

2006

ANNUAL REPORT



中国农业银行
AGRICULTURAL BANK OF CHINA



Overview of Agricultural Bank of China

Agricultural Bank of China (the "Bank," "we," or "ABC") was re-established in February 1979, with its headquarter located in Beijing. At the end of 2006, ABC had 24,937 outlets in Mainland China, two overseas branches in Singapore and Hong Kong, and three representative offices in London, Tokyo, and New York. ABC had 452,464 employees at the end of the year.

ABC is the only state-owned commercial bank that has service outlets and electronic banking network reaching every county in China. With its widest reach in both urban and rural China and the largest workforce in the banking sector, ABC is well positioned to provide extensive and quality banking services to its customers.

In 2006, ABC maintained strong growth in all aspects of its business operations, with many of its key financial indicators reaching their record high in the Bank's history. Also, our overall strength, market competitiveness and risk management capabilities were enhanced significantly. At the end of 2006, total assets, total deposits and total loans reached RMB 5,343.94 billion, RMB 4,730.37 billion and RMB 3,139.43 billion, respectively. In addition, we reported an operating profit of RMB 58.16 billion for the year.

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1. FINANCIAL HIGHLIGHTS

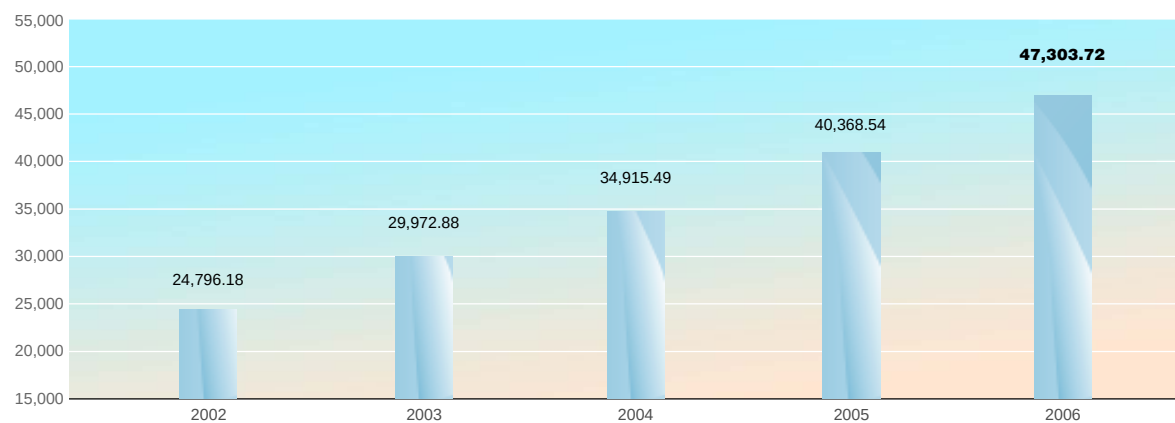
Unit: RMB 100 million

Items	2006	2005
OPERATING RESULTS		
Operating profit	581.57	424.83
Investment income	282.82	232.82
Profit before income tax	121.87	78.78
Net profit after income tax	58.07	10.44
Interest income	1,509.06	1,051.33
Net interest income	720.60	437.31
BALANCE SHEET ITEMS		
Total assets	53,439.43	47,710.19
Loans	31,394.31	28,292.91
Total liabilities	52,599.41	46,914.12
Deposits	47,303.72	40,368.54
Owner's equity	840.02	796.07
FINANCIAL RATIOS (%)		
Operating profit as a % of total assets	1.09	0.89
Operating profit as a % of owners' equity	69.23	53.37
Cost to income	50.44	66.15
Loans to deposits	66.37	70.09
Non-performing loans	23.43	26.17

This report is presented in both Chinese and English. Should there be any differences between the two versions, the Chinese version shall prevail.

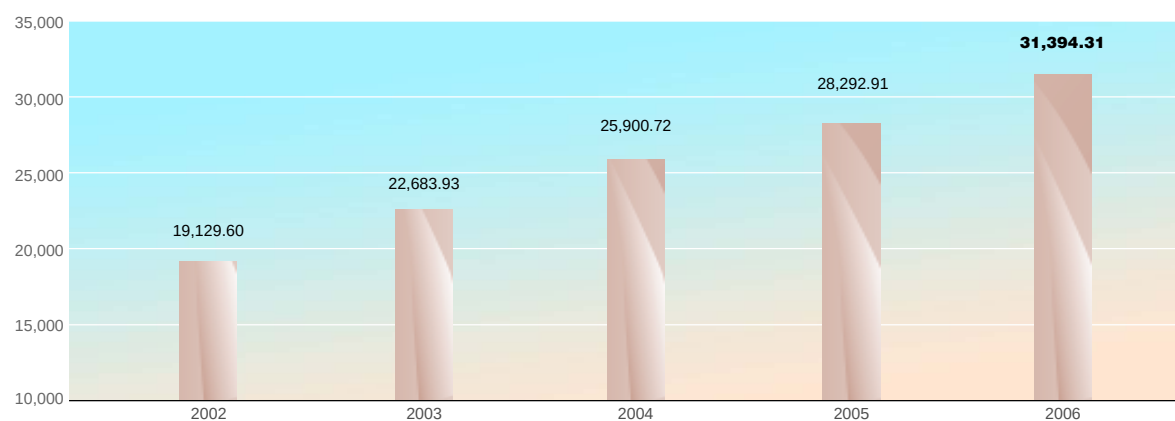
Growth of deposits

Unit: RMB 100 million



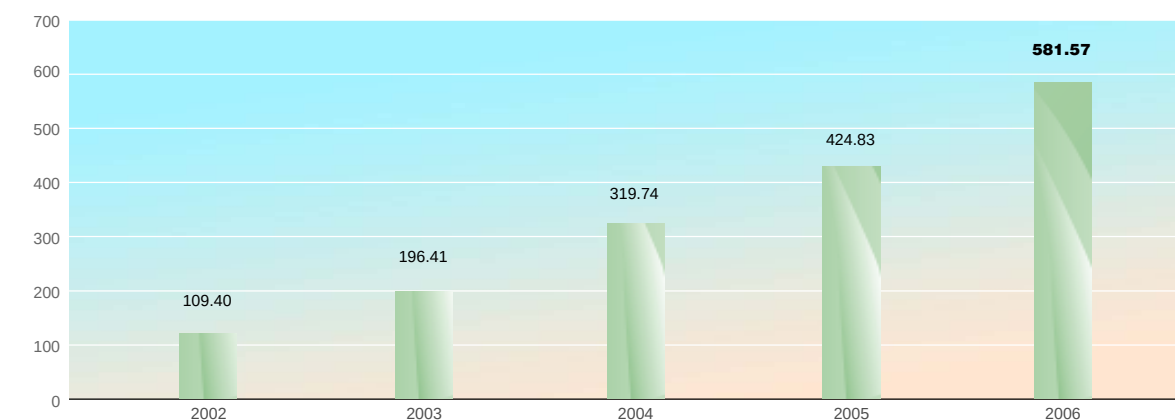
Growth of loans

Unit: RMB 100 million



Growth of operating profit

Unit: RMB 100 million



2. MESSAGE FROM THE PRESIDENT



Yang Mingsheng, President and Chief Executive Officer

In 2006, China had a good start on its "Eleventh Five-Year Plan," with GDP reaching RMB 20.94 trillion, a 10.7% increase from 2005. The Chinese economy continued to grow steadily and strongly, bringing more life to the global economy.

The year of 2006 was an extraordinary one in the reform history of Agricultural Bank of China. In this year, directed by the scientific development view, ABC carefully implemented the national macro economic policy, made significant steps in the Bank's strategic transformation, and strictly enhanced its risk controls. We have formally begun our reform initiatives in all fronts of our operation towards a shareholding bank, and had made significant progress.

Fast growth in all banking businesses and improved overall competitiveness. At the end of 2006, total assets of the Bank reached RMB 5,343.94 billion. Our various deposits also experienced strong growth with a balance totaling RMB 4,730.37 billion, an increase of RMB 693.52 billion from the beginning of the year, which is the highest growth in the domestic banking sector. Under the macro control policy of our government, loans grew steadily to a total balance of RMB 3139.43 billion, an increase of RMB 310.14 billion from the prior year. Other traditional and new banking businesses also experienced positive growth during the year, and our market competitiveness continued to strengthen.

Impressive operating results and strong financial position. With the goal of maximizing financial results, the Bank has designed its core performance measurement system based on value contribution. With centralized management, the Bank realized an operating profit of RMB 58.16 billion for 2006, an increase of RMB 15.67 billion from the previous year, or an increase of 36.89%. The Bank absorbed historical non-performing assets of RMB 46.36 billion, which had an increase of RMB 12.79 billion from the prior year. The cost to income ratio dropped to 50.44%, return on total assets reached 1.09%, and the coverage of loan loss provision stood at 5.05% at year end. Our operating profit is sufficient to absorb any newly added risks faced by the Bank.

Continued improvements in business structure and development quality. The Bank has actively started its transformation in business strategy, operating model, and revenue generating mix. We have made significant efforts to increase the proportion of high quality assets in our business, as well as to attract high quality customers into our Bank. In addition, we continued to look for new avenues to generate revenue. The proportion of loans made to high quality customers increased to 58.8%, 6.02

percentage points higher than that of the previous year. The geographic structure of loans was further improved, with the proportion of loan increase in the key regions of Pearl River Delta, Yangtze River Delta, and the Bohai Rim reaching 60.1%, up by 18.2 percentage points from the previous year. Our revenue structure was also moving towards a positive direction. Revenue from intermediary services increased rapidly, with a total of RMB 13.95 billion realized for the year, which is RMB 4.33 billion higher than that of the prior year; and for which had accounted for 11.51% of the total revenue of the Bank. Asset quality continued to improve in 2006, with non-performing loans ("NPL") decreasing by RMB 4.2 billion and non-performing loan ratio standing at 23.43%, down by 2.74 percentage points from the previous year.

Strengthened risk management and internal controls. In 2006, the Bank made further progress in building a bank-wide risk management system, with a focus on strengthening the management of credit risk, market risk and operational risk. Further, we made significant efforts to ensure the effectiveness of our early warning system and risk control measures. We intensified the collection efforts in order to reduce the level of high risk assets, enhanced market risk management and pricing capabilities, and implemented a compliance management system. In 2006, we proceeded with the reform of our internal audit system, through enhancing the independence, effectiveness and authority of the internal audit function. We specifically focused on developing policies and implementing effective monitoring systems through new tools, products and technology-supported audit programs. In 2006, we developed various monitoring systems that included online credit monitoring system, accounting monitoring system and anti-money laundering system, etc. Through enhanced policies, technologies and a risk culture, we effectively strengthened our overall risk management capabilities.

Our strong reform process is creating a solid foundation for a shareholding bank in the future. Since 2003, we have started the various reform initiatives including bank-wide risk-based management, post-lending management, technological innovation and personnel training, in order to improve our management capabilities and strengthen our market competitiveness and position. With the efforts of all of our employees, we made significant progress in our internal reform. Additionally, our risk control capability was further enhanced. Further, the Bank's management became more centralized, professional and specialized. With a clear market positioning, the Bank commenced a full scope external audit, human resources reform, disposal of old fixed assets and implementation of new accounting standards, all of which are important initiatives towards creating a solid foundation for a shareholding bank in the future.

Looking back to this past year, all of these achievements are the results of the trust and support that

we have received from many of our customers and contributions made by all of our employees. On behalf of the Bank, I would like to take this opportunity to express my utmost sincere appreciation to all our valuable customers and dedicated staff!

The year 2007 is a very critical one in the reform of the Bank. This new year marks a new journey and brings new hope. At the National Financial Work Conference held in January 2007, our government announced that ABC shall continue with the reform towards a shareholding bank and focus on providing financial services to the rural areas of China. The Chinese government also set forth our reform objectives that include bank-wide reform, commercialization of our business, and public listing at an appropriate time. According to the plan by the CPC Central Committee and the State Council, we should firmly move forward with the Bank's financial restructuring and the development of a sound corporate governance structure. It is through reform that we will achieve our developmental goals, enhance our management capabilities, and improve our financial results. In addition, we aim to strengthen our risk management, as well as enhance our abilities to achieve sustainable development. With a clear understanding of our market positioning and responsibilities, we are dedicated to becoming the leading service provider and the backbone to the financial services sector in the rural areas of China. As a large state-owned commercial bank with a mission of serving the rural areas of China and supporting the building of new villages for all farmers under our socialistic system, ABC will leave a significant mark in the reform history of the domestic financial services sector. For this reason, the Bank will transform itself in many ways in which the Bank operates including its management systems, business expansion model and operating methodologies.

We are at a no better time in the history of our nation, with a prosperous national economy, social harmony and opportunities for development. Facing a competitive financial services market, I have firm belief that with the guidance and support from our CPC Central Committee and the State Council, our valued customers and the public at large, as well as the hard work by our employees, Agriculture Bank of China will eventually achieve great successes in our reform to a shareholding bank. Personally, our future is never this clear in that we will become an innovative and internationally competitive financial institution with excellent customer service, adequate capital, strong internal controls, sound operations and excellent financial performance.

President and CEO



3. BANK PROFILE

3.1 Senior Executive Officers

Mr. Yang Mingsheng	President and CEO	Fourth from Left
Mr. Han Zhongqi	Senior Executive Vice President	Third from right
Mr. Tang Jianbang	Senior Executive Vice President	Third from left
Mr. Zhang Yun	Senior Executive Vice President	Second from right
Mr. Yang Kun	Senior Executive Vice President	Second from left
Mr. Luo Xi	Senior Executive Vice President	First from right
Mr. Zhu Hongbo	Member of the Executive Committee and the General Manager of the Beijing Branch	First from left



3.2 Chairman of the Board of Supervisors



Gu Mingchao, Chairman of the Board of Supervisors

3.3 Basic Information

1. Legal name in Chinese: 中国农业银行

Legal name in English: Agricultural Bank of China

2. Legal representative: Yang Mingsheng (杨明生)

3. Registered address: Jia 23, Fuxing Road, Haidian District, Beijing

Office address: Jia 23, Fuxing Road, Haidian District, Beijing

Zip code: 100036

Website: www.abchina.com

4. Business license registration No.: 1000001000547

Financial license registration No.: B10211000H0001

Tax registration No.: Guo Shui Jing Zi (国税京字) 110108100005474

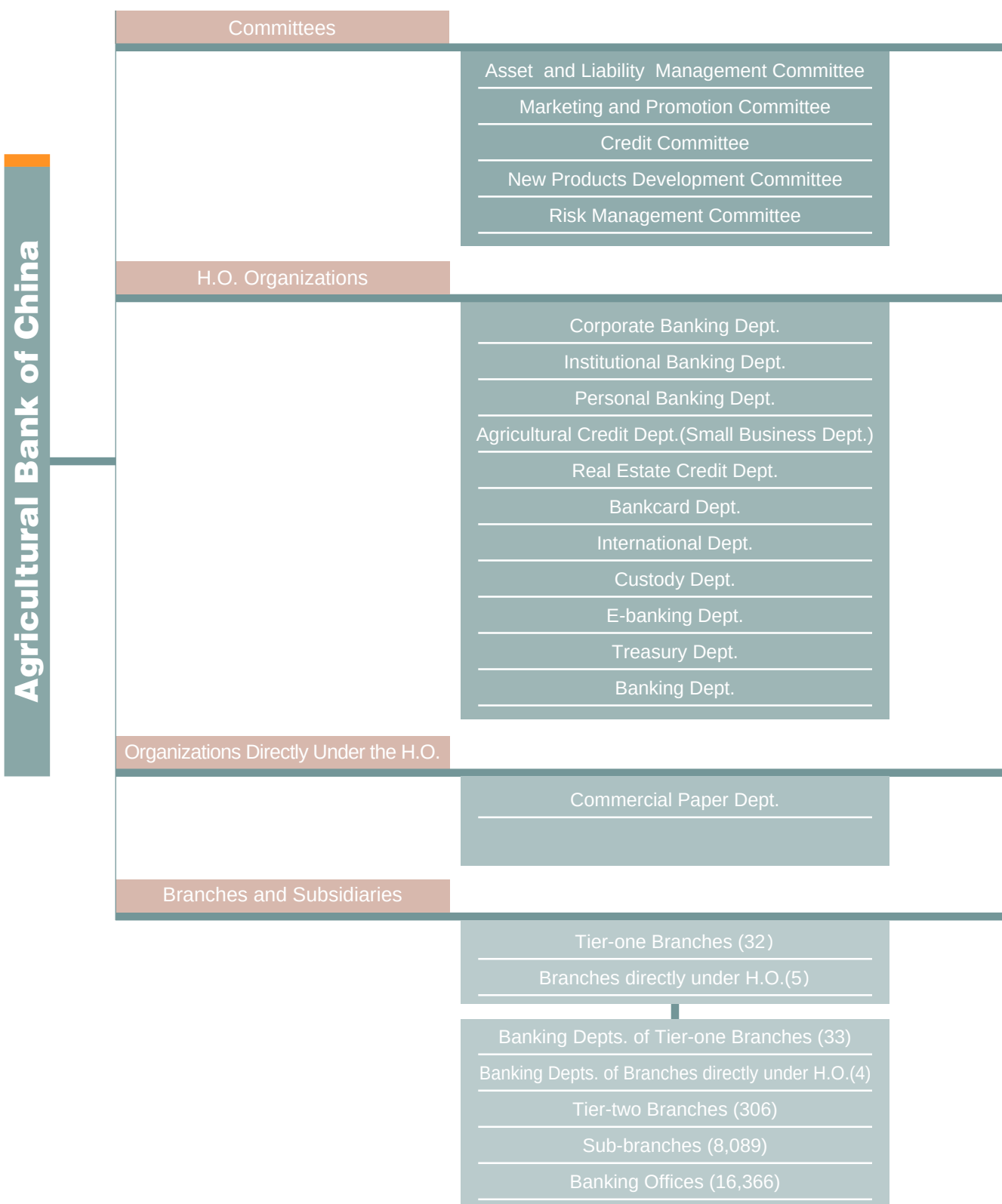
5. Designated newspaper for information disclosure: Financial News

Annual report kept in: Executive Office of Agricultural Bank of China

6. Appointed certified public accountants: Zhong Tian Yin (中天银) Certified Public Accountants

Office address of the appointed certified public accountants: Room 616, Jiahuiyuan, Epoch Centre,
No. 31 Zizhuyuan Road, Haidian District, Beijing

3.4 Organizational Chart



IT Construction Committee
Overseas Institution Management Committee
Centralized Procurement Committee
Audit Committee
Corporate Culture Committee

Executive Office
Restructuring Office
Research Office
Legal and Compliance Dept.
Financial Planning Dept.
Accounting and Settlement Dept.
Credit Management Dept.
Asset Risk Management Dept.
Human Resources Dept.
Procurement Management Dept.
Training Dept.

IT Dept.
Publicity and Communications Dept.
Union Affairs Dept.
Youth League Affairs Dept.
Audit Dept.
Inspection and Supervision Dept.
Security Dept.
Party Committee Office
General Affairs Dept.
Software Development Center
Data Center

Credit Card Center

RMB Treasury
Capital Markets

Changchun Training Institute
Tianjin Training Institute
Wuhan Training Institute

Singapore Branch
Hong Kong Branch
China Agricultural Finance Co., Ltd
London Representative Office
Tokyo Representative Office
New York Representative Office



CORPORATE GOVERNANCE

4. CORPORATE GOVERNANCE

In 2006, the Bank deepened its reform in corporate governance, risk management, organizational structure, business and management processes and human resources management. We aim to improve our corporate governance substantially through the implementation of a sound operating model for a modern commercial bank.

4.1 Decision Making and Management System

The Bank adopts a head office-branch structure. The Head Office is the tier-one legal entity that serves as the centralized bank-wide decision making, risk control, internal oversight, financial accounting and human resources management. All outlets of the Bank are non-independent accounting units that ultimately report to the Head Office, and carry out their respective management and business activities as approved by the Head Office.

Special committees and their responsibilities

The Bank established a decision consultation framework based on special committees. There are ten special committees responsible for the key decision making of the Bank, such as the strategic planning and resources allocation, etc. These committees and their respective responsibilities are as follows:

Asset and Liability Management ("ALM") Committee is responsible for: designing the Bank's developmental strategy and operational direction; setting ALM objectives for the entire bank, and making key decisions on the policies concerning capital management, liquidity management, interest rate and exchange rate risk management. In addition, ALM has the responsibility for medium- to long-term business development plans and the annual comprehensive business operating plans of the Bank; and analysis of business operating position of the Bank on a regular basis, etc.

Marketing and Promotion Committee is responsible for: bank-wide market promotion strategies and tactics; organization, leadership and management of the market promotion activities across the Bank; and decision-making on promotional activities for key clients, etc.

Credit Committee is responsible for: approval of credit business, including loans, discounted bills, acceptances, and letters of credit; standard credit limits, revolving credits and loan commitment letters; special authorization of credit limits, and other issues relating to credits; and assessment of customers' credit ratings.

New Product Development Committee is responsible for: analysis of the market demands and preparation of research and development plans for new products; approval of new product

development projects; and the design, development and promotion of new products, etc.

Risk Management Committee is responsible for: the Bank's overall risk management strategy and related policies, as well as the supervision and assessment of its strategy implementation and the compliance of the related policies; approval of the bank-wide risk exposure limit and capital level; approval of the exposure limits in credit risk, market risk and operational risk; risk analysis and regular assessments; supervision, examination and monitoring of risk management activities of relevant departments; and making necessary improvement recommendations.

IT Construction Committee is responsible for: centralized planning for bank-wide IT construction; approval of the nationwide computer network design and software development plans; approval of nationwide IT application project plans; and policies, procedures and measures relating to IT construction of the Bank.

Overseas Institution Management Committee is responsible for: development planning for overseas operations; review and approval of policies, procedures, mandates and measures for overseas institutions; review and approval of business plans of overseas institutions, joint marketing initiatives between domestic and overseas institutions, management of employees assigned to work overseas; and performance assessment of overseas institutions, etc.

Centralized Procurement Committee is responsible for: review and approval of centralized procurement processes; identification of the lead department and team members for procurement projects; issuing procurement lists and organizing centralized purchases of large items; oversight and inspection of the centralized procurement activities at branch levels, etc.

Audit Committee is responsible for: approval of the bank-wide audit and monitoring policies and key regulations; monitoring of internal audit activities and the compliance of the policies; approval of the medium- to long-term audit plans; oversight and inspection of internal financial activities and financial information disclosure.

Corporate Culture Committee is responsible for: key policies and mandates to enhance and promote social ethical progress; approval of the annual social ethical work plans; organizing and implementing social ethical activities, etc.

Change in senior management

In 2006, Mr. Zhu Hongbo was promoted and became a member of the senior management team. He also serves as the General Manager of Beijing Branch.

■ Organizational restructuring

We enhanced our organizational strength for the reform of the Bank. In 2006, we further reorganized the Restructuring Office. The Restructuring Office is responsible for the overall planning, coordination, organization, and implementation of the Bank's reform strategy. There are four divisions within the Restructuring Office - the Administrative Division, Restructuring Proposal Verification Division, Risk Management Division, and Internal Reform Implementation Division. Concurrently, we established three working groups - Asset Valuation Group, Non-performing Asset Identification Group and Human Resources Group.

We transformed our Risk Management Committee in order to enhance our overall risk management capability. We modified the name to Risk Management Committee, which is responsible for research, decision making, organization, communication, and coordination of bank-wide risk management function. Within the Risk Management Committee, there are three sub-committees - credit risk management, market risk management, and operational risk management, which are responsible for their respective risk management areas.

We established the Audit Committee to further enhance our internal control system. This committee replaced the old Internal Supervision Committee, mainly to strengthen our internal monitoring system, prevent and manage business risks, and enhance the role of the internal audit function.

The name of Legal Affairs Department was changed to Legal and Compliance Department so to further clarify the roles and responsibilities of the department, and ensure the functionality of legal and compliance.

We established the Small Business Department to highlight our development strategy and market positioning to support small businesses, and improve our services to these customers.

In 2006, the Head Office established the Accounting Monitoring Center and further strengthened the accounting monitoring and control system. Also, we established similar monitoring centers and operating offices at tier-one and tier-two branches, respectively, in order to monitor and resolve suspicious transactions. This structure created an independent, well-communicated and powerful accounting monitoring system for the Bank.

4.2 Transparency of Information Disclosure

In 2006, the Bank made significant improvements in the transparency of information disclosure. In

line with the Provisional Measures for the Information Disclosure of Commercial Banks and the requirements set forth by the regulatory authorities, the Bank implemented various measures to standardize the scope and contents of information disclosed and gradually improved the quality of the Bank's annual report through increasing the depth and width of the information disclosed.

4.3 Board of Supervisors

The Board of Supervisors is a supervisory body delegated by the State Council to the Bank, and represents the State to monitor the asset quality of the Bank and the preservation and appreciation of state-owned assets. The key responsibilities of the Board include: examination of the Bank's implementation of and compliance with relevant economic and financial laws, and administrative regulations of the State and other relevant rules and mandates; examination of the financial and accounting records and data, and verification of the truthfulness and legality of the financial statements and funds operation reports; monitoring and examination of and investigation into the operating activities of key responsible persons of the Bank, and evaluation of their performance and operating results and making recommendations with regard to the rewarding, penalizing, appointing or removing such persons from their posts.

4.4 Human Resources Management

In line with our overall development strategy, we employed a well-known human resources management consulting firm to start our comprehensive human resources reform. We followed the key principles of comprehensive design, effective integration and step-by-step implementation. We utilized scientific human resources management tools and methodologies to design our human resources reform strategy, streamline our business processes, optimize our organizational structure, establish a clear position management system and standardize an effective performance management and compensation system. All of the above contributed to a human resources management system that is tailored to the Bank.

We made advancements in the reform of our compensation management with full considerations of incentive mechanism and effective constraints. We further standardized and refined our value-based performance management system, fostered a performance management culture, and realized the unity of employees' personal growth and the ability of the Bank's sustained development. We continued

to improve our comprehensive performance assessment system, which was designed based on our core value creation philosophy, implemented the scientific classification guidance and the transparent management methods, and guided the sustained development of our branches. The Bank deepened the compensation reform by firmly establishing new principles - capital increase based on operating results and compensation based on contributions. The reform helped us build a reasonable compensation structure as well as an effective incentive mechanism for the Bank.

During the year 2006, we further enhanced our employees' training through a combination of domestic and overseas training programs, regular training, certification training, face-to-face training, and electronic training. As a result, we were able to improve the quality and capabilities of our employees. We also refined our senior management training by improving quality of the overseas senior management training program. For middle-leveled managers, key personnel of all various business lines, and technical staff, we organized various training programs for new business, new products, new methods, new policies and new regulations. Additionally, we actively enforced the certification training for key professional positions. Electronic training and online training were started as well, which lowered the training costs and expanded our training coverage for the Bank.



Talent competition of our young people

5. REFORM INITIATIVES

Since 2003, we have started four key reform initiatives - implementing risk-based management, post-lending management, technology innovation and personnel training, in order to deepen our internal reform and strengthen the foundation of our management capabilities. Through the implementation of risk-based management, we were able to enhance our policy management, optimize our business processes and improve our monitoring system. We saw clear results of fraud investigation, as well as significant enhancement in management capabilities. We started the post-lending management initiative in 2006, mainly to standardize our credit activities and establish hierarchical post-lending management system. As a result, our post-lending management became more policy- and procedure-oriented and with related activities more standardized. In addition, our asset quality was significantly improved. The Bank carried out the technology innovation initiative with mass data centralization as a hallmark. This initiative brought strong enhancement in bank-wide IT development, product innovation, customer service and management control. In order to improve the quality of our employees and establish adequate training mechanism for our management personnel, we took the personnel training initiative by conducting many large-scaled training programs, at multiple levels and covering a wide range of topics. By the end of 2006, the four initiatives achieved their initial results. These initiatives contributed significantly to the bank-wide reform, centralization of management approach, and enhanced professionalism and specialization of the Bank. Further, advantages of economy of scale, network, IT system and human resources were clearly seen. These initiatives enabled our management to reach a new level, and laid a solid foundation for our shareholding reform.

In 2006, we conducted the following key activities on the shareholding reform:

External audit. We engaged Deloitte Touche Tohmatsu CPA Ltd. to perform an overall audit on the Bank's consolidated financial statements for the year ending December 31, 2005, which was prepared in accordance with the new accounting standards of China and the International Financial Reporting Standards. By the end of 2006, the field work of the external audit was completed.

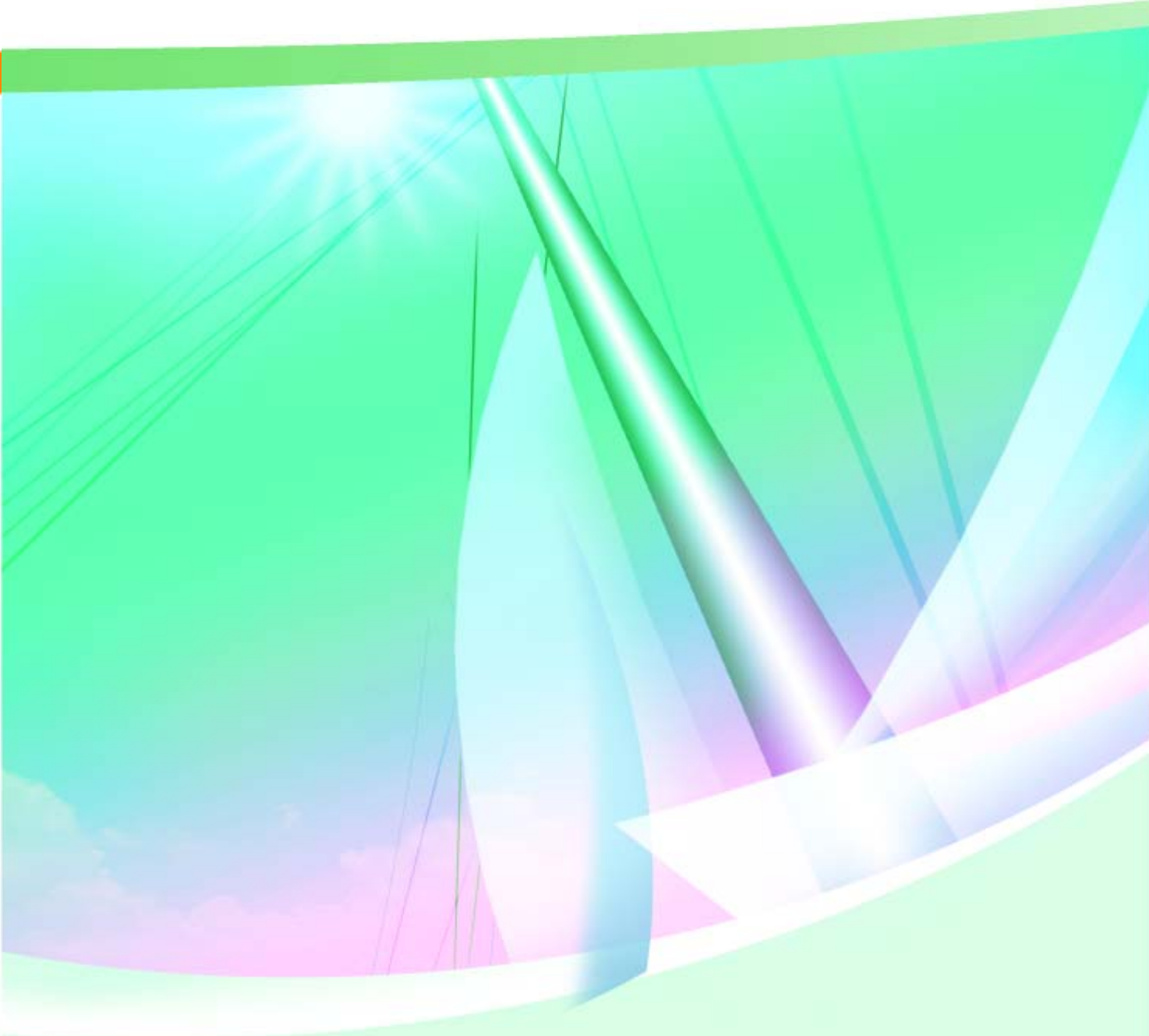
Clean-up of fixed assets. We began the exercise of fixed assets clean-up. We examined the quantity, structure, physical distribution and usage of the fixed assets, as well as performed a two-way check over one million items physically on hand and on record. This exercise helped us lay a solid foundation for future asset valuation and asset title examination.

Human resources reform. The Bank hired Mercer Human Resource Consulting to launch a comprehensive human resources reform project. The Bank selected the Head Office and three branches as targets for the design of organizational structure, positions, and performance and compensation management systems. This project brought us a new human resources management system that meets the requirement of a modern commercial bank as well as domestic market. We plan to roll out this new system on a bank-wide basis.

Implementation of the new accounting standards. The Bank set up a special team to take the lead in the implementation of the new accounting standards. This team is also responsible for the training of the new accounting standards and planning of the implementation process. Within three to five years, we plan to roll out a new accounting system, which will include accounting recognition, measurement, record keeping and financial reporting. Such new system will be able to meet the requirements of a modern commercial bank, international standards and our shareholding reform.

Preparation of NPL resolution. We conducted due diligence on certain NPLs. Based on the results of the due diligence, we promulgated the "Implementation Plan for the Preparation of Non-Performing Assets Resolution at Agricultural Bank of China". This guide mainly covers a complete examination of non-performing assets, due diligence on the basic information of the Bank's borrowers, record keeping of NPLs and the identification and resolution of the responsible persons.

Hiring of relevant professional firms. We proactively prepared for the selection of various professional firms through an open bid manner. The relevant professional services firms included: valuation services firms for assets, land and properties, law firms, etc. We will also complete other preparations for the upcoming financial restructuring.



BUSINESS REVIEW

6. BUSINESS REVIEW

6.1 Corporate Banking

Corporate banking is focused on providing commercial banking products and services to corporations, financial institutions and governmental organizations. In 2006, the Bank actively integrated various business resources and continued to refine the sales and marketing system so to better serve our customers and meet market demands. During the year, our corporate banking business continued to develop, with deposits from and loans to corporate customers growing rapidly, and our customer mix and credit structure were further optimized.

Commercial deposits and loan business

At the end of 2006, total commercial deposits amounted to RMB 1,946.40 billion, accounting for 41.02% of total deposits of the Bank. The year end deposit balance increased by RMB 356.45 billion or 22.41% from the prior year. Corporate loans amounted to RMB 2,764.18 at year end, accounting for 88.52% of total loans and with an increase of RMB 299.41



The Bank and the Ministry of Agriculture signed cooperation agreement on supporting the development of wholesale market of agricultural products

billion or 12.15% from the beginning of the year. In order to meet market needs and customer requirements and strengthen our product innovation on lending services, we developed various new credit products, as well as completed the development, testing and implementation of the function that allowed withdrawal under overdraft conditions for corporate demand deposits.

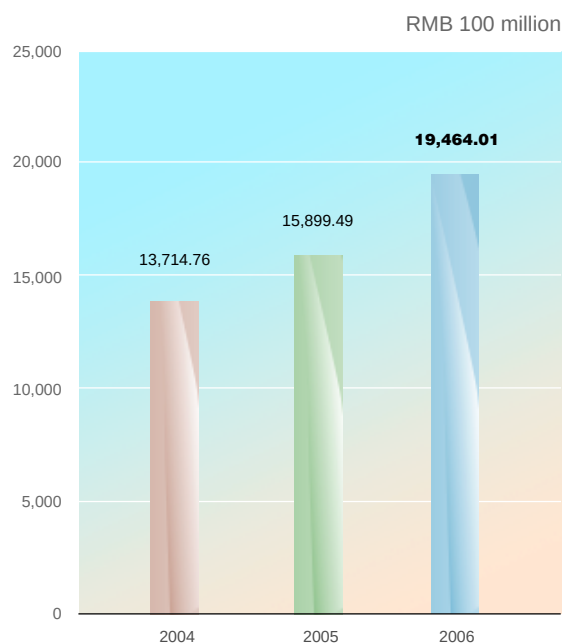
Changes in the mix of corporate customers and credit facilities In 2006, the Bank continued its strong credit support to the key regions of the Yangtze River Delta, Pearl River Delta and Bohai Rim, and other provincial capitals, economically well-developed cities and locations of our large corporate customers, among which, loans made to the three key regions increased by 58.57% of the total loan increase. In addition, we continued to optimize the industry structure of our

lending portfolio by focusing on key industries such as telecommunications, energy and petrochemical and transportation. Many efforts were made to adjust the customer mix of our corporate business to achieve the goal of an optimized customer composition. We specifically focused on attaining more of the high quality medium to large-sized customers. As a result of our concerted efforts, the Bank's overall customer mix was significantly improved, with the addition of 5,576 high quality corporate clients and new originations totaling RMB 253.7 billion.

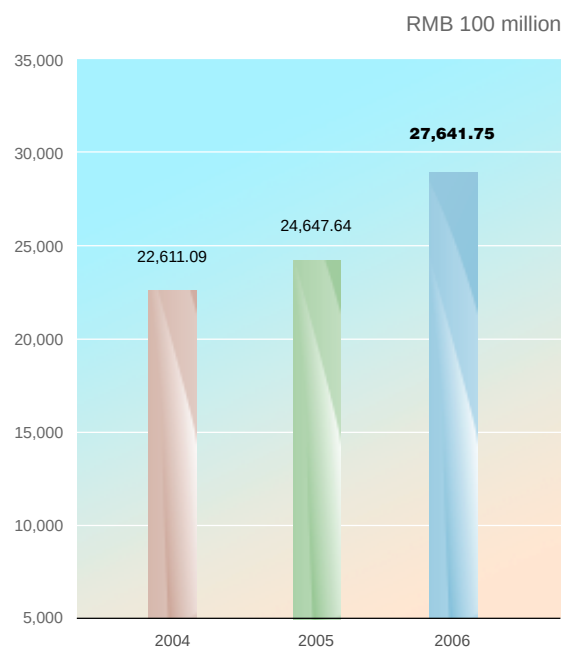
Agriculture related business As the only commercial bank in the nation that has the specialization in agricultural lending, 60% of the Bank's outlets and 51% of its work force are located in the rural areas of China. For further expansion in the market, the Bank dedicated itself to supporting the leading players in the agriculture sector, urbanization-focused enterprises, rural commodity and logistics companies, small- and medium-sized enterprises, and infrastructure projects in the rural areas, resources exploitations and consumer credit for farmers. Further, the Bank provided lending to consumers and public financial services for the rural areas of China. At the end of 2006, total agriculture-related lending, which includes loans of sub-branches at city and county levels, amounted to RMB 1,700 billion, accounting for 55% of the total loans.

Lending to small businesses It is the Bank's strategy to support small businesses' development through various new lending

Deposit balance of domestic corporate customers



Loan balance to domestic corporate customers



products, such as the streamlined and fast loan program and self-service revolving line of credit. We have initially established a unique financial service system for small businesses. The specialization and service capability of our small businesses team were further enhanced. This particular service team focused primarily on attaining quality small business customers that have growth potentials; as a result, the customer mix and business structure of the Bank's small business portfolio were gradually improved.

Financial institutions business

Cooperation with and agency services for insurance companies

During 2006, the Bank strived harder to expand its cooperation with insurance companies, and promoted new product development and intensified marketing efforts. Agency services for insurance companies grew robustly. For the year 2006, the Bank realized total agency premiums of RMB 62.52 billion and fee income for related services totaling RMB 1.10 billion. By the end of 2006, the Bank launched the Bank-Insurance Express System with ten insurance companies to offer almost 80 on-line insurance products, with total agency premiums reaching RMB 11.52 billion.

Cooperation with securities and futures companies

The Bank continued to emphasize the cooperation with securities and futures companies. By the end



ABC engages itself with economic development at township level

of 2006, the Bank signed agency service agreements with over 70 security companies, with total funds settlement reaching RMB 32.35 billion, up by RMB 20.01 billion or 162.29% from the prior year. Six security companies launched our third-party agency system. The bank acted as a sales agent for three security collective investment products, with a total volume of RMB 1.12 billion and fee income totaling RMB 8.31 million recognized. The customers' guarantee deposits of futures exchange and futures brokerage companies reached RMB 3.43 billion at year end, up by RMB 2.83 billion from the beginning of the year.

Cooperation with other banks

In 2006, the cooperation with national commercial banks, high-quality regional banks and small- to medium-sized commercial banks was in full swing; with service products extending to asset repurchase, cash management and settlement services. Also, we built closer ties with rural credit cooperatives and policy banks. Fee income of RMB 10.42 million and RMB 3.53 million were recognized from services provided to rural credit cooperatives and policy banks, respectively.

Cooperation with other financial institutions

In 2006, the Bank continued to broaden cooperation with the trust industry, through signing comprehensive service agreements with China Credit Trust Co., Ltd, Zhonghai Trust and Investment Co., Ltd, and CITIC Holdings. The Bank handled 23 portfolio fund trust plans and generated fee income of RMB 10.65 million for the year. The Bank also deepened its cooperation with finance companies through asset repurchase services, with total business volume of RMB 6.24 billion and interest income of RMB 29.17 million recognized during the year. Cooperation with postal savings and remittance sector was also widened, with deposits from postal savings and remittance amounting to RMB 1.86 billion, and with fee income totaling RMB 2.62 million earned from agency cash operations.

Agency services for State's fiscal funds

By the end of 2006, the Bank successfully acted as an agent for the collection of non-tax fiscal income for nine State ministries and commissions and their subsidiaries, including the General Administration of Quality Supervision, Inspection, and Quarantine of the People's Republic of China and the Ministry of Personnel of the People's Republic of China, with amounts collected totaling RMB 13.5 billion. The daily average balance of these designated accounts was RMB 790 million. The Bank also carried out the authorized fiscal payments totaling RMB 17.4 billion for 26 ministries and commissions and their subsidiaries, including China Securities Regulatory Commission ("CSRC") and the Ministry of Agriculture of the People's Republic of China. Ex-budgetary collection and payment for the government amounted to RMB 11.1 billion, with a daily average deposit balance of RMB 9.1 billion.

Corporate intermediary business

Cash management services

By the end of 2006, 633 customers had begun to use the Bank's online cash management service, with accumulated transaction volume reaching RMB 6,844.2 billion. During the year, the Bank won the bid for cash management service for the State Grid Corporation of China, and consequently, generated additional service contracts with new clients such as China Unicom and China Huaneng Finance Corporation.

Financial advisory and consulting services

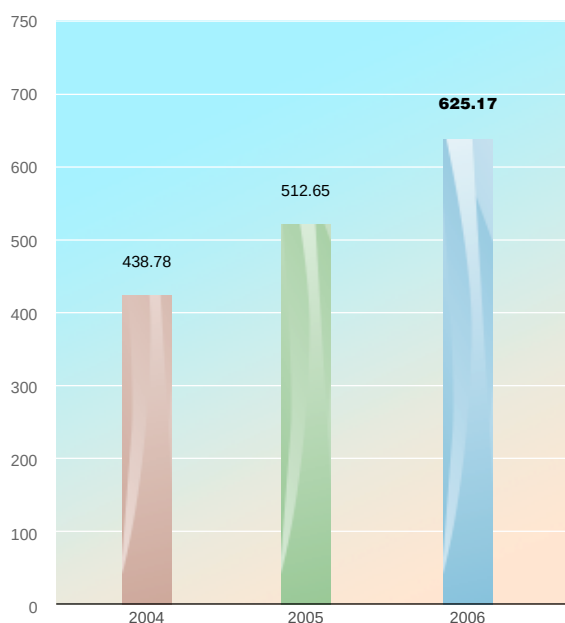
Our financial advisory and consulting services made impressive progress during the year. We provided specialized financial advisory services to 16 customers who planned to issue short-term bonds, out of which 13 companies successfully issued short-term bonds. We also provided financial advisory services to two domestic companies during their public offerings on the Hong Kong Stock Exchange. In 2006, the Bank developed various new advisory products, including financial advisory services on issuing corporate bonds, management of trust and investment plan, and asset securitization.

Assets Custodian services

By the end of 2006, we had 115.70 billion shares of entrusted assets, with a net balance of RMB

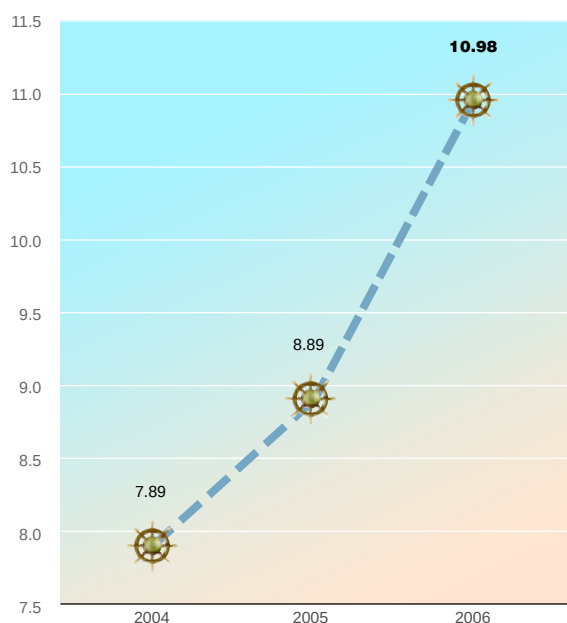
Total volume of insurance agency business

Unit: RMB 100 million



Fee income from insurance agency business

Unit: RMB 100 million



158.81 billion and fee income of RMB 158 million generated for the year. With the addition of 14 new funds placed, total number of funds under the Bank's custody increased to 48, with a total of 89.23 billion shares of entrusted assets, which represent a net balance of RMB 128.45 billion. In 2006, our custodian services for insurance funds were launched. We signed custodian agreements with nine insurance companies. Growth of custodian services for overseas assets was robust as the Bank successfully won the QFII custodian service contracts from the Development Bank of Singapore and Prudential Asset Management Limited. By the end of the year, entrusted assets invested under QFII custodian funds reached USD 700 million, with a fee income of RMB 3.12 million for the year. Steady progress was also made in the development of the Bank's broker/dealers' portfolio asset custodian business. In 2006, the Bank won the asset management planning services for Dong Feng No. 1 and Guo Yuan Huang Shan No. 1. By the end of 2006, the Bank had five asset management portfolios under its custody, with total amount reaching RMB 3.31 billion.

Underwriting services for short-term financing bonds

In 2006, the Bank raised RMB 18.96 billion and RMB 21.11 billion from its lead underwriting and participation underwriting services, respectively, for short-term financing bonds, an increase of 108.4% from a year ago. Our market share for underwriting services of short-term financing bonds stood at 6.52%, up by 0.21% from the prior year. We recognized a total fee income of RMB 75.63 million for our underwriting services, of which, RMB 65.86 million was generated from lead underwriting services and RMB 9.77 million was generated from participation underwriting services.

Gold business

The Bank consistently complied with the band operation strategy for gold business, adjusting its open positions on a timely basis and actively launching the services of extension transactions, neutral warehouse transactions, and consignment sales for gold. In 2006, the amount of proprietary trading for gold reached 33,780 kilograms. On behalf of 34 customers, the Bank traded 12,382 kilograms of gold, and recognized fee income totaling RMB 1.12 million for the year.

6.2 Personal Banking

Facing fierce competition from the marketplace and diversified demand from our customers, the Bank intensified its marketing efforts to attain new quality retail customers and optimize its customer mix during 2006. In addition, we developed new personal banking products and streamlined our services and sales process. As a result, our personal banking business is developing steadily and strongly.

Personal deposits

At the end of 2006, the balance of personal Renminbi deposits totaled RMB 2,775.38 billion, an increase of RMB 339.62 billion from the beginning of the year. The Bank's personal deposits accounted for 28.46% of the market share, up by 0.47 percentage point from the beginning of the year. The Bank held a 32.45% share of new personal deposits in the market, an increase of 1.77 percentage points and ranking number one for the fourth consecutive year. Savings deposits in foreign currencies totaled USD 3.0 billion, down by USD 226 million from the beginning of the year.

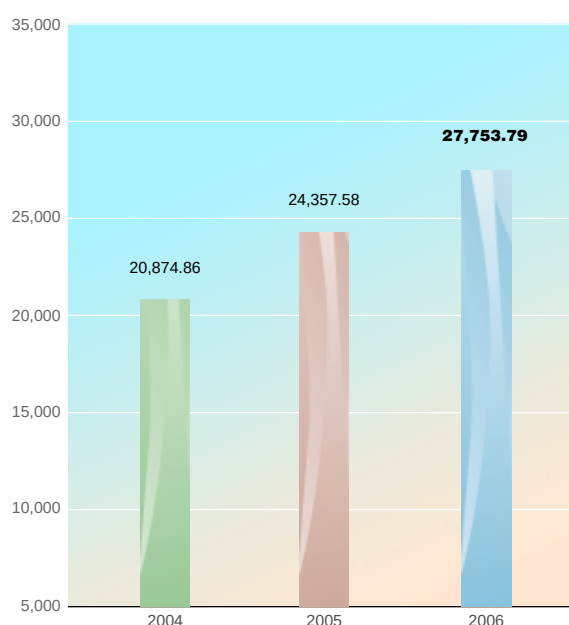
Consumer loans

The Bank intensified its product integration and innovation, streamlined its workflow and procedures, and pushed for the development of consumer credit review center. Consumer loans also maintained a steady growth. At the end of 2006, the balance of consumer loans in domestic currency amounted to RMB 358.59 billion, up by RMB 10.88 billion.

Within this total, the balance of mortgage loans was RMB 274.06 billion, up by RMB 19.45 or 7.63% from the beginning of the year; small businesses loans and undertakings was RMB 37.61 billion, up by RMB 3.63 billion or 10.70% from the beginning of the year; automobile loans was RMB 18.44 billion, down by RMB 8.13 billion from the beginning of the year. In order to meet diversified housing demands, we also created new products such as the fixed rate and mixed rate mortgage loans, transferable mortgage loans, etc.

Savings deposits balance

Unit: RMB 100 million

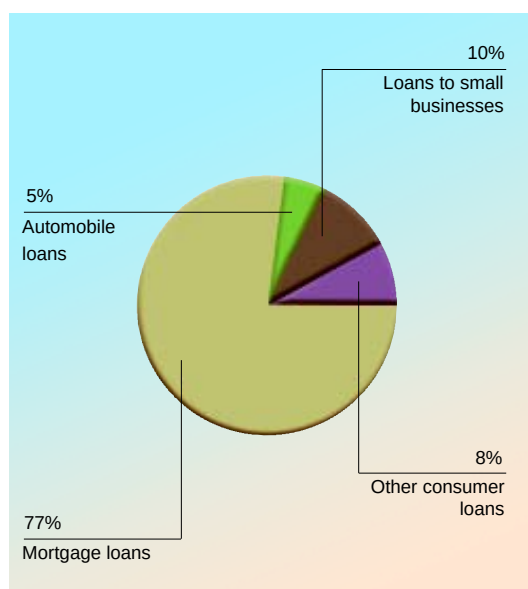


Personal intermediary business

Personal wealth management

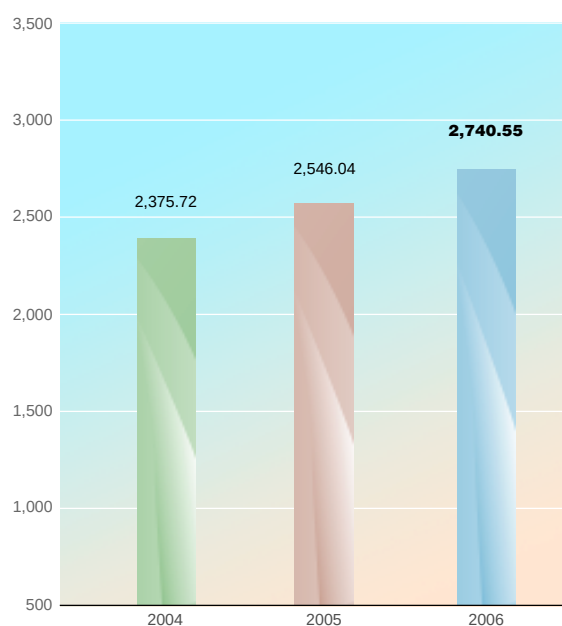
The Bank strengthened its fundamental management, the capability of risk control, and maintained a steady development of its personal wealth management services. The Golden Key VIP wealth management service was now in good shape, with 132 service centers established and 2,788 service outlets facilitated by VIP rooms and 8,844 outlets with VIP service counters. The Golden Key professional wealth management team grew rapidly. Currently, we have 9,068 account managers and 4,669 lobby managers.

Composition of consumer loans



Growth of residential mortgage loans

Unit: RMB 100 million



Fund underwriting

In 2006, the Bank acted as an underwriter to issue 19 open-end funds totaling RMB 36.55 billion, up by 279%. The cumulative issuance of open-end funds for the year amounted to RMB 25.5 billion, with total redemption of RMB 37.5 billion and commission income of RMB 700 million recognized. At the end of 2006, the balance of agency funds sold reached RMB 45.2 billion and the number of fund customers reached 1.29 million.

Treasury notes transactions

In 2006, the Bank underwrote five series of certificated treasury bonds for a total of RMB 25.2 billion and realized RMB 176 million in commission income. The Bank also redeemed six series of certificated treasury bonds for a total of RMB 21.6 billion, and realized commission income of RMB 65 million. The total commission income amounted to RMB 241 million. During the year, the Bank issued four series of counter registered treasury bonds, with amounts totaling RMB 163 million. The cumulative transaction of the 15 counter registered treasury bonds that are listed had a total volume of RMB 1.31 billion, making up 30% of all sales made by the Big Four state-owned commercial banks, ranking the second in the domestic banking industry. As one of the pilot banks, we launched a new savings treasury bond product and consequently, sold two series of such bond at 11 of our branches, including Beijing and Shanghai, etc.

Safe deposit box

At the end of 2006, the Bank had 779,216 safe deposit boxes, of which, 238,809 were rented out, or a rental coverage rate of 30.65%. Total rental fee income reached RMB 36.94 million for the year, up by 29.61%.

Bankcards

In 2006, the Bank made a leap in the development of its bankcard services. We ranked the first in six key performance indicators for bankcard services in the industry, which include: number of cards issued, bankcard deposit balance, inter-bank transaction volume, inter-bank transaction amount, income from bankcard services, and bankcard consumption. In 2006, the bankcard business generated a total income of RMB 8.15 billion, up by RMB 2.33 billion or 39.94%. Total number of bankcards issued reached 247.11 million, up by 27.97 million or 12.76% and total bankcard deposits balance stood at RMB 655.7 billion, up by RMB 117.8 billion or 21.9%. Cumulative bankcard consumption generated amounted to RMB 474 billion, up by RMB 192.8 billion or 68.56% and cumulative transaction amount of bankcards reached RMB 24,704.1 billion, of which inter-bank transaction amounted to RMB 338.1 billion. Transaction volume of bankcards business totaled RMB 5 billion, of which, inter-bank transaction volume was RMB 455.93 million. The environment of our bankcard services has become more stable. In 2006, the Bank placed 4,557 new ATMs in use, having the Bank's ATMs reaching 17,699 in total, up by 34.68% from the beginning of 2006.

Debit KinsCard

The Bank launched a series of Xin Tong Bao Debit KinsCards that comply with the UnionPay international standard and for which allow multi-accounts and multi-functions within a single card. By the end of 2006, 21 branches of the Bank had issued the Xin Tong Bao Debit KinsCards, with a total number of 24 million bankcards issued on a bank-wide basis. Concurrently, the Bank actively worked on the clean-up of inactive bankcard accounts with low activities and closed 10.90 million dormant bankcards, which effectively adjusted our bankcard customers mix.

Credit KinsCard

To promote the full-scaled reform of credit card business, the Bank focused on developing a management system that is adaptive to our business needs. We further centralized the approval authority and strengthened the risk management of our middle office. With endless efforts, we were able to centralize the transaction process at our back office and effectively control our investment in manpower and equipment. The sale efforts were further enhanced, and our management became

more specialized and centralized. By the end of 2006, we issued a total of 3.50 million Credit KinsCards, with overdraft balance amounting RMB 1.82 billion, and interest income of RMB 268 million generated from the business.

Quasi Credit-KinsCard

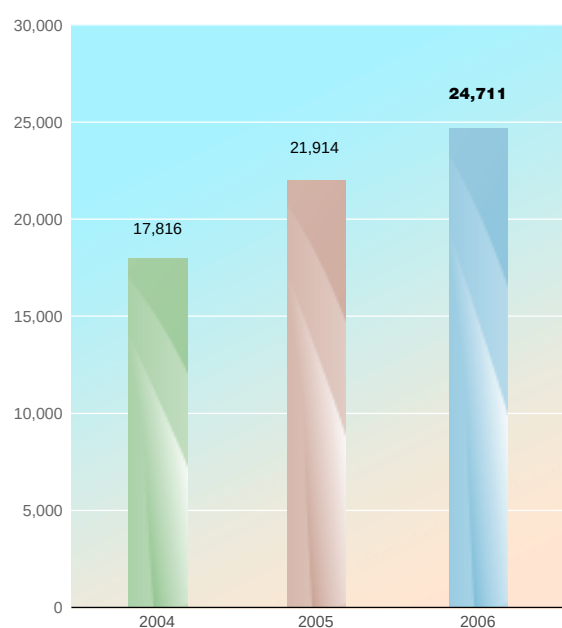
As an effort to continuously refine the various functions of the Bank's quasi-credit cards, we launched the official corporate card service and was in the process of developing a corporate card, standard UnionPay card, and affinity card. We also extended our services to include sending notices via text messaging to customers, consolidated bank statements of RMB and foreign currencies transactions, and enhanced the multi-usage of UnionPay cards domestically and internationally. By the end of 2006, there were a total number of 32 branches that had issued Quasi Credit-KinsCards, with a total volume of 770,000 cards issued; which generated income totaling RMB 55.79 million.

6.3 Treasury

In 2006, ABC continued to expand its funding resources and improve the efficiency of its capital, as such, the Bank had impressive results.

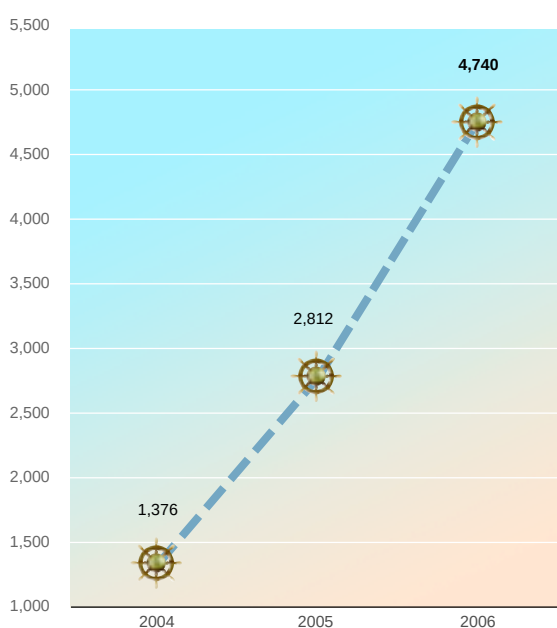
Number of cards

Unit: 10 thousands



Volume of consumption

Unit: RMB 100 million



Renminbi business

To satisfy the liquidity needs whilst making risks under firm control, the Bank established a modern treasury operating structure based on excellent research and analysis and a focus on proprietary business. Such structure was designed with a linkage to the investment banking business and brokerage business, and an emphasis on product innovation and risk management. We were able to achieve our goal of effective growth in bond investment as well as portfolio optimization. On a comprehensive basis, the volume of treasury trading amounted to RMB 8758.07 billion, up by 56.83%; ranking the first among all domestic banks for the fifth consecutive year. Income generated from trading activities reached RMB 25.03 billion, up by RMB 3.57 billion from a year ago.

In 2006, the transaction volume of Bond Market Express reached RMB 241.93 billion, ranking the first among domestic banks for the fourth consecutive year. Our customers included banks, fund management companies, credit cooperatives, public funds, agricultural insurance funds, and various other types of enterprises and organizations. Net interest income generated from Bond Market Express reached RMB 20.75 million. Our commercial paper business developed strongly in 2006. The accumulated number of bills transactions amounted to RMB 363.65 billion for the year, ranking the second in the market. The year end balance of bills and acceptances amounted to RMB 92.04 billion and total operating income of RMB 1.11 billion was generated for the year.

Foreign currency business

In responds to the trends and changes in the international market and in the context of reform in the domestic financial industry, the Bank made sound allocation of foreign currency assets in order to improve the return on assets. At the end of 2006, the funds of the Bank in the international financial market amounted to USD



The advertisement post of the plan for Ben Li Feng RMB wealth management product

19.97 billion, generating operating income totaling RMB 467 billion, up by 79.75%. As a market maker for trading of foreign currency against RMB, we proactively participated in the market transactions of forward, spot, and swap transactions on the inter-bank market.

6.4 E-banking

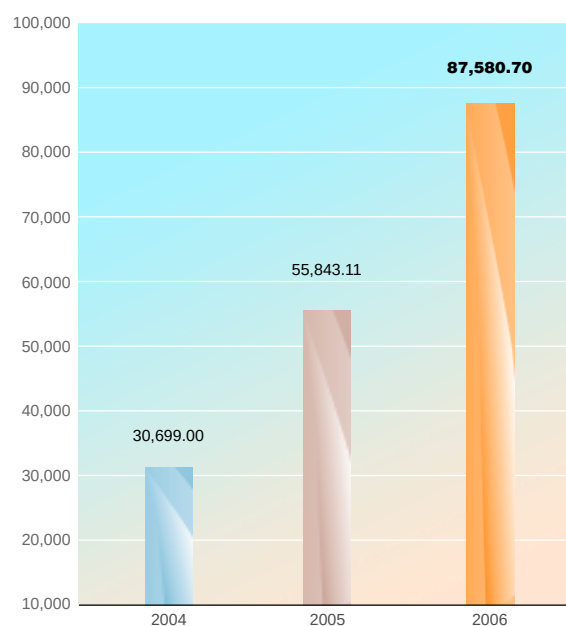
With the goals of strengthening our multi-faceted competitiveness and improving overall banking services, we continued to refine our electronic banking, sales structure, and operating and management system. The Bank built an electronic banking platform that has advanced technologies, ability for product innovation, well-controlled risk, and stable operation. We aim to achieve exceptional fast growth in our e-banking services.

Online banking

The Bank fully leveraged the role of its website as a gateway to the world; through upgrading its online banking and continued improvement in its operating capabilities. In 2006, online banking registration locations increased by 5,707 to a total of 10,984. Registered customers increased by 1.31 million to 2.18 million, of which, registered individual customers increased by 1.25 million to 2.05 million and registered commercial clients increased by 60,000 to 130,000. The number of transactions reached 300 million, up by 263.7%, with total value of RMB 12,200 billion, up by 181.9%.

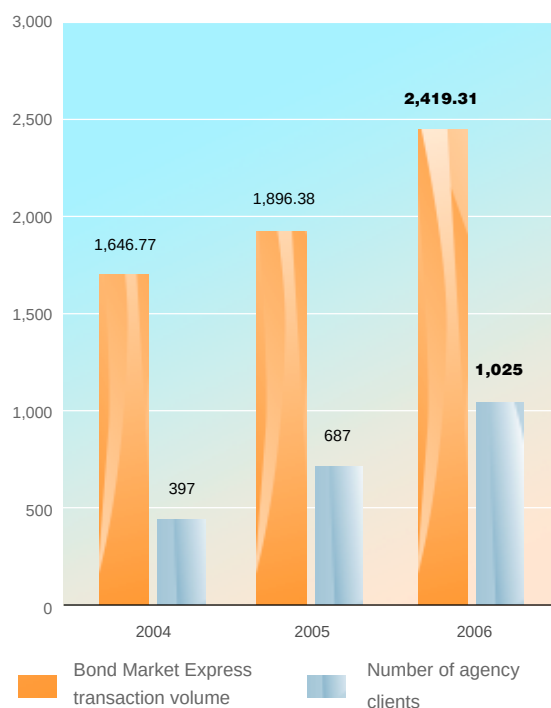
Treasury transactions in domestic currency

Unit: RMB 100 million



Bond Market Express transaction volume and number of agency clients

Unit: RMB 100 million/No. of clients



E-commerce

The Bank accelerated the innovation of electronic payment products, through the launching of various popular products, such as Fund e-Station and Payment e-Station. We started the cooperation with QQ.com, Shanda Interactive Entertainment, and Alibaba in multiple aspects, and promoted the development of electronic payment system. During 2006, the number of online merchants increased by 72 to a total of 191, with a total number of transactions reaching 43.86 million, up by 264%, and a total value of transactions reaching RMB15.2 billion, up by 1,060%.

Telephone banking and mobile phone banking

The Bank is actively preparing for the construction of an integrated service center for customer service at the national level, while continuing to strengthen the management of provincial customer service centers and improve their service quality. In 2006, the number of registered users of telephone banking increased by 1.67 million to a total of 3.78 million, of which, individual users increased by 1.63 million to a total of 3.59 million and commercial users increased by 40 thousands to a total of 190 thousands. The number of transactions completed through telephone banking reached 327 million, up by 211%, with a total amount of RMB 134.5 billion, up by 98%. The Bank worked hard to develop a uniformed mobile phone banking service platform and to upgrade the function of sending notices



The advertisement post for the E-banking business of Agricultural Bank of China

through text messaging. The number of mobile phone banking customers increased by 1.03 million to a total of 1.93 million, bringing a total of 260,000 transactions or RMB 55.46 million processed.

6.5 International Business

In response to the change in market demands, the Bank intensified the research and sales efforts on foreign exchange products, strengthened the management of foreign currency risk, and made foreign exchange service more accessible to the general public. Our foreign exchange business maintained impressive progress during the year. At the end of 2006, domestic outlets conducting foreign exchange business amounted to 10,334.

Foreign exchange business at home

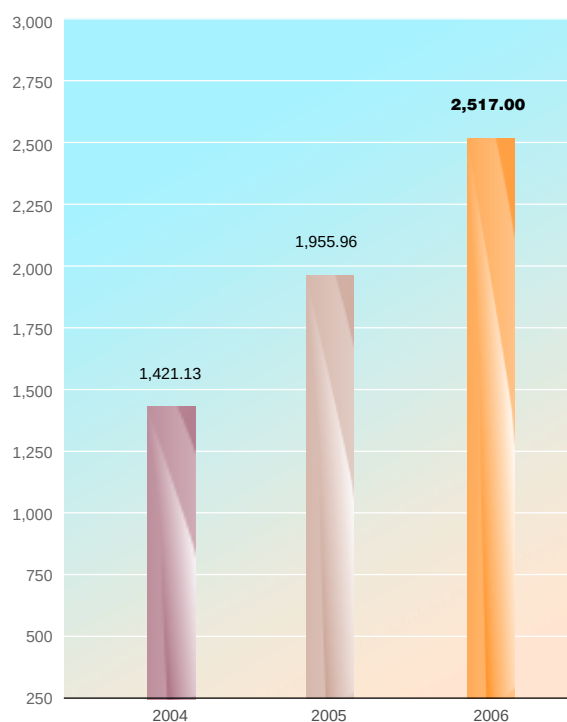
By the end of 2006, the balance of domestic foreign currency deposits was USD 9.47 billion, and the total foreign exchange assets amounted to USD 36.27 billion. The volume of international settlement was USD 251.7 billion, up by 28.68%; the volume of foreign exchange against RMB trading was USD 125.63 billion, up by 21.55%; the accumulated international trade finance operations reached USD 14.82 billion; 2.15 million foreign exchange clearing transactions were completed for USD 420.02 billion, up by 20.33% and 18.31%, respectively. Operating profit from foreign exchange businesses handled domestically amounted to USD 707 million, up by 44.88% from the prior year.

Overseas entities

Adhering to the concept of prudent operation, the Bank continued to optimize the business structure of its overseas entities, and strived to create cross-selling opportunities to deliver high quality services to cross-boarder corporate customers. At the end of 2006, total assets of

Growth of international settlement

Unit: in USD 100 million



our branches in Hong Kong and Singapore and China Agricultural Finance Company amounted to USD 4.94 billion, with a profit totaling USD 13.24 million. The volume of refinancing business for our Hong Kong and Singapore branches reached USD 4.71 billion. In 2006, China Agricultural Finance Securities Company successfully sponsored two domestic companies to be listed on the Hong Kong Stock Exchange, with total funds of HKD 2.05 billion raised. The reinsurance business of China Agricultural Finance International Insurance Company has been growing as expected. The company launched various international shipping insurance products in cooperation with our domestic branches, as a result, overall sales grew steadily.

Foreign exchange intermediary business

At the end of 2006, the accumulated income from foreign exchange intermediary business amounted to RMB 1.83 billion. Foreign exchange wealth management for customers moved forward firmly, with 755 transactions, representing a total amount of USD 5.72 billion. The sales of Hui Li Feng, a brand representing personal foreign exchange wealth management products, amounted to USD 738 million. The amount of foreign exchange trading on behalf of customers was USD 4.66 billion. Individual foreign exchange trading business reached USD 6.78 billion. Forfeiting business grew to USD 485 million, international factoring amounted to EUR 13.14 million, and export invoice financing amounted to USD 516 million. In 2006, the Bank obtained the qualification to conduct QDII business, and became a member of MA-CUG of SWIFT.

New products of foreign exchange businesses

The Bank strengthened the innovation of foreign exchange products in response to the changes of



The advertisement post for the first Jing Wai Bao scheme
(a QDII product)

market demand. We enriched our client-based products by launching equity- and gold-linked structured deposits and RMB quanto products in the name of Hui Li Feng. We also pioneered in introducing the quanto idea to RMB notional liabilities swap to lower the cost. To meet the customers' demand in trade finance, we devised export insurance support finance, structured trade finance, and large merchandise trade finance. We further integrated our personal foreign exchange products into four product lines - Hui Li Feng personal wealth management, study abroad, joyful business trip and worry-free remittance; and our product innovation for foreign currency business had entered a new stage of development.

■ Cooperation with other banks and financial institutions domestically and abroad

In 2006, the correspondent bank network of ABC covered 102 countries and territories, including a total of 1,124 correspondent banks in the network. The Bank deepened the cooperation with foreign financial institutions in the areas of international settlement, trade finance, foreign exchange derivatives, RMB and foreign currency clearing and trading, loan syndication, forward foreign currency against RMB trading, cash management, gold trading, and custodian services for investments abroad. We also entered cooperation agreements with many correspondent banks from emerging markets and countries.

In the domestic market, the Bank broadened the cooperation with other banks and financial institutions, with foreign exchange wealth management products and services tailored to these institutions. We increased our investments in U.S. dollar debt issued by China Development Bank and the Export-Import Bank of China in the domestic market. We also strengthened the cooperation with international banks through the growth in the services of RMB and foreign currency clearing. A total of 149,900 foreign currency clearing transactions were processed for correspondent banks, up by 24.26%. We also processed 250,000 RMB clearing transactions, with a total amount of RMB 27.34 billion for foreign banks in China. At the end of 2006, the balance of foreign currency capital deposit placed by foreign banks totaled USD 1.43 billion, up by USD 540 million from the beginning of the year.

7. INFORMATION TECHNOLOGY

In 2006, the Bank focused on the data centralization on a national level and continued to reinforce the bank-wide information technology platform. We successfully completed the national data centralization project. Our innovative ability in technology was greatly enhanced and provided a solid foundation for our bank-wide technological reform.

7.1 Data Centralization

In 2006, we accelerated our data centralization process by uploading data of two branches at one time. In addition to what we have accomplished last year, we completed the data centralization for 21 branches and the integration of Renminbi and foreign currency transaction data. Also, we completed the projects of data availability enhancement, upgrading the mainframe database, and transforming the network. Among all domestic banks, we ranked the first in number of outlets and number of tellers connected through one banking system as well as the number one in transaction volume within a single core banking system.

Currently, there are more than 20 large computer application systems running on the Bank's centralized information system, which is responsible for the operation of more than 34,000 business or management units. The system connects 647,400 terminals including more than 240,000 terminals for tellers, more than 180,000 POS terminals, and 24,000 self-service terminals such as ATMs, and the daily average transaction volume approximated 43 million.

7.2 Construction of Data Centers

We have moved rapidly on the construction of data centers to ensure the timely completion of our main infrastructure and placement of its use as planned. The Bank further strengthened the management of resources to ensure proper preparation for moving the data centers, branch data centralization, "1104" project, and implementation of centralized ACBS system. In 2006, we also completed the design of equipment distribution of the data center's control room, system upgrade, application testing, as well as installation. In addition, the Bank moved a step further in the preparation for technological, operational, and personnel support required for the move of data centers. Further, the Bank started the location selection of its business recovery and testing center.

7.3 Technological Innovation and Building the Management Information System

In 2006, the Bank rolled out its financial management system and its bank-wide accounting monitoring system at 17 branches. We also upgraded our small payment system, as well as its implementation at 37 tier-1 branches across the country. As we centralized the data from the branches, we completed the consolidation and integration of customers' information for retail banking. Further, we completed the design, testing, and implementation of version 3.2 and 3.3 of Online Banking. We also launched various products and services through online banking, including the electronic billing system, direct sales of funds system, intra-bank transaction interface for payments, and B2B.

As our core objective to building the management information system, the Bank made one further step in optimizing the structure of application product system. With the credit management system as a foundation, we developed and implemented the credit inquiry and analysis system and the risk statistics and application system on customer information, as well as upgraded the post lending sub-system. In addition, the real time dual-direction interface system (DIS) of data between CMS (Credit Management System) and ABIS (Agricultural Bank Integrated System) had successfully gone live.

To meet the needs of supervision, the Bank completed the development of its supervision reporting system of the "1104" project, which had also successfully gone live. Further, we upgraded the anti-money laundering information management system and made further enhancement in the corporate credit data collection and reporting system.

In 2006, we upgraded our human resources management information system and completed the development of our talent screening system, computer skill testing system, recruitment management information system, and performance evaluation system.



The advertisement post for the self-service money transfer product

8. RISK MANAGEMENT

In 2006, the Bank made continued enhancement in the enterprise-wide risk management that included credit risk, market risk, and operational risk by taking effective risk control measures to meet the needs of a changing economic environment and market fluctuation. As a result, our risk management has become more centralized, sophisticated and effective in risk prevention.

8.1 Credit Risk Management

The policies and procedures of our credit risk management are further enhanced at the Bank, with changes made to certain new rules and regulations based on the years of experience of our management. Our capabilities in credit risk management have significantly improved through the optimization of our organizational structure and work flow.

The Bank followed the national macro-economic policies closely and made required adjustments to its credit policies, optimized the allocation of credit recourses, and strengthened the exit policies of potential risky lending. We applied differential authorization management by establishing linkages of the specific level of authorization required with the industry type, region, and customer credit policies. The Bank improved the policies of customers' credit authorization management by following the principles of "stringent line approval and easy to use."

The Bank made further improvements in risk classification policies and procedures, through the building of a rating system for risk assets. Further, we made enhancements in credit risk identification and quantification methodologies. We continued to refine our customers' credit rating system as well as actively pushed for the pilot testing of a multi-category risk rating structure and the development of our internal rating approach.

The Bank fully enhanced the functionality of the credit management system as well as accelerated its upgrading and implementation. We began the utilization of the new asset classification methods and the sub-system for credit ratings of legal entity clients. Also, we developed system functionalities such as the authorization for large-amount credit line, reporting on defaults of retail loans and precaution notification. We effectively strengthened our ability of risk quantification, level of details, and risk control through the improvements in our technology platform.

The Bank has dedicated its efforts in the recovery of non-performing loans by leveraging various methods. In 2006, we recovered principal and interests of NPLs totaling RMB 62.82 billion; resolved RMB 24.87 billion in NPLs, of which, loan restructuring amounted to RMB 5.13 billion, write-offs amounted to RMB 16.12 billion, and transfer to foreclosed asset category totaling RMB 3.62 billion.

In 2006, we also started the clean-up of long-term equity investments and foreclosed assets. To maximize the recovery of these non-credit non-performing assets, we specifically designed performance measurement system that is linked to the recovery results. During the year, the Bank recovered RMB 1.178 billion of non-credit, non-performing assets, which brought a decrease of RMB 25.48 billion since the beginning of the year. The non-performing rate of non-credit assets had dropped by 2.05 percentage points.

8.2 Market Risk Management

The Bank has never stopped exploring the best possible risk management structure that suits itself. We developed a reasonable methodology to distinguish the different types of market risks; and strengthened the asset/liability portfolio management through adopting better pricing mechanism both internally and externally. Also, we accelerated the construction of a market risk management system, and effectively managed the risks brought by shifts in interest rates and exchange rates.

■ Renminbi interest rate risk management

The Bank continued to improve the pricing mechanism of interest rates on loans, with an emphasis on enhancing the loan pricing management and risk assessment system for small businesses, which contributed to a healthy development of small business financing. We established the interest rate management mechanism for commercial paper to develop the business effectively. ABC set forth relevant policies on loan pricing and designed a dynamic mechanism for risk parameters adjustment to accurately reflect the lending cost as well as the risk exposure. We further enhanced the loan pricing monitoring and post-lending system. Improvements were made in interest rate management for deposits from banks and other financial institutions, with timely adjustment to the interest rates when possible. We intensified the authorization management on interest rate pricing, and performed audits on all exceptions. We deepened the reform of internal interest rate management by establishing a well-managed internal pricing mechanism that allowed for fluctuation based on market rates, which in turn made our branches become more sensitive to market interest rates. We continued to explore ways of transfer pricing management within our organization, and established a transfer pricing management system among different departments within the Head Office. We also performed interest sensitivity analysis on a periodical basis; monitored the impacts on our spread and earnings from changes in interest rates; improved the interest calculation and settlement and avoided the risk of re-pricing. Asset and Liability management is further strengthened with the scientific calculation of risk adjusted

return on assets in both RMB and foreign currencies, accurate forecast of deposit growth, and centralized allocation and dynamic optimization in the total volume and structure of asset and liability. With these efforts, we greatly enhanced our overall ability to manage market risks. In 2006, we made strong improvements in the methodologies relating to interest rate risk management, pushed for the development of pricing management system, gap management system, and asset/liability allocation system so to improve the level of automation of our risk management process.

Foreign currency interest rate risk management

The Bank adopted different management methods and techniques for managing interest rate risk of the banking book as well as the trading book due to the difference in nature of risks. In relation to the interest rate risk in the banking book, we performed periodical analysis and forecast on the economic trends of each country and the shifts in interest rates. Additionally, we made timely adjustments to the Bank's interest rates on deposits and loans in foreign currencies and the approval limits of branches. All of these efforts were made to ensure a proper match of asset and liability in foreign currencies and a stable interest spread. The Bank periodically performed the interest gap sensitivity analysis on the Bank's foreign exchange assets and liabilities, established the revision duration of investment portfolio, and performed scenario analysis on a periodic basis. We effectively hedged the interest rate risk of foreign currencies through interest rate swaps and other derivatives. In relation to the interest rate risks in the trading book, the Bank primarily used the management technique of value at risk ("VaR"), scenario analysis, and stress testing on a periodical basis to assess our positions of interest rate risk under extreme market conditions. As such, our interest rate risk on foreign currencies was well under control.

Foreign exchange rate risk management

Regarding the widened fluctuation of RMB exchange rate, the Bank carefully monitored the foreign exchange trading and foreign exchange settlement position by performing periodic gap analysis and scenario analysis of its assets and liabilities. Using products such as currency swaps, the Bank was able to resolve the mismatch of assets and liabilities by currency and control its foreign exchange risks. Concurrently, we were able to calculate and manage the exchange risks in our trading book by using techniques such as VaR and stress testing provided by the SUMMIT risk management system.

Fund trading risk management

For the purpose of managing risk and liquidity needs, the Bank took a reasonable and prudent approach

in its investment and portfolio management. The Bank worked hard to enhance its risk adjusted return on capital and optimize its asset structure through the implementation of a comprehensive fund trading risk management system. We were able to use various risk indicators such as DVBP and VaR to exercise limit management on RMB bond trading portfolio and improve the reporting on market risk for the Bank. ABC strictly enforced the relevant regulations and further enhanced the authorization management, with a focused monitoring on the credit risk of fund trading activities. The accurate calculation of fund position, timely adjustment in our investment and funding strategies, reasonable allocation of the duration, structure and level of our investment and funding portfolio are all important factors that contributed to an effective management of liquidity risk. With a compliance culture fostered in the Bank, we were able to effectively manage the operational risks associated with fund trading by enhancing our technology and optimizing our organizational structure.

8.3 Liquidity Risk Management

RMB liquidity risk management

With the RMB Liquidity Management Policy at Agricultural Bank of China (trial version) implemented, the Bank completed the designing of its organizational structure, management strategy, performance indicators and monitoring, measurement, and early warning mechanism of liquidity management, and developed liquidity risk emergency plans. The Bank continued to enlarge its core deposit base to enhance the stability of its liability structure. More efforts were made to attain high quality credit assets, strictly control the level of medium to long-term loans, and actively developed investment and financing activities to enhance the Bank's liquidity. Through optimizing asset and liability structure, the Bank made good use of its liquidity surplus as well as supplemented the liquidity gap. Further, the Bank enhanced its ability in preventing, controlling, and resolving liquidity risks, and provided assurance for the sustainable, stable, and fast development of ABC.

The Bank implemented a centralized fund management system with enhanced control of funds on a bank-wide level. We also established a communication and coordination mechanism at the departmental level for liquidity management as well as performed liquidity forecast on a daily basis to ensure sufficient and adequate level of RMB is available. In relation to our asset allocation, we maintained a good balance of profit-driven principle and the liquidity management requirements of the Bank. We proactively responded to new circumstances occurred in our fund operation to enhance the efficiency in our fund operation, while meeting the needs of our macro control policy and business development.

Foreign currency liquidity risk management

Foreign currencies held by our branches are under the management and control of Head Office with delegated authorities. According to the overall liquidity needs of foreign currency business, we actively explored the rules naturally followed by our fund operation, and gradually established an internal fund operating system that follows the market principles to maintain a balanced management of foreign currency funds in the Bank. We further improved our fund trading capabilities and maintained a liquidity surplus. With persistent efforts, our position management became more scientific and forward-looking so as to satisfy the liquidity demands of the entire bank. Our branches both locally and overseas strictly adhered to our policies on delegation of authorities, and the Head Office maintained accurate liquidity information at all time.

Liquidity Indicators

Unit: %

Items	Currency	2006	2005	2004
Loan to deposit ratio	RMB	60.05	63.66	69.06
	Foreign currencies	95.94	73.93	79.40
Liquidity ratio	RMB and foreign currencies	27.71	26.30	25.02
Percentage of RMB borrowed and lent	RMB borrowed	0.07	0.01	0.02
	RMB lent	0.66	0.46	0.59
Reserve ratio	RMB	4.64	3.38	4.25

8.4 Operational Risk Management

In 2006, the Bank strengthened its management of operational risk, improved management policies and procedures, strived to eliminate the various potential risks in its internal control, and further enhanced its risk management ability. To enhance the ability and effectiveness of our compliance management, we made tremendous efforts in the research of compliance policies and procedures and a compliance management model that meets the needs of the regulators and the reality of ABC. By focusing on investigating special cases, the Bank launched the bank-wide investigation of post-loan management and conducted special due diligence on loans made to certain industries. We

further enhanced the rectification efforts on problems found and the enforcement of accountability. With the accountability structure of mitigating measures installed in our operations and the increase of awareness of operational risk prevention among our employees, we effectively established a comprehensive risk management structure within the Bank. We highly emphasized on the use of information technology in our risk management and further improved the policies and procedures for IT security. We also made the top management personnel accountable for the results at the relevant level, and enhanced our supervision so to ensure a safe, stable, and sustainable operation of our core banking system.

8.5 Internal Audit

In 2006, ABC actively pushed for the reform of its internal audit, and strengthened the separation of the monitoring function of internal audit from management operation, which brought the additional checks and balances. We further enhanced the independence of internal audit to allow the full utilization of the function and consequently, and began to see some excellent results of a stronger internal audit function.

In 2006, we completed the reform of internal audit below tier-1 branches and established two-tier audit delegation system to provide support of internal audit from an organizational angle. The quality of our audit was also improved as we carefully plan, organize, and conduct our audit projects. Further, we aimed to discover all problems existed in our operations that we found through our internal audits. We designed an internal control assessment system for our tier-1 branches, with a focus on the assessment of organizational structure, authorization limits, business objectives, operating measures, procedures, and monitoring controls so to further upgrade the quality of the assessment process. With key business risks identified, we conducted special audits with a specific focus on asset quality, commercial paper business, agency business, and foreclosed asset resolution. Through conducting audit upon departure of our senior management personnel, we greatly enhanced the supervision over our senior management team.

9. OUR ACHIEVEMENTS AND RESPONSIBILITIES

9.1 Achievements in 2006

- Ranked No.60 in the Global Top 1000 Banks released by The Banker magazine of the United Kingdom;
- Ranked No.377 in the Fortune 500 Companies released by Fortune magazine of the United States of America;
- Ranked No.7 in the Top 500 Chinese Enterprises with Great Achievement in IT Infrastructure Construction and won the Award for Great Achievement in IT Infrastructure Construction;
- Won the Award for 2006 Excellent Development in Online Banking issued by China Finance Certification Center and honored as "The Most Innovative Brand in Online Banking" by China Electronic Commerce Association;
- Our KinsCard was honored as "The Most Influential Brand in China's Bankcard Service Industry", after public votes and certification, which were organized by 8 news media including People's Daily, China United Business News, etc.

9.2 Credit Rating

- Standard & Poor: BBBpi
- Moody's: A2/stable

9.3 Community Activities

Poverty alleviation activities - In 2006, ABC Head Office made a donation of RMB 1 million to Xian County and Wuqiang County of Hebei Province, the designated poverty alleviation target counties by the State Council, as well as contributed RMB 30,000 to Nong Yin Hope Primary School of Huai'an County in Hebei Province for the purchase of teaching aids to improve the local education level.

Donations for disaster relief - In 2006, Guangdong, Hunan, Fujian, Xinjiang and Chongqing suffered major natural disasters. Our Head Office and branches raised funds totaling RMB 4.04 million, including RMB 1.5 million from the Head Office, to help employees of the Bank and local people in the disaster areas. To respond the calls of six ministries and commissions including the Bureau of Civil Affairs, we actively participated in the "Warmth Project," by raising donated funds of RMB 19.68 million during two festival periods, and visited 28,300 needy employee families of the Bank.

Education loans - ABC had been active in granting education loans to help students from poor families to help complete their education. At the end of 2006, the balance of education loans reached RMB 3.24 billion.



FINANCIAL STATEMENTS AND NOTES

10. FINANCIAL STATEMENTS AND NOTES

10.1 Review Report

Zhong Tian Yin No.25 (2007)

To Agricultural Bank of China

We have reviewed the accompanying balance sheet of Agricultural Bank of China at December 31, 2006, and the income statement, and the cash flow statement for the year then ended. These financial statements are the responsibility of Bank's management. Our responsibility is to issue a report on these financial statements based on our review.

We conducted our review in accordance with the China Standard on Review No. 2101. This Standard requires that we plan and perform the review to obtain limited assurance as to whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of Bank personnel and analytical procedures applied to financial data and thus provides less assurance than an audit.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying financial statements are not presented fairly, in all material respects, in accordance with China Accounting Standards.

Zhong Tian Yin Certified Public
Accountants
Beijing, P.R.C.

Chinese Certified
Public Accountant

孙会珍



Chinese Certified
Public Accountant

傅屏高



May 10, 2007

10.2 Consolidated Balance Sheet

2006-12-31
(Note I, II, III, IV and V)
(Unit: RMB 100 million)

Items	Note	2006.12.31	2005.12.31
ASSETS			
Cash		362.14	303.18
Due from central bank	(I)	6,512.89	4,295.02
Due from banks and other financial institutions	(II)	254.69	188.78
Lending to banks and other financial institutions	(III)	772.59	406.94
Loans	(IV)	31,394.31	28,292.91
Less: Provision for loan losses	(V)	(371.22)	(360.25)
Interest receivables	(VI)	27.93	100.49
Other receivables	(VI)	176.83	613.90
Investments	(VII)	13,064.07	12,570.59
Fixed assets, net	(VIII)	657.04	647.39
Construction-in-progress		91.88	80.13
Other assets	(IX)	496.28	571.11
TOTAL ASSETS		53,439.43	47,710.19
LIABILITIES			
Deposits	(X)	47,303.72	40,368.54
Due to central bank		1,506.60	1,507.38
Due to banks and other financial institutions	(XI)	1,867.02	2,002.01
Borrowings from banks and other financial institutions	(XII)	262.06	222.06
Other liabilities	(XIII)	1,660.01	2,814.13
TOTAL LIABILITIES		52,599.41	46,914.12
TOTAL OWNER'S EQUITY		840.02	796.07
TOTAL LIABILITIES AND OWNER'S EQUITY		53,439.43	47,710.19

The notes attached form an integral part of these financial statements.

10.3 Consolidated Statement of Income

2006-12-31

(Note I, II, III, IV and V)

(Unit: RMB 100 million)

Items	Note	2006	2005
Interest income	(XIV)	1,509.06	1,051.33
Interest expenses	(XV)	(788.46)	(614.02)
Net interest income		720.60	437.31
Fee and commission income		139.47	96.13
Fee and commission expenses		(5.49)	(4.67)
Other operating income	(XVI)	19.93	26.18
Other operating expenses	(XVII)	(2.97)	(16.02)
Total operating income		871.54	538.93
Operating expenses		(816.76)	(585.86)
Business tax and surcharges		(84.43)	(62.50)
Operating loss		(29.65)	(109.43)
Investment income		282.82	232.82
Subsidy income		-	5.97
Non-operating income	(XVIII)	20.00	19.01
Non-operating expenses	(XIX)	(151.30)	(69.59)
Profit before tax		121.87	78.78
Income tax		(63.80)	(68.34)
Net profit after tax		58.07	10.44

The notes attached form an integral part of these financial statements.

10.4 Consolidated Statement of Cash Flows

2006
(Unit: RMB 100 million)

Items	Amount
1. CASH FLOWS FROM OPERATING ACTIVITIES:	
Loan interest received	1,399.22
Income received from transactions with financial institutions	182.28
Other operating income	45.54
Fee and commission income received	139.47
Net increase in demand deposits	3,181.72
Net increase in deposits other than demand deposits	186,615.94
Recoveries of loans written off in prior years	3,469.65
Net increase in balances with financial institutions	-
Cash received relating to operating activities	461.11
SUB-TOTAL OF CASH INFLOWS	195,494.93
Payments of deposit interest	583.29
Payments made on transactions with financial institutions	91.94
Other operating expenditures	28.57
Net increase in balances with central bank	0.78
Net cash from transactions with financial institutions	494.30
Cash paid to and on behalf of employees	308.29
Withdrawal of deposits other than demand deposits	183,231.14
Net increase in short-term loans	1,207.97

Items	Amount
Net increase in medium and long-term loans	5,591.63
Discounted bills	225.79
Payment of fee charges	5.49
Payment of income tax	62.99
Payment of taxes other than income tax	85.60
Cash paid relating to operating activities	626.10
SUB-TOTAL OF CASH OUTFLOWS	192,543.88
NET CASH FLOWS FROM OPERATING ACTIVITIES	2,951.05
2. CASH FLOWS FROM INVESTING ACTIVITIES	
Cash received from disposal of investments	70,650.04
Cash received from dividends or profit distribution	2.89
Cash received from bond interest income	280.06
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	309.92
Cash received relating to other investing activities	-
SUB-TOTAL OF CASH INFLOWS	71,242.91
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	102.28
Cash paid for acquisition of equity investments	2.78
Cash paid for acquisition of debt investments	71,739.75

Items	Amount
Cash paid for other investing activities	-
SUB-TOTAL OF CASH OUTFLOWS	71,844.81
NET CASH FLOWS FROM INVESTING ACTIVITIES	(601.90)
3. CASH FLOWS FROM FINANCING ACTIVITIES	
Cash received from investors	-
Including: cash received by the subsidiaries from minority shareholders	-
Cash received from bond issuance	0.08
Cash received from other financing activities	0.34
SUB-TOTAL OF CASH INFLOWS	0.42
Cash paid for repayment of liabilities	16.54
Cash paid for financing expenditures	-
Cash paid for dividends or profit distribution	-
Including: dividends paid by the subsidiaries to minority shareholders	-
Cash paid for repayment of interests	-
Cash paid for decrease in registered capital	-
Including: cash paid by the subsidiaries to minority shareholders	-
for decrease in capital according to law	-
Cash paid for other financing activities	-
SUB-TOTAL OF CASH OUTFLOWS	16.54
NET CASH FLOWS FROM FINANCING ACTIVITIES	(16.15)
4. NET CASH FLOWS FROM EXTRAORDINARY ITEMS	(0.96)
5. EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH FLOWS	0.79
6. NET INCREASE IN CASH AND CASH EQUIVALENTS	2,332.86

10.5 Notes to Consolidated Financial Statements

December 31, 2006

I. Bank Profile

Agricultural Bank of China (the “Bank” or “ABC”) is a state-owned commercial bank established on February 23, 1979, with the approval by the People’s Bank of China. The business license number of the Bank is 1000001000547, the financial license number is B10211000001, and the tax registration certificate number is Jing Guo Shui Zi 110108100005474.

The principal business activities of the Bank include:

Deposit taking; short-term, medium-term, and long-term lending; domestic and overseas settlement services; bills acceptance and discounting; financial bond issuance; agency services for issuing, accepting and underwriting government bonds; proprietary trading of government bonds and financial bonds; inter-bank lending and borrowing; proprietary and agency services of foreign exchange trading; settlement services for foreign exchange; bank card business; letters of credit and guarantee services; agency services for insurance companies and collection of fees, commissions and insurance premium; safe deposit boxes; and other business activities approved by the China Banking Regulatory Commission and other relevant authorities.

II. Principal Accounting Policies and Accounting Estimates

(I) Accounting standards used as the basis for preparation of the financial statements

The financial statements of ABC have been prepared in accordance with the relevant regulations of the People’s Republic of China, including the Accounting Law, General Accounting Principles for Business Enterprises, Accounting Standards for Business Enterprises, Financial Regulations for Financial and Insurance Enterprises, and Accounting Regulation for Financial Institutions.

(II) Financial management system

All branches and subsidiaries are controlled and represented by the Head Office of the Bank under its sole legal person system and on the basis of centralized leadership, authority delegation, operation autonomy, accountability for profits and losses, and centralized settlement and clearing.

(III) Accounting period

ABC’s accounting year begins on January 1 and ends on December 31.

(IV) Basis of accounting and measurement

The accounts are recorded on an accrual basis under the historical cost convention of accounting.

(V) Reporting currency and translation for foreign currencies

The reporting currency is Renminbi ("RMB"). Separate accounts are maintained for businesses conducted in foreign currencies. The assets, liabilities, and profits and losses denominated in foreign currencies are converted into RMB at the exchange rate stipulated by the State Administration of Foreign Exchange ("SAFE") on December 22, 2006, which was US\$ 1 = RMB7.8189.

(VI) Basis of consolidation

The financial statements represent the consolidated income statement, consolidated balance sheet and consolidated statement of cash flows of the Head Office, domestic and foreign branches, and wholly-owned subsidiaries after eliminating all inter-company balances and transactions.

(VII) Criteria for recognizing cash equivalents in preparation of the cash flow statement

Based on the characteristic of the banking industry, cash equivalents of ABC include due from Central Bank, and due from banks and other financial institutions.

(VIII) Loan classifications

1. Classification of short-term, medium-term, and long-term loans

Loans are classified by maturity. Those loans due originally within 1 year (inclusive) are classified as short-term loans; loans due originally within 1 to 5 years (inclusive) are classified as medium-term loans; and loans due originally more than 5 years as long-term loans.

2. Classification of overdue loans

Overdue loans refer to loans, overdrafts or advances in which the principal balance is overdue for less than 90 days.

3. Classification and accounting treatment of idle and bad loans

Idle and bad loans refer to loans, overdrafts or advances in which the principal balance or interest are overdue for 90 days or more.

(IX) Provision for asset impairment

In compliance with the Regulation on the Provision for and Write-off of Bad and Doubtful Loans, the Bank has made provision for loan losses at 1% of the outstanding balance of risk-based assets at year end. For new originations after January 1, 2005, a special reserve for loan losses and a reserve for bank card overdrafts have been established according to the five-category loan classification system, with special mention loans provided at 2%, substandard loans provided at 25%, doubtful loans provided at 50% and loss loans provided at 100%.

Overseas operations establish their provisions in accordance with the requirements of the local regulatory authorities.

(X) Investment

1 Equity investment: where the cost method is used, investment income is recognized in the period when the investee companies declare a distribution of cash dividends. Where the equity method is used, the attributable share in net profit or loss of the investee companies for the period is recognized as investment income or loss, after deducting dividends declared. The carrying amount of the investment is then adjusted accordingly. When the equity investment is disposed, the difference between the net disposal proceeds and the carrying value of the investment is charged or credited to the income statement.

2. Bond investment: Based on the purpose of the investment, bond investments are classified as either investment securities for securities purchased with an intention to hold to maturity, or as trading securities for securities purchased for trading purposes that may be sold at any time. Income from bond securities is determined by their respective par value and coupon rate, and is recorded in the income statement when earned. Premium and discount on investment securities is amortized or accreted on a straight-line basis and recognized in the income statement. When bond investment is disposed, the difference between the net disposal proceed and the carrying value of bond investment is recognized as investment income in the current period.

(XI) Valuation and depreciation of fixed assets

Fixed assets refer to assets with a useful life at or above one year, and a unit value equal to or more than RMB 2,000 (inclusive), including buildings, machinery, motor vehicles and other equipments, appliances and tools used in operations, and also those which are not used in the banking operations but have a useful life of more than two years and a unit value of more than RMB 2,000.

Fixed assets are depreciated on a straight-line basis over the estimated useful lives, net of their residual values (3% of the original values). The estimated useful lives and annual depreciation rates for different types of fixed assets are as follows:

Category of fixed assets	Useful life (year)	Annual depreciation rate (%)
Buildings	30-35	2.77-3.23
Motor vehicles	5	19.40
Electronic equipment	5-6	16.17-19.40
Others	5	19.40

(XII) Other assets

Other assets mainly include foreclosed assets, intangible assets, operating leasehold improvements, overhaul expenses, and other deferred assets with a term of amortization of more than one year.

Intangible assets are recorded in the balance sheet at cost. Intangible assets with a definite useful life or beneficial period are amortized on a straight-line basis over that period. Intangible assets without a definite useful life or beneficial period are amortized over a term of no less than 10 years.

Leasehold improvements are amortized on a straight-line basis over the lease term from the first month of the respective beneficial period. Other long-term deferred expenses are amortized on a straight-line basis over the respective beneficial period.

(XIII) Income recognition

1. Interest income

Interest receivables on loans that have been overdue for less than 90 days (inclusive) will continue to be recorded in the income statement of the current period. Interest income accrual is suspended and the income amount is reversed when interest or principal is overdue for more than 90 days. Such interest income is excluded from the income statement until received.

2. Fee and commission income

Fee and commission income is recognized upon performance of services.

(XIV) Interest Payable

Interest expense is recognized on an accrual basis of accounting. Accrual of interest for time deposits is based on the stipulated rates at the date the deposits were made. Accrual of interest for demand deposits is based on the rate applicable on the accrual day. The actual interest payment is recorded through interest payable.

(XV) Taxation

Taxation includes income tax and business tax. The applicable tax rates for income tax and business tax are 33% and 5%, respectively. Applicable taxes, taxation basis, and tax rates for overseas branches are subject to the relevant local tax regulations.

III. Notes on loan classification

In 2006, based on the five-category loan classification system, non-performing loans accounted for 23.43% of the total loan portfolio, a decrease by 2.74% from the prior year.

IV. Notes on relevant items of the financial statements

(unit: RMB 100 million)

(I) Due from central bank

Due from central bank refers to the statutory deposit reserve and excess deposit reserve placed with the People's Bank of China. The statutory deposit reserve is made at the required rate of 9.5% for domestic currency deposits, and 4% for foreign currency deposits, as stipulated by the People's Bank of China.

(II) Due from banks and other financial institutions

1. By types of financial institutions:

Items	2006.12.31	2005.12.31
Due from banks	247.88	146.35
Due from other financial institutions	6.81	42.43
TOTAL	254.69	188.78

2. By location:

Location	2006.12.31	2005.12.31
Domestic	158.22	97.57
Overseas	96.47	91.21
TOTAL	254.69	188.78

(III) Lending to banks and other financial institutions

1. By types of financial institutions:

Items	2006.12.31	2005.12.31
Lending to banks	706.71	209.27
Lending to other financial institutions	65.88	197.67
TOTAL	772.59	406.94

2. By location:

Location	2006.12.31	2005.12.31
Domestic	344.82	204.46
Overseas	427.77	202.48
TOTAL	772.59	406.94

(IV) Loans

1. By maturity:

Maturity	2006.12.31	2005.12.31
Short-term loans	11,703.44	10,269.68
Medium- and long-term Loans	12,216.32	10,928.31
Overdue, idle and bad loans	7,474.55	7,094.92
TOTAL	31,394.31	28,292.91

2. By currency:

Currency	2006.12.31	2005.12.31
RMB	30,419.03	27,349.73
Foreign currencies	975.28	943.18
TOTAL	31,394.31	28,292.91

(V) Provision for loan losses

During 2006, the Bank charged RMB18.47 billion of loan loss provision to the income statement. Additionally, the Bank wrote-off and reversed provision due to collection after write-off of RMB 17.38 billion. At December 31, 2006, the balance of provision for loan losses amounted to RMB 37.12 billion.

(VI) Receivables

Items	2006.12.31	2005.12.31
Interest receivables	27.93	100.49
Other receivables	176.83	613.90
TOTAL	204.76	714.39

(VII) Investments

1. By maturity

Maturity	2006.12.31	2005.12.31
Short-term investments	5,271.38	5,898.96
Long-term investments	7,792.69	6,671.63
TOTAL	13,064.07	12,570.59

2. By type

Type	2006.12.31	2005.12.31
Bond investments	13,023.85	12,563.93
Including: Financial bonds	7,436.59	7,731.06
Treasury bonds	4,332.20	3,524.62
Other bond investments	1,255.06	1,308.25
Equity investments	40.22	6.66
TOTAL	13,064.07	12,570.59

(VIII) Fixed assets, net

Items	2005.12.31	Increase	Decrease	2006.12.31
Original cost	948.92	162.30	122.40	988.82
Including: Buildings	690.45			702.44
Motor vehicles	56.96			60.04
Electronic Equipment	189.72			212.67
Others	11.79			13.67
Less: Accumulated depreciation	(301.53)	(55.07)	(24.82)	(331.78)
Net book value	647.39			657.04

(IX) Other assets

Items	2006.12.31	2005.12.31
Other current assets	2.83	2.49
Fixed assets pending for disposal	0.90	1.76
Intangible assets	23.85	22.76
Long-term deferred expenses	42.91	51.90
Foreclosed assets	302.59	370.50
Other long-term assets	123.20	121.70
Deferred tax assets	-	-
TOTAL	496.28	571.11

(X) Deposits

1. By maturity:

Maturity	2006.12.31	2005.12.31
Short-term deposits	41,646.81	35,352.72
Long-term deposits	5,656.91	5,015.82
TOTAL	47,303.72	40,368.54

2. By currency:

Items	2006.12.31	2005.12.31
RMB	46,460.19	39,571.94
Foreign currencies	843.53	796.60
TOTAL	47,303.72	40,368.54

(XI) Due to banks and other financial institutions

1. By types of institutions:

Items	2006.12.31	2005.12.31
Due to banks	1,028.32	500.54
Due to other financial institutions	838.70	1,501.47
TOTAL	1,867.02	2,002.01

2. By location:

Location	2006.12.31	2005.12.31
Domestic	1,865.13	1,999.90
Overseas	1.89	2.11
TOTAL	1,867.02	2,002.01

(XII) Borrowings from banks and other financial institutions

1. By types of financial institutions:

Items	2006.12.31	2005.12.31
Borrowings from bank	261.67	203.79
Borrowings from other financial institutions	0.39	18.27
TOTAL	262.06	222.06

2. By location:

Location	2006.12.31	2005.12.31
Domestic	51.08	29.35
Overseas	210.98	192.71
TOTAL	262.06	222.06

(XIII) Other liabilities

Items	2006.12.31	2005.12.31
Intra-bank deposits	65.98	79.00
Bill financing	104.25	466.30
Securities sold under repurchase agreements	84.16	640.61
Outward remittance	284.86	264.63
Interest payable	228.13	115.33
Accrued payroll and welfare benefits payable	86.07	64.23
Taxes payable and surcharges	80.76	74.26
Other payables	260.80	618.38
Accrued expenses	0.03	0.03
Other current liabilities	372.65	379.25
Long-term borrowing	30.37	39.67
Long-term bonds	34.04	40.86
Long-term payable	2.11	0.28
Other long-term liabilities	25.76	31.19
Deferred tax liabilities	0.04	0.11
TOTAL	1,660.01	2,814.13

(XIV) Interest income

Items	2006	2005
Interest income from customers	1,332.45	972.46
Interest income from inter-bank transactions	176.61	78.87
TOTAL	1,509.06	1,051.33

(XV) Interest expenses

Items	2006	2005
Interest expenses to customers	695.18	540.23
Interest expense on inter-bank transactions	93.28	73.79
TOTAL	788.46	614.02

(XVI) Other operating income

Items	2006	2005
Foreign exchange gain	8.76	10.88
Gain on precious metal	0.16	0.21
Others	11.01	15.09
TOTAL	19.93	26.18

(XVII) Other operating expenses

In 2006, other operating expenses amounted to RMB 297 million, mainly arising from securities trading and proprietary trading of financial derivatives.

(XVIII) Non-operating income

Items	2006	2005
Net income from disposal of fixed assets	8.80	5.94
Excess from fixed assets count	1.43	-
Income from penalty charges	0.15	0.47
Net income from disposal of foreclosed assets	1.88	1.60
Others	7.74	11.00
TOTAL	20.00	19.01

(XIX) Non-operating expenses

Items	2006	2005
Net loss from disposal of fixed assets	20.51	3.02
Net loss from disposal of foreclosed assets	69.77	20.49
Donations	0.23	0.23
Extraordinary losses	0.18	0.24
Compensation and payments on defaulted contracts	0.10	0.09
Others	60.51	45.52
TOTAL	151.30	69.59

V. Explanation of other important matters

(I) Contingent liabilities

Items	2006.12.31	2005.12.31
Bank acceptances	2,093.00	1,806.61
Letters of guarantee	820.81	345.22
Shipping guarantee	17.98	-
Letters of credit	457.66	445.54
Factoring payable	0.98	1.44
Fiduciary bond investment	38.38	85.63
Commitments	201.54	6.35
TOTAL	3,630.35	2,690.79

(II) Income Tax

We have obtained the permission from the tax bureau to postpone our tax filing for 2006 to June 30, 2007, due to certain tax policies and the pending approval on certain tax matters. The amount of income tax expense for the year ended is estimated at RMB 6.38 billions.

(III) Related party transactions

No significant related party transaction had occurred in 2006.

(IV) Major outstanding litigations and arbitration

In the reporting period, there was no litigation or arbitration that would have a substantial impact on the business operations of the Bank.

11. DIRECTORY OF OUR BRANCH NETWORK

11.1 Overseas Institutions

SINGAPORE BRANCH

ADD: 80 Raffles Place, #27-20 UOB Plaza 2, Singapore,
048624
TEL: 0065-65355255
FAX: 0065-65367155/65387960

HONG KONG BRANCH

ADD: 23/F, Tower 1, Admiralty Center, 18 Harcourt Road,
Hong Kong
TEL: 00852-28618000
FAX: 00852-28660133

CHINA AGRICULTURAL FINANCE CO., LTD, HONG KONG

ADD: 23/F, Tower 1, Admiralty Center, 18 Harcourt Road,
Hong Kong
TEL: 00852-28618000
FAX: 00852-25075959

LONDON REPRESENTATIVE OFFICE

ADD: 18/F, City Tower, 40 Basinghall Street, London,
EC2V 5DE, U. K.
TEL: 0044-20-73748900
FAX: 0044-20-73746425

TOKYO REPRESENTATIVE OFFICE

ADD: 503 Kishimoto, Building 2-1, 2 Chome Marunouchi,
Chiyoda-Ku, Tokyo, 100 Japan
TEL: 00813-32114628
FAX: 00813-32125047

NEW YORK REPRESENTATIVE OFFICE

ADD: 375 Park Avenue, Suite 2504, New York,
NY 10152 U.S.A.
TEL: 001-212-8888998/8889609
FAX: 001-212-8889686

11.2 Contact List of the Domestic Branches & Their Respective International Departments

BEIJING BRANCH

ADD: 5 Zhanlan Road, Xicheng District, Beijing 100037,
P. R. China
TEL: 010-68358266

BEIJING BRANCH, INTERNATIONAL DEPARTMENT

ADD: 5 Zhanlan Road, Xicheng District, Beijing 100037,
P. R. China
Contact person: Wang Hua Yan
TEL: 010-88338183
FAX: 010-68358657
SWIFT: ABOCCNBJ010

TIANJIN BRANCH

ADD: #1 ABC Office Building, Ningfa Merchant Centre,
Hexi District, Tianjin 300074, P. R. China
TEL: 022-23338733

TIANJIN BRANCH, INTERNATIONAL DEPARTMENT

ADD: #1 ABC Office Building, Ningfa Merchant Center,
Hexi District, Tianjin 300074, P.R.China
Contact person: Yan Hong
TEL: 022-23338969
FAX: 022-23338954
SWIFT: ABOCCNBJ020

HEBEI BRANCH

ADD: 39 Ziqiang Road, Shijiazhuang, Hebei Province 050000,
P. R. China
TEL: 0311-87026132

HEBEI BRANCH, INTERNATIONAL DEPARTMENT

ADD: 39 Ziqiang Road, Shijiazhuang, Hebei Province 050000,
P. R. China
Contact person: Song Hua
TEL: 0311-87019957
FAX: 0311-87039321
SWIFT: ABOCCNB030

SHANXI BRANCH

ADD: 92 Fudongjie, Taiyuan, Shanxi Province 030002,
P. R. China
TEL: 0351-4956830

SHANXI BRANCH, INTERNATIONAL DEPARTMENT

ADD: 10/F, Jinyang Plaza, 132 Xinjiannanlu, Taiyuan,
Shanxi Province 030002, P. R. China
Contact person: Cui Jiping
TEL: 0351-7336651
FAX: 0351-7336700
SWIFT: ABOCCNB040

INNER MONGOLIA BRANCH

ADD: ABC Office Building, Xinchengbeijie, Huhhot, Inner
Mongolia Autonomous Region 010010, P. R. China
TEL: 0471-6903388-80904

INNER MONGOLIA BRANCH, INTERNATIONAL DEPARTMENT

ADD: ABC Office Building, Xinchengbeijie, Hohhot, Inner
Mongolia Autonomous Region 010010, P. R. China
Contact person: Huang Weiqin
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FAX: 0471-6901246
SWIFT: ABOCCNB050

LIAONING BRANCH

ADD: 27 Beijing Road, Shenhe District, Shenyang,
Liaoning Province 110013, P. R. China
TEL: 024-22550004

LIAONING BRANCH, INTERNATIONAL DEPARTMENT

ADD: 27 Beijing Street, Shenhe District, Shenyang,
Liaoning Province 110013, P. R. China
Contact person: Yu Lei
TEL: 024-22550187
FAX: 024-22550179
SWIFT: ABOCCNB060

JILIN BRANCH

ADD: 926 Renmindajie, Changchun, Jilin Province 130051,
P. R. China
TEL: 0431-82093700

JILIN BRANCH, INTERNATIONAL DEPARTMENT

ADD: 926 Renmindajie, Changchun, Jilin Province 130051,
P. R. China
Contact person: Liang Jun
TEL: 0431-82093787
FAX: 0431-82700643
SWIFT: ABOCCNB070

HEILONGJIANG BRANCH

ADD: 131 Xidazhijie, Nangang District, Harbin, Heilongjiang
Province 150006, P. R. China
TEL: 0451-86208846

HEILONGJIANG BRANCH, INTERNATIONAL DEPARTMENT

ADD: 131 Xidazhijie, Nangang District, Harbin, Heilongjiang
Province 150006, P. R. China
Contact person: Guo Hanqiu
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FAX: 0451-86208781
SWIFT: ABOCCNB080

SHANGHAI BRANCH

ADD: 599 Xujiashui Road, Shanghai 200023, P. R. China
TEL: 021-53961888

SHANGHAI BRANCH, INTERNATIONAL DEPARTMENT

ADD: 26 Zhongshan Dongyilu, Shanghai 200002, P. R. China
Contact person: Lin Lin
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FAX: 021-63236795
SWIFT: ABOCCNB090

JIANGSU BRANCH

ADD: 357 Hongwu Road, Nanjing 210002, P. R. China
TEL: 025-84577007

JIANGSU BRANCH, INTERNATIONAL DEPARTMENT

ADD: 357 Hongwu Road, Nanjing 210002, P. R. China
Contact person: Zhou Yunfeng
TEL: 025-84706078
FAX: 025-84706060
SWIFT: ABOCCNB100

ZHEJIANG BRANCH

ADD: 55 Changqing Street, Hangzhou, Zhejiang Province
310003, P. R. China
TEL: 0571-87226000

ZHEJIANG BRANCH, INTERNATIONAL DEPARTMENT

ADD: 55 Changqing Street, Hangzhou, Zhejiang Province
310003, P. R. China
Contact person: Chen Jianling
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FAX: 0571-87226297
SWIFT: ABOCCNBJ110

ANHUI BRANCH

ADD: 448 Changjiang Zhonglu, Hefei, Anhui Province 230061,
P. R. China
TEL: 0551-2843475

ANHUI BRANCH, INTERNATIONAL DEPARTMENT

ADD: 448 Changjiang Zhonglu, Hefei, Anhui Province 230061,
P. R. China
Contact person: Wu Xiaosong
TEL: 0551-2223286
FAX: 0551-2845876
SWIFT: ABOCCNBJ120

FUJIAN BRANCH

ADD: 177 Hualin Road, Fuzhou, Fujian Province 350003,
P. R. China
TEL: 0591-87909976

FUJIAN BRANCH, INTERNATIONAL DEPARTMENT

ADD: 177 Hualin Road, Fuzhou, Fujian Province 350003,
P. R. China
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FAX: 0591-87909366
SWIFT: ABOCCNBJ130

JIANGXI BRANCH

ADD: 339 Zhongshan Road, Nanchang, Jiangxi Province
330008, P. R. China
TEL: 0791-6693775

JIANGXI BRANCH, INTERNATIONAL DEPARTMENT

ADD: 339 Zhongshan Road, Nanchang, Jiangxi Province
330008, P. R. China
Contact person: He Xinzi
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FAX: 0791-6693526
SWIFT: ABOCCNBJ140

SHANDONG BRANCH

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P. R. China
TEL: 0531-85858888

SHANDONG BRANCH, INTERNATIONAL DEPARTMENT

ADD: 168 Jingqi Road, Jinan, Shandong Province 250001,
P. R. China
Contact person: Li Yan
TEL: 0531-85858285
FAX: 0531-85858311
SWIFT: ABOCCNBJ150

HENAN BRANCH

ADD: 34 Weiwu Road, Zhengzhou, Henan Province 450003,
P. R. China
TEL: 0371-65789571

HENAN BRANCH, INTERNATIONAL DEPARTMENT

ADD: 102 Fengchan Road, Zhengzhou, Henan Province
450008, P. R. China
Contact person: Li Yan
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FAX: 0371-65746072
SWIFT: ABOCCNBJ160

HUBEI BRANCH

ADD: Tower A, Jinjin Garden, 66 Zhongbei Road, Wuchang
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HUBEI BRANCH, INTERNATIONAL, DEPARTMENT

ADD: Tower A, Jinjin Garden, 66 Zhongbei Road, Wuchang
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FAX: 027-87326880
SWIFT: ABOCCNBJ170

HUNAN BRANCH

ADD: 540 Furong Zhonglu, Section 1, Changsha, Hunan
Province 410005, P. R. China
TEL: 0731-4300265

HUNAN BRANCH, INTERNATIONAL DEPARTMENT

ADD: 540 Furong Zhonglu, Section 1, Changsha, Hunan
Province 410005, P. R. China
Contact person: Hu Lixiong
TEL: 0731-4432523
FAX: 0731-4448269
SWIFT: ABOCCNBJ180

■ GUANGDONG BRANCH

ADD: 425 Zhujiang Donglu, Zhujiang New Town, Tianhe District, Guangzhou, Guangdong Province 510623, P. R. China
TEL: 020-38008088

GUANGDONG BRANCH, INTERNATIONAL DEPARTMENT

ADD: 425 Zhujiang Donglu, Zhujiang New Town, Tianhe District, Guangzhou, Guangdong Province 510623, P. R. China
Contact person: Jiang Xinyan
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FAX: 020-38008831
SWIFT: ABOCCNBJ190

■ GUANGXI BRANCH

ADD: ABC Office Building, 56 Jinhu Road, Nanning, Guangxi Autonomous Region 530028, P. R. China
TEL: 0771-2106036

GUANGXI BRANCH, INTERNATIONAL DEPARTMENT

ADD: ABC Office Building, 56 Jinhu Road, Nanning, Guangxi Autonomous Region 530028, P. R. China
Contact person: Wei Chongde
TEL: 0771-2106203
FAX: 0771-2106360
SWIFT: ABOCCNBJ200

■ HAINAN BRANCH

ADD: 26 Binhai Dadao, Haikou, Hainan Province 570125, P. R. China
TEL: 0898-66772087

HAINAN BRANCH, INTERNATIONAL DEPARTMENT

ADD: 2/F, Jingrui Plaza, 1 Guomao Road, Haikou, Hainan Province 570125, P. R. China
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FAX: 0898-66705070
SWIFT: ABOCCNBJ210

■ SICHUAN BRANCH

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SICHUAN BRANCH, INTERNATIONAL DEPARTMENT

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SWIFT: ABOCCNBJ220

■ CHONGQING BRANCH

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CHONGQING BRANCH, INTERNATIONAL DEPARTMENT

ADD: 103 Xinhua Road, Yuzhong District, Chongqing 400011, P. R. China
Contact person: Feng Yi
TEL: 023-63550932
FAX: 023-63550923
SWIFT: ABOCCNBJ310

■ GUIZHOU BRANCH

ADD: 201 Zhonghua Nanlu, Guiyang, Guizhou Province 550002, P. R. China
TEL: 0851-5221016

GUIZHOU BRANCH, INTERNATIONAL DEPARTMENT

ADD: 201 Zhonghua Nanlu, Guiyang, Guizhou Province 550002, P. R. China
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SWIFT: ABOCCNBJ230

■ YUNNAN BRANCH

ADD: 1 Renmin Zhonglu, Kunming, Yunnan Province 650051, P. R. China
TEL: 0871-3203405

YUNNAN BRANCH, INTERNATIONAL DEPARTMENT

ADD: 1 Renmin Zhonglu, Kunming, Yunnan Province 650051, P. R. China
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FAX: 0871-3203604
SWIFT: ABOCCNBJ240

TIBET BRANCH

ADD: 12 Kangang Donglu, Lhasa 850000, P. R. China
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TIBET BRANCH, INTERNATIONAL DEPARTMENT

ADD: 12 Kangang Donglu, Lhasa 850000, P. R. China
Contact person: You Yuping
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SHAANXI BRANCH

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SHAANXI BRANCH, INTERNATIONAL DEPARTMENT

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FAX: 029-87802239
SWIFT: ABOCCNB260

GANSU BRANCH

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P. R. China
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GANSU BRANCH, INTERNATIONAL DEPARTMENT

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FAX: 0931-8895018
SWIFT: ABOCCNB270

QINGHAI BRANCH

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P. R. China
TEL: 0971-6145160

QINGHAI BRANCH, INTERNATIONAL DEPARTMENT

ADD: 96 Huanghe Road, Xining, Qinghai Province 810001,
P. R. China
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TEL: 0971-6166078
FAX: 0971-6145531
SWIFT: ABOCCNB280

NINGXIA BRANCH

ADD: 95 Jiefang Xijie, Xingqing District, Yinchuan, Ningxia
Autonomous Region 750004, P. R. China
TEL: 0951-6027431

NINGXIA BRANCH, INTERNATIONAL DEPARTMENT

ADD: 95 Jiefang Xijie, Xingqing District, Yinchuan, Ningxia
Autonomous Region 750004, P. R. China
Contact person: Guo Xinping
TEL: 0951-6081824
FAX: 0951-6081824
SWIFT: ABOCCNB290

XINJIANG BRANCH

ADD: 66 Jiefang Nanlu, Urumqi 830001, P. R. China
TEL: 0991-2814785

XINJIANG BRANCH, INTERNATIONAL DEPARTMENT

ADD: 66 Jiefang Nanlu, Urumqi 830001, P. R. China
Contact person: Shi Xiaofeng
TEL: 0991-2836338
FAX: 0991-2836328
SWIFT: ABOCCNB300

XINJIANG PRODUCTION AND CONSTRUCTION CORPS BRANCH

ADD: Jinsui Plaza, 259 Jiefang Nanlu, Urumqi, Xinjiang
Autonomous Region 830002, P. R. China
TEL: 0991-2828888-8106

XINJIANG PRODUCTION AND CONSTRUCTION CORPS BRANCH, INTERNATIONAL DEPARTMENT

ADD: Jinsui Plaza, 259 Jiefangnanlu, Urumqi, Xinjiang
Autonomous Region 830002, P. R. China
Contact person: Wang Weilin
TEL: 0991-2828888-1410
FAX: 0991-2834802
SWIFT: ABOCCNB301

DALIAN BRANCH

ADD: 10 Zhongshan Road, Zhongshan District, Dalian,
Liaoning Province 116001, P. R. China
TEL: 0411-82510731

DALIAN BRANCH, INTERNATIONAL DEPARTMENT

ADD: 10 Zhongshan Road, Zhongshan District, Dalian, Liaoning
Province 116001, P. R. China

Contact person: Zhao Weisha

TEL: 0411-82510501

FAX: 0411-82510586

SWIFT: ABOCCNBJ340

QINGDAO BRANCH

ADD: 19 Shandong Road, Qingdao, Shandong Province
266071, P. R. China

TEL: 0532-85802215

QINGDAO BRANCH, INTERNATIONAL DEPARTMENT

ADD: 19 Shandong Road, Qingdao, Shandong Province
266701, P. R. China

Contact person: Cui Jifeng

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FAX: 0532-85814390

SWIFT: ABOCCNBJ380

NINGBO BRANCH

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P. R. China

TEL: 0574-87363537

NINGBO BRANCH, INTERNATIONAL DEPARTMENT

ADD: 159 Lingqiao Road, Ningbo, Zhejiang Province 315000,
P. R. China

Contact person: Wang Tianyi

TEL: 0574-87312145

FAX: 0574-87295551

SWIFT: ABOCCNBJ390

XIAMEN BRANCH

ADD: ABC Office Building, 98-100 Jiahe Road, Siming District,
Xiamen 361009

TEL: 0592-5578855

XIAMEN BRANCH, INTERNATIONAL DEPARTMENT

ADD: ABC Office Building, 98-100 Jiahe Road, Siming District,
Xiamen 361009

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FAX: 0592-5578614

SWIFT: ABOCCNBJ400

SHENZHEN BRANCH

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SHENZHEN BRANCH, INTERNATIONAL DEPARTMENT

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SWIFT: ABOCCNBJ410

TIANJIN TRAINING INSTITUTE

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CHANGCHUN TRAINING INSTITUTE

ADD: 1408 Qianjin Dajie, Chaoyang District, Changchun,
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TEL: 0431-6822002

WUHAN TRAINING INSTITUTE

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TEL: 027-86780477

SUZHOU BRANCH

ADD: 65 Shishan Road, New District, Suzhou, 215011,
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TEL: 0512-68247016

SUZHOU BRANCH, INTERNATIONAL DEPARTMENT

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Contact person: Yang Binsu

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