: Collateral and pledges	-
Net credit risk exposure of derivatives	13,840

*In millions of RMB*

**Table 7.2B: Distribution of current credit risk exposures by product type**

Item	Risk exposures
Interest rate contracts	922
Exchange rate contracts	14,400
Stock contracts	-
Commodity contracts	-
Credit derivatives	-
<b>Total</b>	<b>15,322</b>

### 7.3 Equity Risk of Banking Book

The equity investments of the Bank are classified into three types: long-term equity investments, financial assets at fair value through profit and loss for the current period and available-for-sale financial assets. Long-term equity investments are initially measured at initial investment costs, and are subsequently measured by cost method and equity method. Available-for-sale equity investments are measured at fair value for both initial and subsequent measurement.

In accordance with the *Capital Rules for Commercial Banks (Provisional)*, the Bank deducted the amount exceeding 10% of its CET 1 net capital in aggregate from the regulatory capital at all tiers respectively for the non-significant minority capital investments in unconsolidated financial institutions; and deducted the amount of investment in CET 1 capital exceeding 10% of its CET 1 net capital in aggregate from its CET 1 capital for the significant minority capital investments in unconsolidated financial institutions, and for investments in Additional Tier 1 capital and Tier 2 capital, deducted in full from the corresponding tiers of capital of the Bank. Where the significant minority capital investments in unconsolidated financial institutions and the corresponding net deferred tax assets are not deducted from CET 1 capital of the Bank, the aggregate amount shall not exceed 15% of its CET 1 net capital.

As of the end of 2014, the Bank adopted the weighting approach for the measurement of equity investments in financial institutions and other equity investments in banking book that were not deducted, and the details are shown in the table below.

*In millions of RMB*

**Table 7.3: Risk exposures of equity in banking book**

Types of the invested	Risk exposures of publicly traded	Risk exposures of non-publicly traded equity <sup>1</sup>	Unrealized profit or loss on potential risk <sup>2</sup>
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entity	equity <sup>1</sup>		
Financial institutions	287	770	262
Corporations	79	2,477	(31)
<b>Total</b>	<b>366</b>	<b>3,247</b>	<b>231</b>

Note: 1. Risk exposures of publicly traded equity refers to the risk exposures of listed companies, and risk exposures of non-publicly traded equity refers to the risk exposures of unlisted companies.

2. Unrealized profit or loss on potential risk refers to gain or loss that has been recognized in the balance sheet but not yet been recognized in the income statement.

## 7.4 Interest Rate Risk of Banking Book

Interest rate risk refers to risk of loss to our income or economic value arising from adverse movements of the statutory or market interest rate. The interest rate risk of the banking book of the Bank mainly arises from a mismatch of the maturity or re-pricing dates of interest rate-sensitive assets and liabilities in the banking book and the inconsistencies in the change of the benchmark interest rate on which assets and liabilities are based.

In 2014, the Bank closely monitored the impact of interest rate liberalization and actively followed up the steps of implementation of various reform measures, enforced the research and the preparation. The Bank persisted in prudent risk management strategies and minimized the impact of fluctuations of interest rate to the profitability through methods such as appropriate adjustment to internal fund transfer price program, dynamic optimization for interest rate authorization system. The Bank enforced monitoring, analyzing and reporting on interest risk, and strengthened the analysis and forecast of interest yield through measuring and analyzing the interest rate risk on a quarterly basis by adopting instruments of gap analysis, duration analysis, static scenario simulation and stress testing so as to guide the Bank to have reasonable distribution of asset and liability business and control the interest rate risk exposures within an acceptable scope. The table below sets forth the details of the Bank's interest rate risk for banking book as of the end of 2014. The interest rate sensitivity analysis in the table below indicates the movements in income and equity of the Bank under different interest rates, on the premise that there is a parallel shift in the yield curve, and without taking into account the assumption of early payment of loans, sunk demand deposits, and any risk management measures that might be adopted by the management to reduce interest rate risk.

*In millions of RMB*

**Table 7.4: Sensitivity analysis of interest rate risk of banking book**

Major currencies	Interest rate increased by 100 bps		Interest rate decreased by 100 bps	
	Impacts on the profit	Impacts on the equity	Impacts on the profit	Impacts on the equity
RMB	(10,245)	-	10,245	-
USD	90	-	(90)	-
Others	-	-	-	-
Total	<b>(10,155)</b>	-	<b>10,155</b>	-

## 7.5 Liquidity Risk

Liquidity risk refers to the risk that the commercial bank is unable to acquire sufficient funds in a timely manner at a reasonable cost in response to repayment of due loan, to fulfill other payment obligations and to meet other funding needs during normal course of business. The objective of liquidity risk management is to identify, measure, monitor and report the liquidity risk effectively by establishing a scientific and sound liquidity risk management system in order to ensure that the liquidity requirement arising from assets, liabilities and off-balance sheets operations and the obligation of external payment can be satisfied in a timely manner in normal operating environment or under stressed circumstances and in order to balance profitability and safety of the funds, whereupon, enforcing management and supervision on liquidity risk for branches, subsidiaries and business lines and safeguarding the Bank against overall liquidity risk.

The Bank closely monitored the changes in monetary policies and market conditions, strengthened its analysis and judgment on the macroeconomic and financial situation and the factors impacting liquidity. It also stuck to the bottom line of liquidity risk to achieve a balance among safety, liquidity and profitability so as to ensure its liquidity safety. The Bank adjusted and optimized the structure of assets and liabilities, stabilized sources of deposits, ensured smooth financing channels in the market and the ratio of high quality liquidity reserves to meet customers' payment needs. The Bank enhanced the real-time monitoring and flexible adjustment and re-allocation of fund positions, ensured adequate reserves and increased the return of fund operation. The Bank, by reinforcing liquidity monitoring and alerting and establishing a reporting mechanism to yearly report to the Board, made sure the notification of the Board of relevant information on the position and management of liquidity. The Bank revised the *Management Measures on Liquidity Risk Management of Agricultural Bank of China Limited* and the *Emergency Plan on Liquidity Event of Agricultural Bank of China Limited*, pursuant to the latest regulatory requirements under the *CBRC Management Measures on Liquidity Risk Management of Commercial Banks (provisional)* and implemented the regulatory requirements. The Bank carried out firm-wide reform on centralized management of excess reserve fund and ensured the smooth operation of the Bank's liquidity after "one point in, one point settle" of the

China National Advanced Payment business through a clearing account in head office of the Bank, which saved the excess reserve effectively and improved the return of fund operation. The Bank vigorously promoted the construction of liquidity management instruments and management system, optimizing open position management instruments and completing online operation of liquidity management system, realizing real-time monitoring, alerting and controlling on open position fund; promoted the construction of cash flow measurement system and liquidity monitoring index system, to improve timeliness and accuracy of the measurement.

In 2014, the monetary policy remained steady. The central bank carried out a series of open-market operations, implemented a targeted cuts of reserve requirement ratio and created Medium-term lending facilities (MLF), bundled with short-term liquidity adjustment instrument such as Short-term Liquidity Operations (SLO) and PSL to make a timely and appropriate two-way regulation and maintain a balanced sufficient amount of market liquidity, applied price instruments as necessary to guide the market rate move down and reduced social financing cost. The Bank continued to monitor monetary policies, changes in market liquidity, as well as the development of the asset and liability businesses and the liquidity position of the Bank. On the premise that the liquidity was secured, the Bank improved the return on use of funds and the adaptability to liquidity risk. During the reporting period, the Bank rationalized the arrangement of cash flow for due payment, and the liquidity position was adequate, safe and controllable in general. The table below sets out the Bank's net position of liquidity as of the end of 2014 on a consolidated basis.

*In millions of RMB*

**Table 7.5: Liquidity Gap Analysis**

Past due	On demand	Within 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Not Dated	Total
31,197	(7,219,512)	93,530	(268,594)	643,121	1,356,724	3,653,253	2,561,936	<b>851,655</b>

## **8 Internal Capital Adequacy Assessment**

### **8.1 Internal Capital Adequacy Assessment**

The Bank coordinated and facilitated the construction of the Second Pillar, consolidated the foundation of capital governance, and primarily established an internal capital adequacy assessment process with the features of the Bank. Based on the corporate governance principles of modern commercial bank, the Bank optimized the management system of internal capital adequacy assessment procedure (ICAAP), and further clarified the reporting lines and the responsibilities of the Board of Directors, senior management and various departments on capital management, thereby making the division of responsibilities and process clearer. The Board of Directors took the primary responsibility for capital management, the senior management was responsible for organizing and implementing the work of the capital management, and all relevant departments cooperated for the internal growth, conservation and release of capital.

In 2014, the Bank accelerated the implementation of ICAAP, and regulated and fixed the working mechanism of ICAAP. The Bank conducted the internal capital adequacy assessment for 2014 and completed report on the internal capital adequacy assessment which would be submitted to the regulatory authority after being reviewed and approved by the Board. In 2014, the Bank carried out special auditing on the internal capital adequacy assessment procedure to enhance capital governance foundation and safeguard compliance, effectiveness and persistence of capital management. The whole Bank reinforced the capital planning management based on development strategy, balancing meeting regulatory standards, risk covering, value creation and comparability in the industry, and setting budget reasonably for short, medium and long term capital adequacy ratio. Through consummating capital allocation and reinforcing monitoring and assessing, the Bank further improved meticulous standard of capital management and had a sound control over the pace of capital consumption, and continued to enhance the value-creating ability.

### **8.2 Capital Planning and Capital Adequacy Ratio Management Plan**

In 2013, the Bank formulated the *Capital Plan for 2013-2015 of Agricultural Bank of China* and the *Compliance Plan of Capital Adequacy Ratios for 2013-2018 of Agricultural Bank of China*, which were reviewed and approved by the Board of Directors. In these plans, by complying with the requirements of the *Capital Rules for Commercial Banks (Provisional)* and the *Notice of the China Banking Regulatory Commission on Transition Arrangements for the Implementation of the Capital Rules for Commercial Banks*, the Bank not only looked for internal source to replenish capital such as retained profits, but also explored the external channels such as innovative capital instruments, which strengthened its capital constraint and incentive mechanism and continuously optimized its asset structure. Meanwhile, the Bank maintained the level of capital adequacy ratio which is in line with the speed of business development, subject

to the regulatory requirements being satisfied incessantly. In 2014, the Bank accelerated the internal capital growth by retaining profit and made an adjustment to asset structure to enhance capital saving. Meanwhile, the Bank completed the issuance of RMB40 billion of preference shares and RMB30 billion of tier-2 capital bonds based on initial capital planning to supplement Additional Tier 1 and Tier 2 through external finances. As at the end of 2014, the Tier 1 capital and capital adequacy ratio of the Bank was significantly improved. In the course of implementation of these plans, through constantly strengthening the economic capital management, optimizing the allocation of economic capital and refining the capital constraint mechanism, the Bank raised the capital efficiency, facilitated the optimization of total number and structure of risk-weighted assets, and gradually established a long-term effect capital management mechanism.

## 9 Remuneration

Under the Board of Directors of the Bank, a Nomination and Remuneration Committee has been established, which consists of 7 directors as of the end of 2014, including the Vice Chairman Mr. Zhang Yun, and the directors, Mr. Shen Bingxi, Mr. Zhou Ke, Mr. Anthony Wu Ting-yuk, Mr. Qiu Dong, Mr. Frederick Ma Si-hang and Mr. Wen Tiejun. Mr. Qiu Dong is the chairman of the Nomination Committee and Remuneration Committee under the Board. The primary duties of the Committee are to formulate selection and appointment standard and procedures of the Bank's directors, chairs and member of all special committees under the Board of Directors and senior management, make recommendations to the Board of Directors on the election procedures, and qualifications; formulate remuneration measures of directors, supervisors and senior management, propose remuneration distribution plans and submit to the Board of Directors for reviewing. In 2014, the Nomination Committee and Remuneration Committee under the Board of Directors of the Bank convened 5 meetings. For the basic information about the remuneration of the Committee members, senior management, and the employees whose professional activities has material impact on the Bank's risk profile, please refer to the section headed "Directors, Supervisors and Senior Management" in the 2014 Annual Report of the Bank.

In order to attract, retain and incentivize employees, the Bank established a position-based wage system among its domestic branches on the principles that the salary and bonus are determined based on positions, capabilities and performance, and change with position change, whereby the employees' pay levels are determined based on such factors as position value, short-term and long-term performance. It preliminarily built up a remuneration system in line with the operational and management needs of a modern commercial bank. The Bank formulated and adjusted the remuneration policy in strict accordance with relevant regulatory requirement, laws and regulations, and requirements under corporate governance procedure of the Bank. The remuneration of the employees in the risk and compliance departments in the Bank was determined based on factors such as personal ability, performance and dedication, without direct relation to its supervisory duties.

In compliance with the regulatory requirements and in line with the characteristics of the industry, the Bank appropriated a proportion of the performance-based salary for the current period for its senior management or employees whose professional activities could have a material impact on the Bank's risk profile. Having considered the actual performance and time-lag risk, such payment would be made after expiry of deferred payment period, thereby linking the employees' current and long-term responsibilities and contributions with the development of the Bank.

The Bank's overall pay level was linked with the growth of its net profit, and subject to the regulation of and approval by the Ministry of Finance as well as the Ministry of Human Resources and Social Security of the PRC. Remunerations of the Bank's institutions and employees at all levels were associated with such factors as the operating results of units and the performance appraisal results of departments and employees.

The performance appraisal of the Bank's institutions and employees at all levels included the performance, risk indicator and other indicators of sustainable development, reflecting long-term performance and risk profile in aggregate and the pay level was determined and adjusted on the basis of comprehensive performance assessment results above.

The Bank's variable remunerations primarily comprised of performance-based pay (including deferred salary payment etc.), all of which were paid in cash. Variable remunerations were allocated based on factors including the current and long-term contributions of employees and risk profile. In the event of deductible in performance-based pay and deferred salary payment under relevant regulations, the variable remuneration would be adjusted in accordance with the regulations.

## 10 Outlook

The Bank adheres to the operation philosophy of modern commercial banks, and continuously improving the corporate governance mechanism, maintaining a balance between safety, liquidity and profitability, strengthening its financial services for “Sannong” and the real economy, comprehensively improving competitiveness in business, capabilities of risk management and capabilities of sustainable development. The Bank implements a sound and innovative risk appetite by maintaining an appropriate balance between capital, risk and return. The Bank also proactively facilitates the establishment of the firm-wide risk management framework and the implementation of advanced approaches for capital management. With the complex, ever-changing economic environment in 2014, the Bank maintained bottom-line concept by initial prevention and control and taking powerful measures, proactively adapt to the “new normal situation” of economic development, and effectively responded to major risks, including government financing vehicles, excess production capacity and guarantee circles, and maintained the development of business operation and stability of asset quality of the Bank during the risk exposure period of “three periods superposition”. Going forward, the Bank will continue prudent operation and steady development and positively develop new market and products by capturing new opportunities arising from national strategy, restructuring and industrial upgrading, proactively develop new markets and new products, continuously optimize the asset structure, facilitate the transformation of business operation, adhere to a strict approach to the bottom line of risk control, enhance capital strength and risk resistance capacity, so as to make new achievements in the path of constructing the Bank into a first-class modern commercial bank.