



ANNUAL REPORT 2007



Agricultural Bank of China (the Bank, we, or ABC) was re-established in February 1979, with its headquarters located in Beijing. At the end of 2007, ABC had 24,452 outlets in Mainland China, two overseas branches in Singapore and Hong Kong, and three representative offices in London, Tokyo, and New York. ABC had 447,519 employees at the end of the year.

As a big state-owned bank, ABC has the most extensive reach in both urban and rural China. At the same time, it also steps beyond the border. In order to ensure sustainable development in urban and rural markets, ABC consistently upholds the principle of customer-orientation and prudential operation, provides tailored services and products for different segments of customers, and is determined to become partners of our clients. Based on nationwide outlets, massive electronic network and diversified financial products, ABC is committed to offering quality financial services to and creating value for our customers. By the end of 2007, its total assets, total deposits and total loans reached RMB 6.05 trillion, RMB 5.28 trillion and RMB 3.48 trillion respectively.

In 2007, ABC ranked the 65th among the "Top 1000 banks" in *The Banker*, and the 277th among the Fortune's Global 500. It was rated BBBpi by S&P, and A1/stable by Moody's.

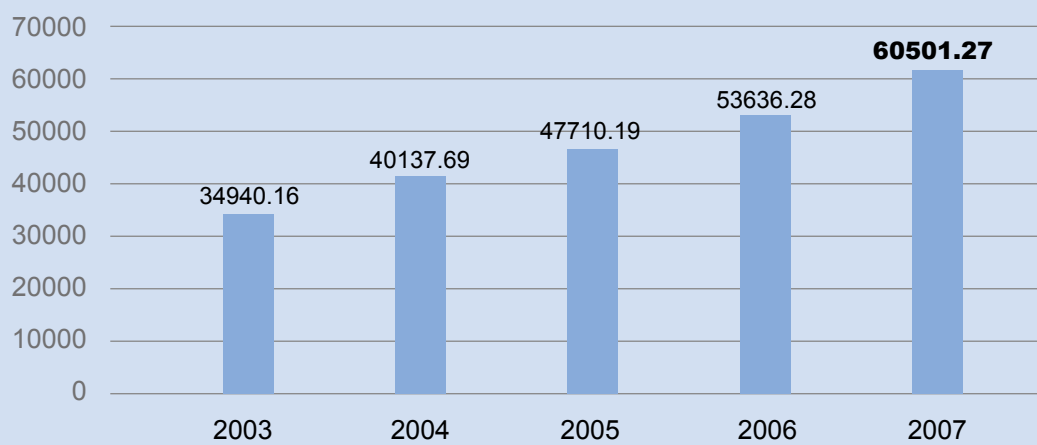
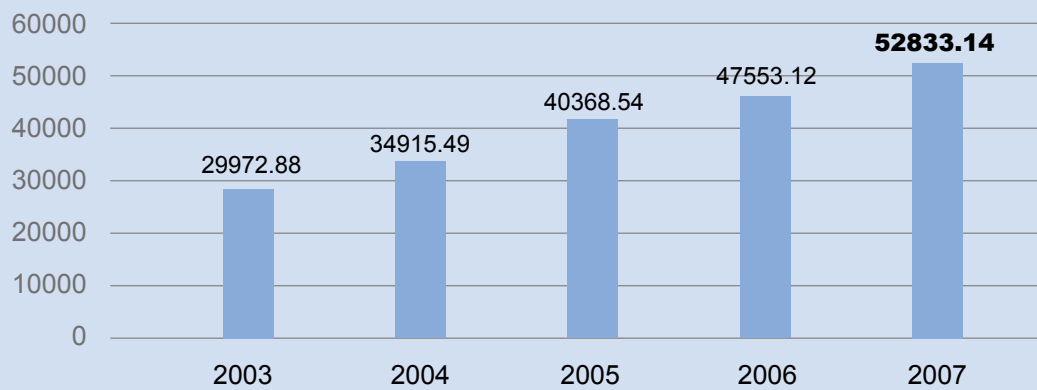
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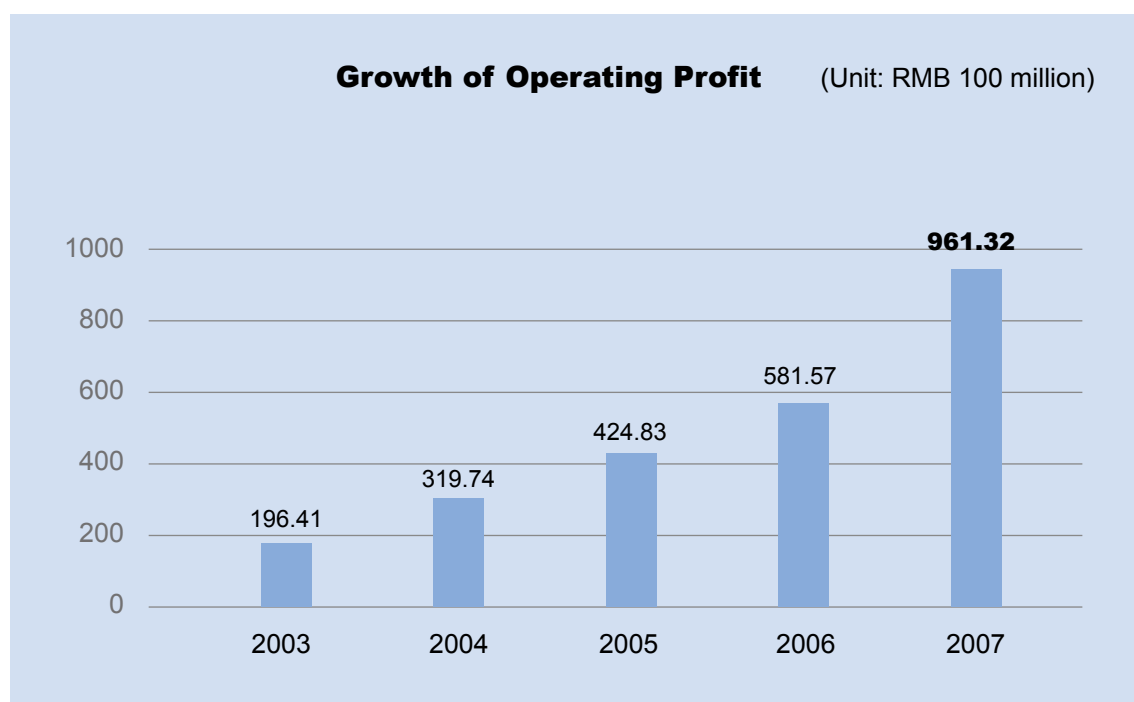
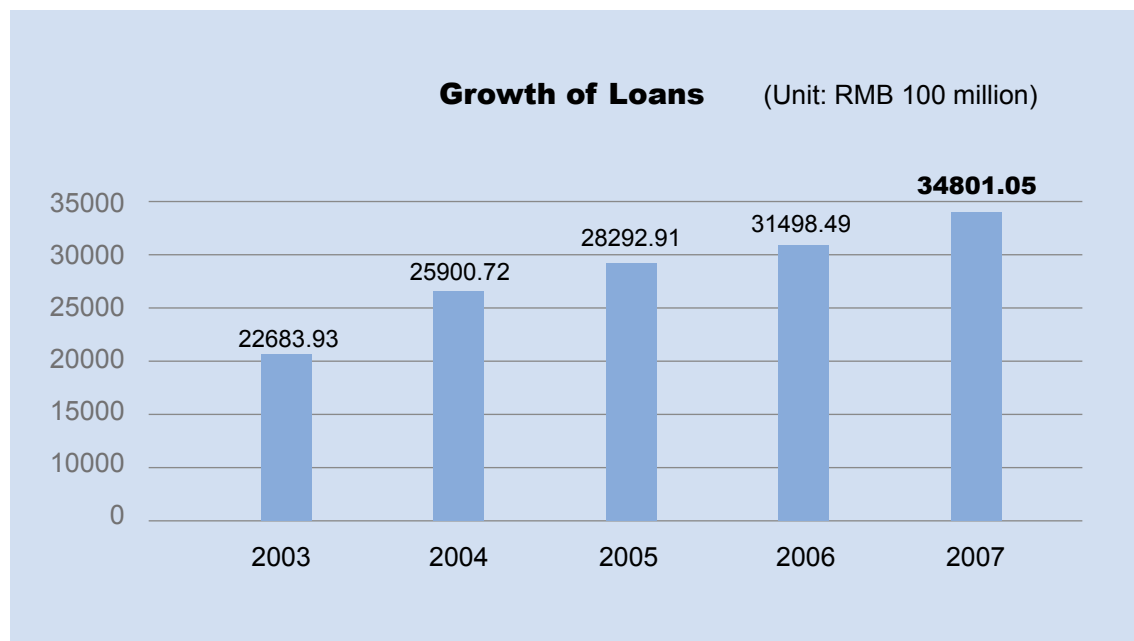
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1. Financial Highlights

	2007	2006	Variations
OPERATING RESULTS	(RMB hundred million)		+/(-)%
Operating profit	961.32	581.57	65.30
Investment income	399.64	282.82	41.31
Profit before income tax	325.61	116.07	180.53
Net profit after income tax	118.72	52.26	127.17
Interest income	2000.13	1520.51	31.54
Net interest income	980.47	723.67	35.49
BALANCE SHEET ITEMS	(RMB hundred million)		
Total assets	60501.27	53636.28	12.80
Loans	34801.05	31498.49	10.48
Total liabilities	59614.99	52799.86	12.91
Deposits	52833.14	47553.12	11.10
Owner's equity	886.28	836.42	5.96
FINANCIAL RATIOS	(%)		+/(-)
Operating profit as a % of average total assets	1.68	1.15	0.53
Operating profit as a % of average owners' equity	111.61	71.09	40.51
Cost to income	43.36	50.44	-7.07
Loans to deposits	65.87	66.37	-0.50
Non-performing loans	23.50	23.43	0.07

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

Growth of Total Assets (Unit: RMB 100 million)**Growth of Deposits** (Unit: RMB 100 million)



2. Bank Profile

- **Legal name in Chinese:** 中国农业银行
Legal name in English: Agricultural Bank of China
- **Legal representative:** Xiang Junbo (项俊波)

- **Registered address and office address:** No.69, Jian Guo Men Nei Road,
Dong Cheng District, Beijing

Zip code: 100005

Website: www.abchina.com
- **Modified registration date:** 25 December 2007

Authority of registration: State Administration for Industry and Commerce, PRC

Business license registration No.: 1000001000547

Financial license registration No.: B0002H111000001

Tax registration No.: Jing Shui Zheng Zi 110108100005474

- **Designated newspaper for information disclosure:** Financial News

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

- **Appointed certified public accountants:** Zhong Tian Yin Certified Public Accountants

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



Xiang Junbo, President and Chief Executive Officer

3. Message from the President

In 2007, the major developed economies had a slower economic growth rate than previous years, whereas the new emerging markets and developing countries kept rapid growth. Global financial markets experienced intensified fluctuations. Under the macro-control measures, the Chinese economy continued to grow steadily and strongly, with GDP reaching RMB 24.66 trillion, an 11.4% increase compared to 2006.

This year was extraordinarily important for the reform and development of Agricultural Bank of China. On the National Financial Work Conference in January 2007, the government explicated the general requirement for ABC's reform, that is, playing a pillar role in serving agriculture, rural areas and farmers, operating commercially, restructuring itself as a whole and going public at an appropriate time. Guided by the Outlook on Scientific Development and the above-mentioned requirements, the Bank has made effective and steady development. We have made striking progress in transforming business growth model, laying a solid foundation for forthcoming shareholding reform, actively exploring the county-level markets, and at the same time highly

emphasizing risk prevention and control.

Business scale enlarged, with quality and efficiency improved remarkably.

Business scale has been enlarged steadily, with continuous structural optimization and substantial profit growth. At the end of 2007, total assets of the Bank reached RMB 6.05 trillion. Various deposits reached RMB 5.28 trillion, up by RMB 528 billion over the beginning of the year. Furthermore, domestic RMB deposits hit 2.97 trillion, a y.o.y. increase of RMB 190.35 billion, accounting for 61.52% of the incremental RMB deposit of the big four state-controlled banks and topping the domestic banking sector. The outstanding loans amounted to RMB 3.48 trillion, an increase of RMB 330.26 billion compared to the previous year. The balance of bond investment was RMB 1.47 trillion, realizing a profit of RMB 39.96 billion, an increase of 41.31% from last year. Commission income was RMB 23.44 billion, up by 68.04% year on year. The operating profit hit a record high of RMB 96.13 billion, an increase of RMB 37.98 billion or 65.30% over the last year. Economic value added reached RMB 40.50 billion.

In addition, the Bank wrote off historical non-performing assets of RMB 66.05 billion. The cost to income ratio dropped to 43.36%, a decrease of 7.07 percentage points compared to last year.

Great progress was made in the preparation for the shareholding reform.

All employees of the Bank have been united for the reform. The Bank has reassessed and disposed of the Non Performing Loans (NPL), performed due diligence, reclassified documents and files, and identified responsibilities of related persons. The NPL size has been specified, with risks identified and categorized. In addition, we have made a plan for in-depth internal reform and correspondent implementation scheme. National Audit Office of the People's Republic of China issued the audit report of ABC and external auditors completed auditing of the Bank's 2005 and 2006 annual report. The other intermediary agencies also have completed their tasks. Much has been done in the reform of human resources management, reform of centralized accounting, implementation of new accounting standard, etc.

Substantial headway has been made in serving agriculture, rural areas and farmers.

Following its strategic positioning of serving agriculture, rural areas and farmers, ABC has formulated a business development plan to better serve agro-related sectors, and set its main objectives, business focuses, supporting policies and resource allocation mechanism. The Bank has been actively exploring effective methods to combine special services to rural areas and agricultural sector with commercial operation. Eight branches have been selected to take a pilot test in providing services for rural areas and agricultural sector. Additionally, ABC made great efforts and achieved satisfactory results in innovating agro-related products and procedures to provide full financial services for the rural markets, and stepped up its support to agricultural industrialization, countryside urbanization and farming households.

Risk management and internal controls were enhanced progressively.

Bank-wide risk management has been strengthened, and relevant system has been built up with integrated and improved function. We focused on establishing internal rating system according to BASEL II and continuously improved our risk management methods and practices. We also formed a compliance control system with

strengthened compliance management program and professional compliance team. In-depth case investigations were carried out as well. On the basis of appointing professional audit directors and training existing ones, we made efforts in conducting internal control inspection and vault examination. Incompliant or illegal practices were severely penalized. All these efforts effectively reduced operational risks. Reforms on the Bank's audit regime were carried out actively, further improving the independence, effectiveness and authority of its internal audit.

Scientific and technological innovation has achieved major progress.

Data center migration has been finished successfully, which realized real-time remote backup of the Bank's business system data, and strengthened the risk prevention and control capacity of the operation system. The following key projects have also been accomplished: the establishment of national customer service center (North Center) and national network management platform, transformation of national core communication network, etc. The accounting monitoring system has been implemented throughout the Bank, and the information management system has

been optimized. Consequently, an integrated information system has been established. IT advantages have helped the research and development of a batch of competitive products, effectively meeting the customers' needs.

Building of workforce and corporate culture has been strengthened greatly.

In order to adapt to the need of reform and development, the Bank has reinforced the management team at all levels. The bank organized trainings for the senior management team and key-position staff, a move aiming to develop their professional skills. The bank also put a lot of efforts in building up a corporate culture that highly emphasized compliance and execution capacity. We also devoted efforts to brand promotion and marketing, leading to an improved ABC image.

Looking back, we know that all the achievements are due to the trust and support of our customers, and also due to the contributions made by all our employees. On behalf of the Bank, I would like to take this opportunity to express my utmost appreciation to them.

Presently, with the fast economic development in China, the financial system reform becomes increasingly

intensive and extensive. The government is going to accelerate ABC's shareholding reform, which will place the Bank at a new beginning point for further development. Based on in-depth SWOT (strengths, weaknesses, opportunities, and threats) analysis, we have specified new development targets, and implemented new development strategies. ABC is striving to make significant changes within 3 years and fundamental changes in 5 years. In 10 years, ABC will be transformed into a modernized universal bank playing a pillar role in serving agro-related sectors and dedicated to providing first-class financial services to the vast clientele, with diversified business lines covering both urban and rural markets, and with the largest distribution and cross-selling network across the world. This very vision is ABC's "3510" strategy.

The year 2008 is the first year for the Bank to implement the "3510" strategy. It is also a critical year for the reform of the Bank. We will carry out the strategy,

firmly move forward with the Bank's financial restructuring and the establishment of a shareholding company, and make an extensive effort to develop a sound corporate governance structure. We will also be continuously providing financial services to the rural areas of China, especially at the county level, which is still a "blue ocean market". Efforts will be made to step up operation strategy adjustment, accelerate products and services innovation, upgrade internal operational mechanism in all aspects, and strengthen risk management. We are striving for new competitive edge, with rapid and balanced development in urban and rural business.

With a new well-designed blueprint, the Bank is heading forward to achieve its intended goals, and moving fast to become a modern financial enterprise. We wish to join hand in hand with our customers and friends, to create a brighter future for ABC.

President and CEO of ABC

汪波

4. Senior Executive Officers and Chairman of the Board of Supervisors

4.1 Senior Executive Officers

Xiang Junbo	President and CEO
Han Zhongqi	Senior Executive Vice President
Tang Jianbang	Senior Executive Vice President
Zhang Yun	Senior Executive Vice President
Yang Kun	Senior Executive Vice President
Luo Xi	Senior Executive Vice President
Zhu Hongbo	Member of the Executive Committee and the General Manager of the Beijing Branch

4.2 Chairman of the Board of Supervisors

Che Yingxin	Chairman of the Board of Supervisors
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Senior Executive Officers



Han Zhongqi
Senior Executive Vice President



Tang Jianbang
Senior Executive Vice President



Zhang Yun
Senior Executive Vice President



Yang Kun
Senior Executive Vice President



Luo Xi
Senior Executive Vice President



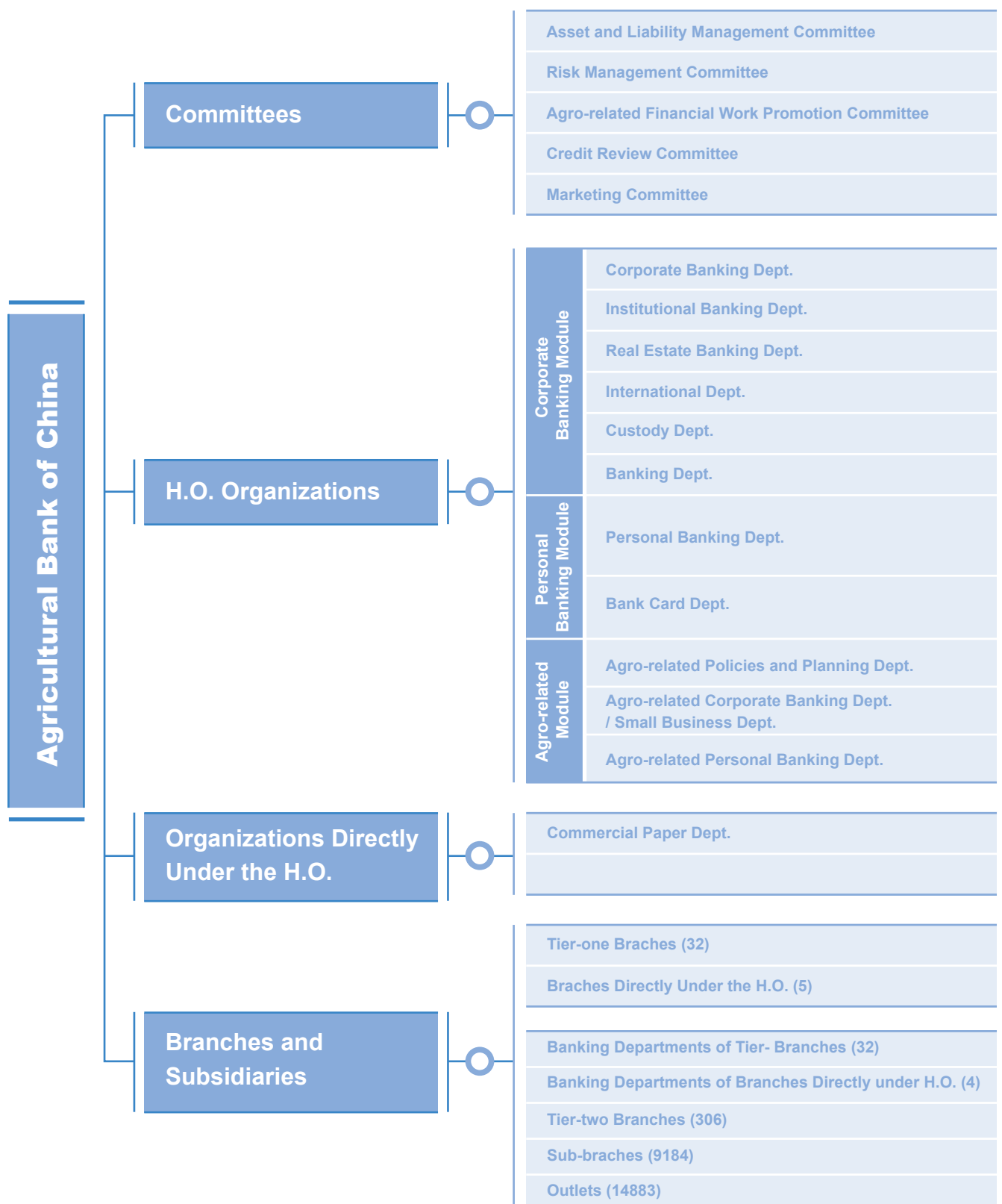
Zhu Hongbo
Member of the Executive
Committee and the General
Manager of the Beijing Branch

Chairman of the Board of Supervisors



Che Yingxin
Chairman of the Board of Supervisors

5. Organizational Chart



		Intermediary Business Committee		Centralized Procurement Committee	
		New Products Development Committee		Overseas Institution Management Committee	
		Related-Party Transaction Management Committee		Ethics Progress Promotion Committee	
		Audit Committee		Corporate Culture Committee	
		IT Construction Committee			
	Treasury Planning and Accounting Module	Financial Planning Dept.		Shareholding Reform Office	
		Treasury Dept.		Executive Office	
		Accounting and Settlement Dept.		Research Office	
		Operational Management Dept.		Human Resources Dept.	
		Procurement Management Dept.		Training Dept.	
	Risk management Module	Risk Management Dept.		Publicity Dept.	
		Credit Management Dept.		Party Committee Office	
		Asset Risk Management Dept.		Union Affairs Dept.	
		Legal and Compliance Dept.		Youth League Affairs Dept.	
	Technology/ Product Module	IT Dept.		General Affairs Dept.	
		Software Development Dept.		Security Dept.	
		Data Center		Inspection and Supervision Dept.	
		E-Banking Dept.		Audit Dept.	
		Product Development Dept.			
		Credit Card Center		RMB Treasury	
				Foreign Exchanges Trading Center	
		Changchun Training Institute		Singapore Branch	
		Tianjin Training Institute		Hong Kong Branch	
		Wuhan Training Institute		China Agricultural Finance Co., Ltd	
				London Representative Office	
				Tokyo Representative Office	
				New York Representative Office	

Corporate governance



6. Corporate governance

In 2007, the Bank deepened its reform in corporate governance, risk management, human resources management and resource allocation mechanism, etc. The bank has established an appropriate and effective corporate governance structure, steadily optimized the corporate governance model, and continuously boosted corporate governance level.

6.1 Decision Making and Management System

The Bank adopts a unified legal person structure where its head office and branches all belong to one unified legal person. The Head Office is the tier-one legal entity that serves as a center for bank-wide decision-making, risk control, internal supervision, and accounting and human resources management. All branches and outlets of the Bank are non-independent accounting units that ultimately report to the Head Office while carrying out their respective management and business activities as approved by the Head Office.

6.1.1 Special Committees and Their Responsibilities

The Bank set up special committees that are responsible for formulating policies and strategies in various operational and

management areas. In 2007, in order to boost our capacity in coordinating and managing the rural business and intermediary business, and strengthen the internal control and enterprise culture building, the bank established Committee for Agro-related Financial Work Promotion, Intermediary Business Management Committee, Related-Party Transaction Control Committee and Corporate Culture Committee. Now there are 14 special committees in the Bank. Their respective responsibilities are as follows:

Asset and Liability Management

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

Risk Management Committee is responsible for: specifying the Bank's overall risk management strategy and policies; reviewing bank-wide risk limit



capital control range; approving exposure limits in credit risk, market risk and operational risk; examining internal control procedures and special committees' objectives and plans; and analyzing and evaluating the bank's overall risks on a regular basis.

Committee for Agro-related Financial Work Promotion is responsible for: reviewing rural business policies and strategies; examining agro-related business plan, annual objectives and action plan; approving business regulations and operational procedures; reviewing authorization scheme for internal operation and management in Agro-related Business Department; regularly analyzing business conditions; and researching and coordinating relevant departments to find solutions for important problems concerning agro-related business.

Credit Committee is responsible for: approving various credit and credit limit, including general credit limit, loans, discounted bills, acceptances, letters of

credit, revolving credits, loan commitment letters, and special credit limit; assessing customers' credit ratings; and reviewing other issues relating to credits.

Marketing & Promotion Committee is responsible for: making bank-wide marketing strategies and tactics; organizing, leading and managing marketing activities across the Bank; and reviewing marketing plans for key clients.

Intermediary Business Management Committee is responsible for: examining and approving intermediary business rules and regulations, development plans, annual goals and related policies; leading, managing and developing intermediary business of the Bank; coordinating, researching and deciding marketing approaches for major intermediary projects; and managing the prices of ABC's intermediary business.

New Product Development Committee is responsible for: analyzing market



demands; making research and development plans for new products; approving new product development projects; and designing, developing and promoting new products.

Related-Party Transaction Control Committee is responsible for: reviewing internal rules and regulations concerning related-party transactions; identifying and publicizing related parties; approving general related-party transactions filed by head office or reviewing files of general related-party transactions submitted by branches; examining substantial related-party transactions and submitting relevant information to the decision-making bodies for approval; and examining and approving reports and statements regarding related-party transactions.

Audit Committee is responsible for: approving the audit and monitoring audit policies and regulations of the Bank; monitoring internal audit practices and compliance of relevant policies; approving medium- and long-term audit

plans; supervising and inspecting internal financial activities and financial information disclosure.

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

Centralized Procurement Committee is responsible for: reviewing and approving centralized procurement processes, leading procurement department and procurement team members; issuing procurement lists and organizing centralized purchases of large items; and supervising and inspecting centralized procurement activities at branch levels.

Overseas Institution Management Committee is responsible for: development planning for overseas

operations; reviewing policies, procedures, mandates and measures for overseas institutions; reviewing business plans of overseas institutions, joint marketing initiatives between domestic and overseas institutions, management of employees assigned to work overseas; and conducting performance assessment of overseas institutions.

Corporate Culture Committee is responsible for: leading work related to corporate culture building; examining relevant strategies and normative documents; approving the medium to long-term planning and annual working plans; and researching and solving major problems concerning corporate culture building.

Ethics Progress Committee is responsible for: reviewing key policies, mandates and annual work plans to enhance ethical standards and professional conduct; and organizing and implementing awareness-raising activities to promote ethical standards and professional conduct.

6.1.2. Changes in Senior Management Team

Xiang Junbo, former Deputy Governor of the People's Bank of China (PBOC) was appointed as President and CEO of ABC in June 2007. Yang Mingsheng, former President and CEO, was appointed as Vice Chairman of China Insurance

Regulatory Commission. Che Yingxin was appointed as Chairman of the Board of Supervisors in April 2007. Gu Mingchao, former Chairman of the Board of Supervisors, has retired.

6.2. The Board of Supervisors, ABC

The Board of Supervisors is a supervisory body delegated by the State Council to the Bank. According to the Law of the People's Republic of China on Commercial Banks and Interim Regulations of Board of Supervisors for Key State-Owned Financial Institutions, the Board is responsible for monitoring the quality of the assets and ensuring the preservation and appreciation of the state-owned assets. The key responsibilities of the Board are: examining the Bank's implementation of and compliance with relevant economic and financial laws, administrative rules and regulations of the State and other relevant rules and mandates; examining the financial and accounting records and data; verifying the truthfulness and legality of the financial statements and funds operation reports; monitoring, examining and investigating the operating activities of key responsible persons of the Bank; evaluating their performance and management practice; and making recommendations with regard to the rewarding, penalizing, appointing such persons or removing them from their posts.

6.3. Internal Audit

The Bank strengthened the internal audit system, and improved audit and supervision mechanisms, having internal audit fully play its supervisory role for evaluating risk management, internal control and effects of corporate governance. The Bank has actively implemented audit system at both head office level and branch level, smoothly centralized the audit function of sub-branches to the Tier-one branches, and established 283 Audit Offices to conduct audit supervision over the Tier-two branches and agencies. Up to now, the bank has set up 15 special appointed audit offices with 159 auditors in place.

To further enhance the relevance and effectiveness of audit work, the Bank improved internal audit approaches, and conducted all sorts of audit projects. To prepare for the shareholding reform preparation, the Bank conducted a series of audit projects covering clean-up and right confirmation of fixed assets, reconfirmation of historical burden and preparation for disposing non-performing assets. An in-depth internal control assessment was conducted to make a comprehensive evaluation of the internal control over the tier-one branches and to improve the internal control standards. The Bank also performed audit for those General Managers nearing the end of their terms, intensified supervision over high-level executives and strictly

examined appraisal and appointment of managers. To ensure that the operational achievements are real and reliable, the Bank developed authenticity audit over its operating conditions. In addition, efforts were made to conduct centralized audit over all sorts of credits. With all these efforts, we aim to continuously improve audit quality and efficiency.

6.4. Information Disclosure

In 2007, the Bank accelerated the construction of information disclosure system to improve the transparency of information disclosure. In line with the Law of the People's Republic of China on Commercial Banks, the Rules on Information Disclosure by Commercial Banks and the requirements set forth by the regulatory authorities, the Bank promulgated Information Disclosure Measures of Agricultural Bank of China, which regulates the contents, formats, procedures, management of information disclosure, standardized the information disclosure practice, and makes sure that the information disclosure is timely, accurate, truthful, and complete.

7. Preparation for Reform

In 2007, in accordance with the principle of “playing a pillar role in serving agriculture, rural areas, and farmers, restructuring as a whole, operating commercially, and going public at an appropriate time”, the Bank enhanced its corporate governance, and solidly fulfilled all kinds of preparatory work for its shareholding reform.

7.1. Preparation for Financial Restructuring

The Bank engaged auditors, appraisers, actuaries, lawyers, and other intermediary agencies to help complete the preparatory work before financial restructuring. Auditors have completed external audit on 2005 and 2006 fiscal years. Appraisers made pre-evaluation on assets, lands and properties. The ratios of confirmed ownership of lands and buildings are more than 90 percent by amount and area. Lawyers provided first draft report of legal investigations. Actuaries completed actuarial work of staff's projected liabilities. The Bank has reassessed and disposed of the Non Performing Loans (NPL), performed due diligence, reclassified documents and files, and identified responsibilities of related persons. The amount of Non Performing Assets has been made clear, and risk classification and adjustment finished.

7.2. Corporate Governance Reform

Laying Down Medium- and Long-term Strategic Development Plan

According to corporate governance requirement for the state-controlled listed banks and principle of raising their market values, the Bank specified medium- and long-term development guidelines, reform goals and strategic focus for the next three, five and ten years. Adhering to its market position, the bank further defined key scopes and areas of services for rural areas and the agricultural sector.

Optimizing the Design of Corporate Governance Structure

According to the general principles of corporate governance, the Bank actively formulated corporation charter and corporate governance structure, striving for scientific and highly efficient mechanisms for decision-making, execution and supervision.

Improving General Risk Management Framework

The Bank promoted reform on the risk management system and strengthened coordinated management of all types of risks. Risk Management Committee was established to study, examine and make decisions on major risk management issues. Within the committee, Risk

Management Department is responsible for coordinating and managing bank-wide credit risk, market risk and operational risk. The bank continued to improve credit management system and online risk-monitoring system, making full use of "machine checking". In addition, the Bank hired professional consultants to help develop a comprehensive risk management program and promote the internal-rating based approach.

Promoting Human Resources Management Reform

The Bank engaged well-known consultancy companies to help design a market-oriented, standardized and scientific human resources management system, make supporting institutional management and human resources management regulations, and establish sound and clearly-defined responsibility management system, with effective performance appraisal system and fair and reasonable compensation system, to encourage staff to make full use of their potential.

Deepening Reform of Resource Allocation Mechanism

The Bank improved economic capital management by establishing resource allocation system that focuses on economy value added. The company

introduced comprehensive risk provision (write-down) system and structured performance appraisal system with focus on risk-adjusted return on capital. In addition, the Bank completed centralized financial reform, standardized management procedures, and optimized financial mechanism, in order to realize value maximization in capital management and to promote the transformation from financial management to value management.

Implementation of the New Accounting Standards

The Bank formulated implementation plan for new accounting standards, compiled accounting methodologies covering all business sectors and operations of the Bank and completed the conversion of annual statement of 2007 based on new accounting standards. The Bank started reconstruction of its business systems and accounting system and strove to apply the new accounting standards in all aspects in 2009.

Strengthening IT Construction

The Bank completed its bank-wide data integration. With a centralized IT network, the Bank has connected all of its outlets and ATMs all over the country, realized concentrated management of customers'

information and accounting settlement, and implemented online monitoring and early warning of major operational risks. In addition, efforts were made on construction and betterment of county-level business statistic system, credit management information system, performance evaluation system and assets-liabilities management system, with a view to continuously raising the IT application standards.

7.3 . Reform Outlook and Development Goals

The year of 2008 is the most crucial year in the reform history of Agricultural bank of China. In 2008, the Bank will firmly push forward financial restructuring and establishment of a shareholding company, improve corporate governance structure and step up transformation of internal management mechanism in all aspects, accelerating the pace of shareholding reform. The reform marks a new starting point for the Bank. We are dedicated to building the Bank into a modernized universal bank that plays a pillar role in serving agro-related sectors, with diversified business lines covering both urban and rural markets, and with the largest distribution and cross-selling network across the world. We will strive to provide high quality financial services to the largest majority of customers.

In the next three years till 2010, the Bank will explore an effective business model that combines commercial operation and serving the rural area. In these 3 years, we will strive for business transformation, comprehensive operation and internationalization. Corporate governance structure and banking process framework will be established. Core financial indicators will come up to regulatory standards. A large-scale public owned bank will be set up with adequate capital, strict internal control, safe operations, quality service, good profit as well as strong innovative capability and competitiveness.

In the upcoming 5 years ending in 2012, efforts will be made to improve the Bank's performance while continuously strengthening its pillar role in rural financial system. In these 5 years, the Bank will reach top class among domestic banks in terms of main business lines. Our management mechanism and banking process framework will be further reinforced. Core financial indicators are further improved with a complete and well-established comprehensive risk management system. We strive to make the bank an internationally well-known commercial bank that is capable to meet the requirements of the country,

its shareholders, the society and its employees.

In the following ten years ending in 2017, efforts will be made to offer rural markets all-around financial services, build corporate governance up to internationally advanced level and shape unique corporate culture and risk management methods. We will keep our

key business at the mainstream position in the market with core business indicators catching up with globally advanced banks. By 2017, ABC will have upgraded itself into a worldwide well-renowned modern commercial bank with global operation and firm local basis in both urban and rural areas.



8. Agro-related Financial Business

In strict accordance with the central government's directives on agriculture, rural areas and farmers, Agricultural Bank of China has made an in-depth research into the strategic adjustment of the economic structure in rural areas. We are committed to serving agriculture, rural areas and farmers while pushing forward commercialization reform. The Bank acts as the main finance channel for businesses in county level areas, and serves as a link between urban and rural areas. We have gradually gained edge in providing rural financial services, and made great contribution to the development of agro-related sectors. At present, ABC stands the first in terms of agro-related loan scale, coverage and customer numbers, and it is the only Chinese commercial bank that possesses professional operation and management system in agricultural lending.

8.1. Financial Services for Agro-related Sectors

ABC stepped up research and development of agro-related financial services and products. The bank has fully promoted innovative and unique products, such as simple and rapid loan to small businesses, and self-service revolving credit. Some new services are offered on a trial basis, such as mortgage loan to small businesses with



business venue's operating right as collateral, factory premise collateral loan, account receivable pledge loan, household farmers joint guarantee loan, and installment repayment loan, etc. The Bank also found financial solutions to agro-related customers, such as leading players in the agricultural sector, state agricultural hi-tech zones, and SME supply chains.

As an effort to strengthen its services to the leading agricultural industrialization enterprises, the Bank included such agro-related corporate clients as the directly managed customers of the Head Office, e.g. Luhua Group, Jinluo Group, New Hope Group, Sino Agriculture Group. ABC also attached great importance to the development of intermediary business. It provided cash management services to VIP corporate customers' subsidiary companies, including Tongwei Group, Luhua Group, New Hope Group, Shandong Xiwang Sugar Industry Company, etc. In addition, the Bank proactively diversified its intermediary products such as short-term financing, financial advisory service and corporate debt guarantee. To fulfill its promises to the Ministry of Agriculture (MOA), the Bank offered a credit line of RMB 10 billion to more than 600 MOA-designated wholesale markets to support their upgrading and reconstruction.

By the end of 2007, the amount of agro-related loans of ABC reached RMB 1.21 trillion, accounting for 34.75% of the Bank's total loans. Loans made for agricultural industrialization, rural areas urbanization and to rural households grew steadily with the year-end balances increasing by RMB 2.71 billion, 3.03 billion and 3.46 billion



Jiangkou hydropower station in Wulong county supported by ABC Chongqing Branch

respectively, compared to the beginning of the year. Of the total, loans made to leading agricultural enterprises at both state and provincial level increased by RMB 2.20 billion compared with the beginning of the year, accounting for 81.13% of the total increase of the agricultural industrialization loans.

8.2. Pilot Financial Service in Agro-related Sectors

At the end of September 2007, ABC selected eight provincial-level branches to provide pilot financial services for agriculture, rural areas and farmers, which covers Jilin, Anhui, Fujian, Hunan, Guangxi, Sichuan, Gansu and Chongqing. With the aim of actively exploring effective ways to combine special services for agro-related sectors and commercial operation as well as stepping up products and process innovation, the Bank strengthened its financial support to agricultural industrialization, countryside urbanization and farming households. From Oct. 1, 2007 to Dec. 31, 2007, 116 county-level branches are put on pilot test and made a total of RMB 18.07 billion loans with an average amount of RMB 155 million for each branch. Within the total, RMB 100 million was made to 122 corporate customers, and the rest to 5818 individual customers.

In providing the pilot agro-related services, ABC attached great importance to traditional loan-making business and modern financial services such as bankcards, e-banking and wealth management. While enhancing internal service capacity in agro-related sectors, the bank emphasized inter-bank cooperation and sought external support. ABC proactively played a pillar role in rural financial system not only through business development but also by construction of rural credit culture and improvement of financial ecology, continuously broadening the coverage of agro-related services.

During the pilot test, the head office of ABC developed the multifunctional Agriculture-favored Kins card that incorporates saving, loan, wealth management, exchange and so on, to facilitate rural activities in all aspects. Based on local situation, each branch in the pilot test developed and promoted a wide range of regional financial products fit to rural needs, including farmers joint guarantee loan, farmers loan with company guarantee, loan with forest collateral, ship mortgage loan, inventory guarantee loan, and agro-related treasury bond bridge loan. At the same time, ABC made great efforts to explore more efficient ways to better serve agriculture, rural areas and farmers. The bank substantially enhanced its risk prevention capacity through strengthened

cooperation with government and insurance companies as well as improved loan-pricing capability. In order to stimulating business development, the Bank promoted one-stop loan-making services for rural households, which was characterized by integrated service of loan issuance, management and reclaim and was linked with customer manager's performance evaluation. Through continuous structure simplification and various training programs, ABC has trained a number of customer managers for agro-related sectors and unceasingly enhanced its operational efficiency.

BUSINESS REVIEW



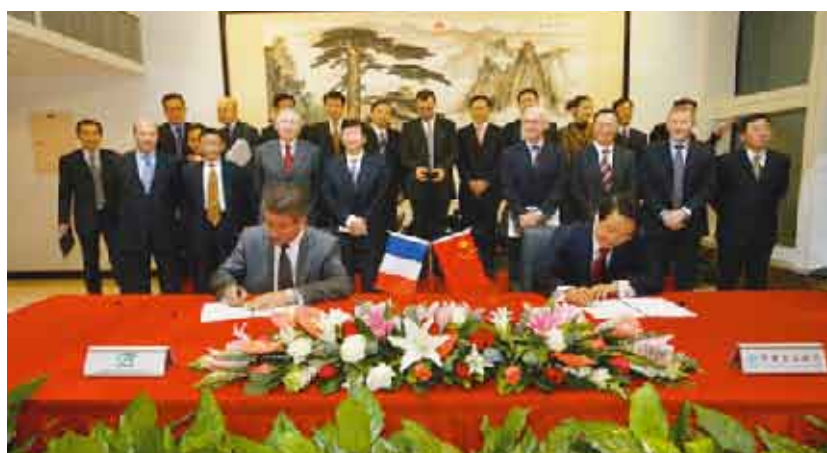
9. BUSINESS REVIEW

9.1. Corporate Banking

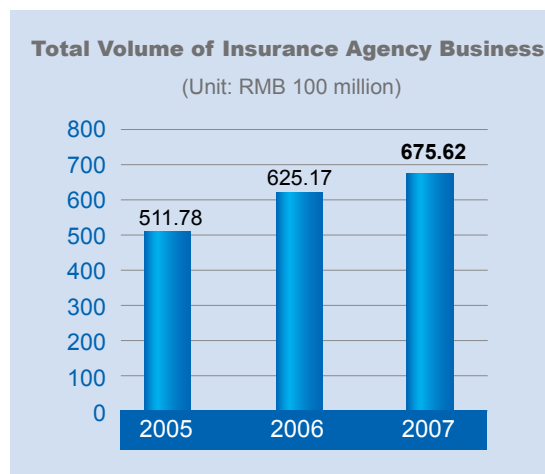
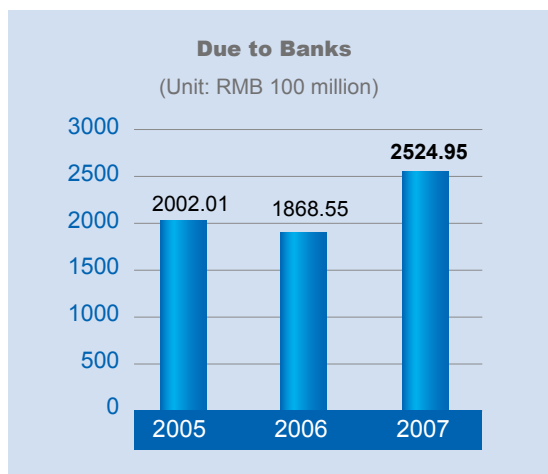
In 2007, in order to boost the Bank's competitiveness in corporate banking and the head office's direct sale capacity and coordination ability, emphasis was put on adapting to the needs of VIP customers and changes in the corporate markets, with a focus on regional features, customers, and transactions. The Bank actively advanced integrated marketing and concentrated on high-level corporate banking business, such as cash management, investment banking, enterprise annuity and financial derivatives. The Bank also enhanced its support to small and medium-sized enterprises (SMEs) and strived for coordinated development of urban financial business and agro-related financial services.

9.1.1. Commercial Deposit and Loan Business

By the end of 2007, total corporate deposits amounted to RMB 2.30 trillion, accounting for 43.49% of the Bank's total deposits, an increase of RMB 363.58 billion over the previous year. Corporate loans of RMB and foreign currency hit RMB 2.97 trillion at the end of the year, accounting for 85.31% of its total loans, up by RMB 253.91 billion over the beginning of the year. The loans made to small-sized customers were RMB 721.71 billion, accounting for 20.74% of the total loans of the Bank. The conventional loans to



The cooperation signing ceremony between Agricultural Bank of China and Credit Agricole Group



public institutions reached RMB 70.65 billion, accounting for 2.03% of the total loans, up by RMB 772 million over the beginning of the year.

In 2007, the Bank continued its strong support to the key regions with an optimized loan distribution across the country. By the end of 2007, the outstanding loans made to Yangtze River Delta, Pearl River Delta, and Bohai Rim amounted to RMB 1.85 trillion with an increase of RMB 196.68 billion over the beginning of the year. In addition, we continued to optimize the industrial structure of our lending portfolio by focusing on key industries such as telecommunications, energy and petrochemical and transportation. Great efforts were made to adjust corporate customer mix, with an emphasis on attracting high quality big enterprises and some small ones. As a result of our concerted efforts, the Bank's overall customer mix was markedly improved, with the total of 46,755 high quality corporate clients, accounting for 75.41% of the bank's total corporate customers. Loans made to highly credible customers amounted to RMB 1.85 trillion, accounting for 62.36% of the total loans made to corporate customers.

9.1.2. Financial Institutions Business

Due to Other Banks and Financial Institutions

The total amount of interbank deposits has steadily increased and the composition was continuously optimized. By the end of 2007, the amount of interbank deposits hit RMB 252.50 billion with an increase of RMB 65.64 billion, up by 35.13% from the beginning of the year. Securities companies, non-state controlled commercial banks and settlement companies ranked the top 3 places in the deposit mix.

Bancassurance

In 2007, the Bank strived hard to explore new cooperation models with insurance companies so as to keep a steady and rapid development of insurance agency business. For the year 2007, the Bank collected total premiums of RMB 67.56 billion and fee income of RMB 1.35 billion, with the later figure ranking the top in the domestic banking industry. The Bank upgraded the Bank-Insurance Express System, with 4 insurance companies offering 50 online products in total.

Cooperation with Securities and Futures Companies

The Bank deepened its cooperation with securities and futures companies. By the end of 2007, the Bank's third-party deposit management system had been used by a total of 92 securities companies, with 6.22 million on-line customers placing nearly RMB 100 billion. The Bank acted as a sales agent for securities companies' collective investment products, with a total sales volume of RMB 2 billion. It also raised RMB 600 million through the sales of "Golden Wealth Management", a value-accrual product for Guosen Securities. In 2007, the Bank offered futures margin deposits service in cooperation with 3 commodities futures exchange companies and more than 150 futures brokerage companies in Dalian, Shanghai and Zhengzhou. The margin deposit balance amounted to RMB 5.56 million generated from 344 futures margin accounts. In addition, the Bank signed up agreements with 30 futures brokerage companies on money transfer between investor's bank account and margin account. Ten of them officially launched the banks' online system for margin transfer.



Cooperation with Other Banks

In 2007, based on strengthened marketing approaches and full use of complementary advantages, the cooperation with other national commercial banks has been substantially reinforced with service products extending to settlement services, cash management, currency swap, inter-bank lending and deposit. In 2007, the Bank has achieved a rapid growth in the number of transactions, total volume and income.

Cooperation with Other Financial Institutions

In 2007, the Bank developed a series of trust financing products in cooperation with well-known trust investment corporations. Funds collected from these products were invested in almost all areas available for them, such as new stock offerings, open-ended funds and loans. A group of quality customers, like CITIC and FOTIC, were attracted by the Bank's trustworthy services. In 2007, the Bank sold 24 fund trust products that valued RMB 3.06 billion. The Bank also deepened its cooperation with finance companies through asset repurchase and inter-bank lending, with the asset repurchase volume totaling RMB 2 billion.

Agency Services for the State's Fiscal Funds

By the end of 2007, the Bank conducted authorized fiscal payments totaling RMB 29.4 billion for 26 ministries and state agencies and managed 1086 zero-balance accounts authorized by Ministry of Finance. The Bank also acted as an agent to collect non-tax fiscal income for 11 ministries and agencies directly under the State Council, setting up 94 collection and payment accounts for the central government. The collected income amounted to RMB 16.2 billion in total. Moreover, the Bank established 1200 special accounts for the compulsory education in rural areas and settled RMB 16.2 billion of authorized subsidy from the central government.

9.1.3. Corporate Intermediary Business

Cash Management

In 2007, 866 customers opened 26,885 accounts on the Bank's online cash management system with accumulated transaction volume reaching RMB 14.27 trillion. The Bank signed up cash management agreements with nearly 50 customers including China Southern Power Grid, China Railway Group Limited, DuPont China, China Minmetals Corporation and New Hope Group. In addition, we won the bid together with HSBC to offer IBM China a package of services covering daily cash management and

daily settlement in RMB and some transactions in foreign exchanges.

Investment Banking

Relying on the bank-wide resources, the Bank formulated plans for further development in investment banking, and was actively involved in a wide range of services including short-term financing bill underwriting, financial advisory, enterprise debts advisory and entrusted financing services. The annual income from investment banking services reached RMB 386 million, of which RMB 239 million came from the perennial financial advisory services, RMB 7.13 million from enterprise debts advisory services, and RMB 6.32 million from entrusted financing advisory services. As a leading underwriter of short-term financing bills, the Bank underwrote short-term financing bonds with a total amount of RMB 12.35 billion and generated fee income of RMB 33.98 million.

Assets Custody

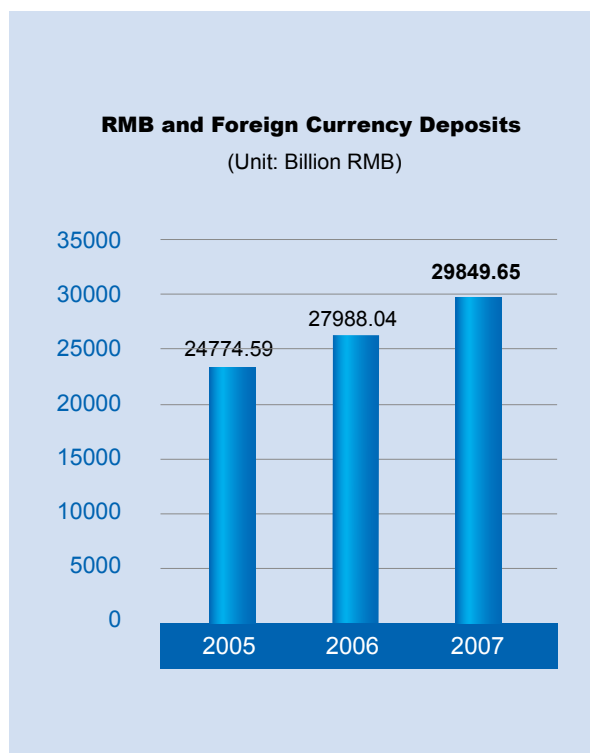
By the end of 2007, we had RMB 562.54 billion of entrusted assets with fee income of RMB 708 million generated for this year. The daily deposit of each custodian product was RMB 50.25 billion. With the addition of six new funds placed, the total number of funds under the Bank's custody increased to 54 and the entrusted assets totaled RMB 424.71 billion. In 2007, custodian services for insurance funds developed rapidly as evidenced by the fact that the Bank signed custodian agreements with 15 insurance companies and the total assets under the Bank's custody amounted to more than RMB 100 billion. In 2007, the Bank successfully offered custodian services for four overseas customers with a total of USD 700 million of QFII custodian funds. The custodian services also covered 2 QDII products. Steady progress was also made in asset custodian business with the total amount reaching RMB 8.33 billion. The year of 2007 witnessed a rapid growth in entrusted safe custody business with a significant increase in the scale and quantity of entrusted products. In the past year, the Bank was entrusted the first private equity fund and qualified for enterprise annuity custody.

9.2. Personal Banking

In 2007, guided by modern commercial bank's management philosophy, i.e. putting customers first, the Bank actively adjusted its management strategy, transformed its operational models and continuously improved products' functions. The Bank has witnessed a steady and rapid development of its personal banking business.

9.2.1. Personal Deposits

By the end of 2007, the balance of RMB and foreign currency deposits totaled RMB 2,984.97 billion, an increase of RMB 186.16 billion from the beginning of the year. The Bank's personal deposits took a market share of 28.89%, up by 1.26 percentage points from the beginning of the year; the increased margin held an 85.14% share of new personal deposits in the market, an increase of 51.74 percentage points over the beginning of the year, and ranking number one for the fifth consecutive year among its peers.



9.2.2. Consumer Loans

By implementing details-oriented management of consumer loans and accelerating institutional development, personal credit business made significant progress. By the end of 2007, the balance of RMB and foreign currency consumer loans amounted to RMB 484.20 billion, up by RMB 76.47 billion. Of the total, the balance of mortgage loans was RMB 299.26 billion, up by RMB 69.24 billion or 30.10% from the beginning of the year, small business loans RMB 88.01 billion, up by RMB 3.92 billion or 4.67% from the beginning of the year; personal automobile loans RMB 14.36 billion, down by RMB 4.03 billion or 21.92% from the beginning of the year; education loans RMB 3.81 billion, up by RMB 0.58 billion or 18.09% from the beginning of the year.

9.2.3. Personal Intermediary Business

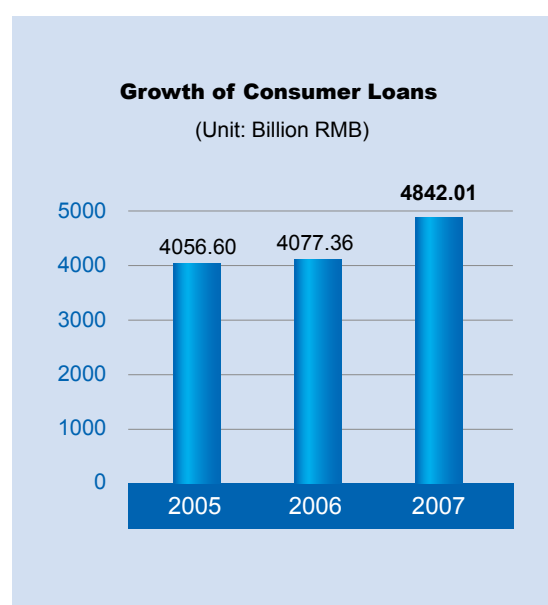
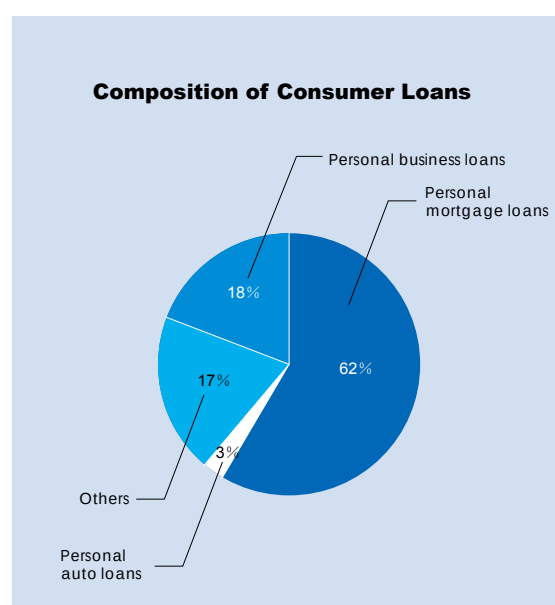
Personal Wealth Management

In 2007, personal wealth management service has been flourishing as its business scale rapidly expanded and service system gradually improved. During the year, the

Bank issued varied types of "Ben Li Feng" RMB wealth management products for 14 times with a total value of RMB 9.40 billion, "Hui Li Feng" foreign currency wealth products of \$ 558 million, "Hui Li Feng" RMB wealth products of RMB 1.20 billion and QDII products of RMB 3.69 billion. For the Golden Key VIP wealth management service, we established 19 management centers, 304 service centers, 3,448 service outlets and 10,844 VIP service counters. Currently, there are 16,191 relationship managers and 3,002 financial wealth consultants working hard to provide the best services to our customers. In addition, high technologies were also employed to facilitate services and control risks. For instance, the Bank launched customers management system and the supporting system for the Golden Key VIP wealth management service in the whole bank.

Fund Sales

In 2007, the Bank acted as an agent to sell 149 funds totaling RMB 352.04 billion, up by 466.98% compared with the previous year. Of the total, the amount of subscription during the initial period and subsequent periods was RMB 61.50 billion and 290.54 billion respectively with a total of 8.71 million newly opened accounts, up by 575.29% year on year, and commission income of RMB 5.37 billion, up by 666.71%. Regular saving business grew well with 16 fund companies launching this business for their 96 products and the transaction amount hitting RMB 935 million. And the number of regular saving customers reached 260,000.



Treasury Bond Transactions

In 2007, the Bank underwrote five series of certificated bonds for a total of RMB 19.2 billion. The Bank also redeemed eight series of certificated treasury bonds for a total of RMB 26.50 billion. One series of savings treasury bonds was underwritten for RMB 218 million. During the year, the Bank issued 12 series of counter registered treasury bonds, with the amount totaling RMB 12.01 million. As for special treasury bonds, 6 series were underwritten with total amount of RMB 564,400. The cumulative transaction of 33 listed counter registered treasury bonds and special treasury bonds had a total volume of RMB 737 million. In total, the commission fee of RMB 239 million was generated from treasury bonds issuance and redemption in 2007.

Safe Deposit Box

At the end of 2007, the Bank had 761,282 safe deposit boxes, of which 238,681 were rented out, or a rental coverage rate of 31.35%. The lease contract of 111,282 deposit boxes expired in 2007, of which 91,265 or 82.01% have extended the renting contracts. Total rental fee income was RMB 37.59 million for the year.

9.2.4. Bankcards

In 2007, over 300 million bankcards were issued, of which 3 million were Quasi-credit Kins cards, contributing RMB 10 billion to the gross earnings. We maintained the first position among domestic banks in terms of the number of cards issued, inter-bank transaction amount, bankcard consumption, bankcard deposit balance and income from bankcard services. By the end of 2007, the bank issued 316.99 million bankcards, up by 69.88 million or 28.28%; the transaction volume reached RMB 39.22 trillion, up by 58.75% or an increase of RMB 14.51 trillion, of which inter-bank transaction amounted to RMB



583.8 billion, an increase of 72.67%. Cumulative bankcard consumption totaled RMB 760.7 billion, up by RMB 286.7 billion or 60.49%; bankcard deposits increased by 28.44% or an equivalent of RMB186.5 billion compared with last year, with a balance of RMB 842.2 billion. In total, income generated from bankcards service climbed to RMB 10.2 billion, an increase of RMB 2.05 billion or 25.11% compared to the previous year. Bankcard services continued to improve with 22,146 ATMs in use, and the number of self-service transactions hit 318 per ATM per day.

Debit Kins Card

The bank initiated moves to upgrade the functions of Debit Kins card. "Master & Affiliated Cards + Account Statement Book" and other functions were developed. Besides Golden and Platinum VIP cards, Silver and Diamond Cards were included in VIP card family as well and such value-added services as Special Preference Merchants and First Aid were incorporated to further improve the multiple and differentiated service system. Based on the debit card platform, Agriculture-favored Kins card was designed to facilitate granting of favorable loans and government subsidy to farmers, and to provide a new way of payment and settlement. The holders of such card were then enabled to access a package of services ranging from debit and credit card functions, social security agency, utilities agency to fiscal subsidy.

Credit Kins Card

To keep pace with the market development at the county level, Kins Commercial Card was developed based on the credit card platform. This card is characterized with "integrated credit line, flexible borrowing and repayment, self-service transaction and elastic time limit," and is able to meet petty sum, short-term and frequent financing requirements from private business owners and farmers. By the end of 2007, the Bank issued a total of 3.36 million Credit Kins cards, with overdraft balance totaling RMB 1.62 billion, and interest income of RMB 354 million.

Quasi Credit Kins Card

With a great effort in marketing and brand management, products of the Bank have become more and more popular in the market. By the end of 2007, 3.19 million quasi credit-cards have been issued, with a revenue of RMB 186 million. Various products have been developed, including primary products such as commercial card, Hong Kong-travel card, college-student card and international travel card as well as 14 kinds of joint-brand cards, forming a comprehensive product series ranging from national

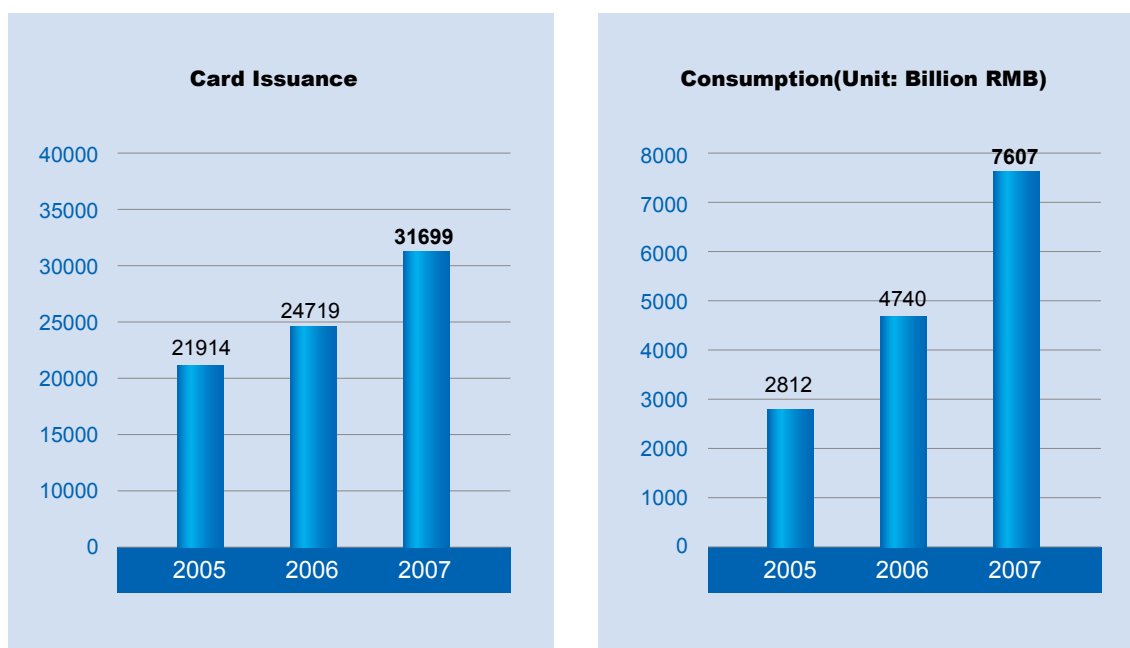
standard cards, special local cards and theme cards designed for business, travel and education. We also diversified our card services, including temporary credit adjustment and business service reservation. Moreover, we formed partnership with 60 merchants, to provide favorable card services, and launched many additional special services, for example, medical and health care, financial insurance and transportation rescue.

International Travel Kins Card



"Olympic Host Cities" Edition

"Oriental Landscapes" Edition

Table 9.2.4. Cards Issued and Volume of Consumption (Unit: 10,000)

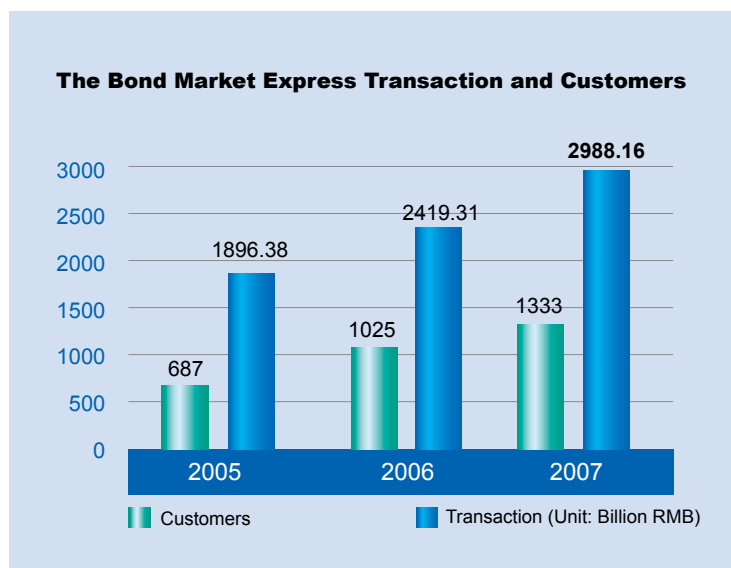
9.3. Treasury

In 2007, ABC actively adjusted its investment strategy, continued to invest prudently, enhanced the scale of business lines and improved the efficiency of capital operation.

RMB Business

To meet the liquidity needs whilst making risks under firm control, the Bank actively adjusted the investment strategy, improved the bonds portfolio, and established a modern capital operating structure. This effort was made based on insightful research and analysis of the development trend of the financial market with an emphasis on product innovation and risk management. In this way, we were able to achieve our goal of effective growth in bond investment as well as portfolio optimization. The volume of capital transaction amounted to RMB 7.96 trillion, with an income of RMB 35.77 billion.

In 2007, the Bond Market Express business made a significant progress. With the transaction volume totaling RMB 298.82 billion and the number of customers reaching 1333, the framework for customers' assets management has been primarily established. In addition, the commercial paper business developed quickly and the key indicators of



operating profit, total assets, accumulated transaction, and newly added customers improved quickly. The total transaction volume was RMB 334.22 billion, and operating profit RMB 2.10 billion. Gold trading experienced a stable development, and the Bank ranked the top in the market by trading volume.

Besides the self-trading transaction, the Bank actively developed low risk business such as gold consignment and gold neutral warehouse business, so as to improve the business structure. In 2007, the bank introduced a new business -- gold lending.

Foreign Currency Business

In response to the trends and changes in international market resulted from subprime mortgage crises and domestic financial industry, the Bank strengthened market research and risk management. We optimized allocation of foreign currency assets and adopted dynamic and index-based management for investment portfolio in order to improve return on assets. By the end of 2007, the funds of the Bank in the international financial market amounted to USD 18.90 billion. The total transaction volume was USD 739.40 billion, increased by 272.40 billion or 58.33% compared to last year.

9.4. International Business

In 2007, according to changes of the macro-economic policy and market demands, the Bank intensified cooperation with correspondent banks, stepped up innovation and promotion efforts on foreign exchange products, and strengthened the management of foreign currency risks. As a result, the foreign exchange business has been growing fast and sound with upgraded structure and increased profitability. By the end of 2007, 10,203 domestic outlets could do foreign exchange business.

Foreign Exchange Business at Home

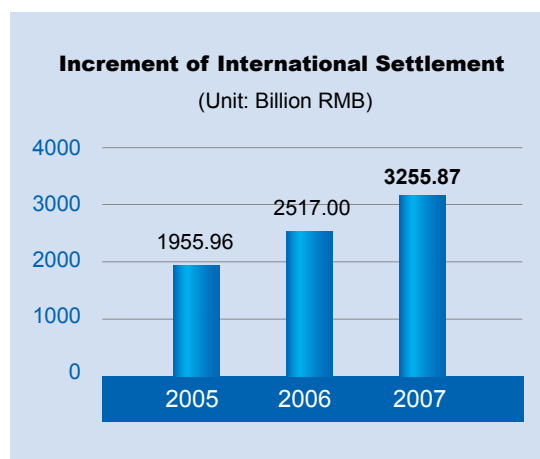
By the end of 2007, the balance of foreign currency deposits was USD 10.44 billion, and the total foreign exchange assets amounted to USD 64.23 billion. The volume of international settlement was USD 325.59 billion, up by 29.36%; the trading volume of foreign exchange against RMB was USD 185.22 billion, up by 47.43%; the accumulated international trade finance operations reached USD 17.37 billion; 2.73 million foreign exchange clearing transactions were completed, up by 26.70%. Operating profit from foreign exchange business hit USD 1.1 billion, up by 55.59% from the previous year.

Overseas Entities' Business

In 2007, adhering to the concept of prudential operation, the Bank continued to optimize the business structure of its overseas entities, which reinforced their service capacity and achieved record performances. The Hong Kong branch participated in the syndicated loan and developed trade finance and capital market business relying on its easy access to the mainland and international market. Singapore branch emphasized localization, and continuously developed structured commodity financing and intermediary business. The total operating income of the branch increased significantly. Hong Kong Agricultural Finance Securities Company focused on comprehensive development. Agency and corporate finance business grew strongly. Hong Kong Agricultural Finance International Insurance Company continued to develop reinsurance business in the mainland and launched various international shipping insurance products in cooperation with our domestic branches, a way to improve asset security and efficiency. The representative offices in London, New York and Tokyo played a key role in communicating with international customers and supporting domestic marketing. By the end of 2007, the total assets of the overseas entities reached USD 5.71 billion, and the net profit hit USD 61.31 million.

Foreign Exchange Intermediary Business

By the end of 2007, the accumulated income from foreign exchange intermediary business amounted to RMB





3.40 billion. Foreign exchange wealth management experienced a rapid development, with USD 9.28 billion handled. The sales of "Hui Li Feng", a brand representing personal foreign exchange wealth management products, amounted to USD 1 billion. The foreign exchange trading volume on behalf of customers was USD 6.18 billion.

Individual foreign exchange trading business reached USD 5.13 billion. Forfeiting business grew to USD 571 million, international factoring amounted to USD 41.74 million, and export invoice financing totaled USD 1.63 billion. Credit insurance business generated USD 594 million income.

Inter-bank Cooperation

The Bank strengthened international financial market research, and deepened cooperation with correspondent banks in international settlement, trade finance, foreign exchange derivatives, RMB and foreign currency clearing and trading, syndication loans, forward foreign currency against RMB trading, cash management, RMB and foreign currency wealth management, gold trading, and custodian services for investments abroad. In 2007, the network of correspondent banks covered 105 countries and regions, including a total of 1,161 correspondent banks.

The Bank strengthened cooperation with foreign and domestic financial institutions to provide multi-dimensional financial services. We cooperated with correspondent banks in commodity financing, export credit finance, and ship finance. The Bank also actively reinforced cooperation with foreign banks in China and made full use of each other's advantages to provide RMB and foreign currency financial services.

New Products of Foreign Exchange Business

In 2007, the Bank strengthened innovation of foreign exchange products in response to changes of markets. Operating in domestic and foreign markets in both RMB and Foreign currencies, the Bank actively launched financial derivatives to assist clients to manage foreign exchange risks and interest rate risks. While operating traditional "Hui-Li-Feng" structured foreign currency deposits, the Bank launched "Jing-Wai-Bao"

offshore wealth management and "Jin-Tu-Di" structured RMB deposit products. To meet the customers' demand in trade finance, we tried out commodities trade finance, devised such new products as settlement express, order financing, and improved import and export financing product series.

9.5. E-banking

In 2007, the Bank continuously broadened service channels and accelerated product innovation. We also improved operation and service mechanism, and actively provided personal and corporate customers with multi-dimensional e-banking services, such as online banking, telephone banking and mobile banking. By the end of 2007, the transaction volume of e-banking reached RMB 41.05 trillion, accounting for 34.67% of the total transaction.

Online Banking

To further meet clients' demand, online banking was upgraded twice with 16 new functions added. The Bank also promoted "dynamic password card" to ensure online transaction security. Online registration system for individual customers was available in nearly 24,000 outlets. By the end of 2007, registered customers reached 5.29 million, a year-on-year increase of 142.66%, of which individual customers and commercial clients hit 5.07 million and 0.21 million respectively. The aggregate transactions reached 800 million, up by 166.67% from last year, with a total value of RMB 26.78 trillion, up by 119.51%.



E-payment

The Bank accelerated innovation of e-commerce products, such as online ticketing, online payment and e-commerce credit platform, and launched new version of online fund direct-sale system to enhance the bank's competitiveness in e-commerce field. During 2007, the number of online transactions reached 92.80 million, jumped by 111.58%, with a total value of transactions of 80.62 billion, up by 430.26%. We signed agreement with 42 fund management companies, 3 million accounts were opened and RMB 200 million fee-based income realized.

Telephone Banking and Call Center

The Bank developed a unified telephone banking system to bring convenience to our customers. The system was available in 17 branches and an integrated call center with 95599 as its phone number was officially established in Tianjin and put to use. By the end of 2007, registered users of telephone banking reached 6.06 million, up by 60.32% from last year, of which, individual users and commercial users increased to 5.81 million and 0.25 million respectively. The number of transactions completed through telephone banking jumped by 45.26% to 475 million.

Official Website Operation and Message Services

The Bank accelerated official website construction (www.abchina.com), aiming to build it as an information center, and marketing and transaction platform. There is online fund sales service on the website, attracting 1.29 billion browsing hits. A total of 5.33 million customers signed contracts to receive our message service, which is able to meet clients' various demands and ensure capital security.



ABC Call Center

10. INFORMATION TECHNOLOGY



In 2007, the Bank focused on the data center relocation project and actively stepped up research and development of financial products. We successfully completed the data center relocation project, gradually enhanced information security and risk prevention capacity, and continuously boosted IT planning and management level. The IT innovation laid a solid foundation for the preparation of the shareholding reform.

Data Center Relocation Project

The Bank completed the first phase of data center relocation by transferring 24 core business data from Beijing to Shanghai. As part of the second phase, the relocation of 11 application systems has been completed. Up to now, the main body of production system has been replaced. The Bank realized real-time remote backup of core business data in case of disaster, boosted data security level and improved the risk prevention and control ability of the production system, laying a solid foundation for sustainable development.

IT Support for Shareholding Reform

IT system was upgraded to deepen the reform of the financial statement system and to support shareholding reform preparation including external audit, assets checking, risk management, HR reform, financial centralization and new accounting standard application. Sub-system of NPL Due Diligence was developed and spread across the



bank; sub-system for NPL identification was in trial operation in Guangdong and Sichuan branch after test. The Bank readjusted pricing management system and completed promotion of risky assets management system (1st stage) in Beijing, Tianjin, Jiangsu, Ningbo, Qingdao, and Xiamen. We started an internal rating project, and completed upgrading of anti-money laundering system for the third time and put it in use.

R&D and Promotion of Financial Products

The Bank stepped up efforts in research and promotion of information projects and enhanced executive capability in this regard. In 2007, we finished the following work: completing the research and development of an integrated customer service center system and a telephone banking system; upgrading online banking system into Version 3.4; rolling out financial service platform; upgrading small payment system as well as check image exchange system promotion; integrating and promoting RMB and foreign currency accounts; promoting construction of application system in overseas entities; starting capital business system rebuilding in Hong Kong branch; promoting new payment password system; and upgrading international card acceptance system.

Relying on asset liability management system, "1104" project (second phase) and integrated information analysis system, the Bank built a basic data platform and analysis-based applied project groups. We actively promoted construction of the official website (first phase), and e-office system. The second version of individual CRM

system was put in use in Zhejiang, Shenzhen, Sichuan, Guangxi, and Beijing. We made progress in R&D and integration of the following systems: credit management system (third phase), human resources management system and e-office system (second phase). Moreover, we initiated the construction of accounting documents management system, economic and financial database, legal and compliance information management system, fundamental documents warehouse and knowledge bank.

Information Security & Risk Prevention

The Bank made efforts in improving information system security and training staff, to ensure system security in holidays and a safe and smooth operation of the production system for the whole year. We sped up popularization of anti-virus project, and carried out internal evaluation on IT risk, rating the security level of 28 major information systems. Moreover, we organized special inspection on self-discipline and information system security to increase information security and enhance risk prevention capacity.

Technology Planning and Management

The Bank issued a set of guidelines on the development of bank-wide management information system and formulated a three-year development plan on overseas entities' IT construction. We finished the design and deliberation of business recovery center. Meanwhile, we organized the rebuilding of national key communications network, network construction of the head office, and national network management platform construction. The information system was further optimized. The Bank also published regulations concerning information project management and resources allocation management, in order to be reasonable and scientific in resource allocation. Furthermore, we established an expert panel on information projects to ensure continual and healthy development of the bank-wide IT construction.

11. Human Resources Management



The Bank took the opportunity of human resources reform to optimize its human resources structure and the overall layout of its organizations and institutions. We endeavored to optimize organization structures, internal position arrangement, performance evaluation and compensation system to be in line with the Bank's operational features in both rural and urban markets, and laid a solid foundation for human resources development and management.

11.1. Employee Incentive and Constraint System

According to the Bank's development strategy, we made great efforts in promoting human resources reform and incentive and constraint system. We carried out position analysis, normalized positions' settings, defined positions' responsibility, criteria and value, so as to build a foundation for a new position system that is "distinctly sorted, clearly graded and convincingly promoted." We actively fostered a performance management culture and enhanced the performance evaluation ability, aiming to construct a value-based performance evaluation system. The Bank refined the compensation system which gives due consideration to both efficiency and fairness, as well as work intensity and individual contribution, and adhered to the principle of

distribution according to work and production factors, thereby assured the staff a scientific and impartial compensation system. We also built long-term incentive mechanisms such as anticipated income account system and enterprise annuity scheme, a move conducive to the construction of a harmonious compensation system and enables income-distribution to play an effective role in encouraging and constraining the staff.

11.2. Staff Training

Oriented towards the shareholding reform, service for agro-related industries, and operational strategy transformation, the Bank made great efforts to train its staff of different levels. In the year, 439,956 person-times training was done. We organized training courses on asset ownership confirmation and legal due diligence so as to ensure that the preparation work of shareholding reform is on the right track. As for the agro-related business training, we made training plans for the staff serving rural areas and kicked off the compilation of training materials. For mid-level managers and key technical personnel, we organized various training programs on new business, new products, new methods, new policies and new regulations. For accounting managers, we organized internal control management training on ethics, operational specification and law compliance. Additionally, we actively promoted certification training for key positions. Over 110 thousands employees participated in certification exams of credit, bank cards,



international settlement, insurance agent, client manager, risk manager, accounting manager, teller and treasury management. We also launched large-scale online training including remote training programs on overseas wealth management and new accounting principles, and online real time training for fund products sales.

11.3. Reform of internal organizations

In 2007, the Bank conducted a comprehensive assessment on head office organization settings and function division, and steadily adjusted internal organizational structure.

Improving Risk Management Organizations

In order to improve risk control capacity, the Bank set up a risk management department. Acting as the leading department to implement comprehensive risk management, the risk management department performs general, systematic and fundamental functions, like formulating overall risk management policies, developing risk-measuring instrument models and controlling risk exposure.

Strengthening Front Office: Customer Relation Departments and Product Departments

To improve service for rural areas, the Bank established Policies and Planning Dept., Corporate Banking Dept./ SME Dept. and Personal Banking Dept., which are responsible for policy research, planning management and business promotion in agro-related business. To enhance innovation and market competitive edge, we established Product Development Dept. to conduct centralized planning and management. In order to further promote the transformation of operational strategy, we established Investment Banking Department in charge of the direct marketing of investment banking business to big clients. To greatly expand business like enterprise annuity, agriculture insurance fund, retail pension etc., the Bank established a pension management center responsible for pension business programming,



policy research, market development, product R&D and risk management. Personal Credit Dept. is responsible for front office work such as personal credit business marketing, product R & D and system direction.

Advancing Institutional Reform in Back Office

We streamlined and integrated the business management function and operational function. The Bank established Operation and Management Dept., which is responsible for programming and constructing the centralized operation system as well as operation, service and management functions for back office business. It drove the whole Bank to speed up building an operation, service and management system that had advanced technique, strict internal control and timely response. The Bank continued to integrate the customer service resources. According to the Bank's integrative customer service center programming, we established a customer service center and implemented centralized and standardized management.



Sports Meet of ABC Head Office, 2007

12. Risk Management

With the principle of prudential operation, the Bank endeavors to promote a sound business development and maximize its return, and creates value for the country, the society, its customers and employees through strengthening risk management capabilities.

In 2007, the Bank deepened the construction of a panoramic risk management system and established a centralized, independent and further improved risk management system. With the construction of an international rating system, the Bank's risk management function was continuously improved.

12.1. Credit Risk Management

Credit risk is a risk that may cause loss to creditors or financial products holders, resulting from a customer or counter party unable or unwilling to meet a repayment obligation. The credit risks of the Bank are mainly from loans, investments, securities, collaterals and commitments, and some other credit risk exposures in and out of the financial statements.

Policies of Credit Risk Management and Control

Taking the principle of prudential operation, ABC continued to improve loan management, credit approval, and monitoring and testing system. It established a risk management model with a balance of powers between front, middle and back offices. And an all around and multi-layer credit risk management framework was set up, with the back offices' supervisory and restricting function strengthened. The Bank strictly implemented our country's macro-control policies, set limits to the loans made to high-energy consumption and polluting industries, and those with excessive production capacity while enhanced the capability of discouraging potential high-risk customers. Through these ways, ABC's loan structure was further rationalized and the allocation of credit resources was optimized. In addition, the bank actively promoted "green credit", integrating environmental protection awareness into its credit policy, culture, and procedures, to strictly fulfill its social responsibility as a large-scale state-owned commercial bank.

The Bank improved business procedures through adjusting credit regulations and

procedures, defining different departments' functions and setting up a multi-layer client management system. ABC enhanced credit granting and management system, strengthened unified credit management of corporate customers, and exercised comprehensive quota management by integrating public and internal credit-granting management mode. The Bank defined methods of differential credit quota management, and a special quota measurement method for small businesses. ABC also defined measurement procedure and dynamic monitoring requirements of credit limitation, and proposed to offer revolving quota to high quality clients. The Bank designed the index system for evaluation of industrial or regional risks and the measurement method of risks based on industrial or regional characteristics. The Bank also emphasized that industrial or regional risks should be monitored in real time and reported on a regular basis.

The Bank actively promoted the construction of internal credit rating system and clearly defined the construction content of the rating system in different phases. In the beginning, the Bank selected the Hong Kong branch as the experimental unit for internal credit rating project, to collect data and accumulate experiences. After that, the Bank launched the project in head office, analyzing its current credit risk management situation so as to improve the overall planning of the internal rating system construction.

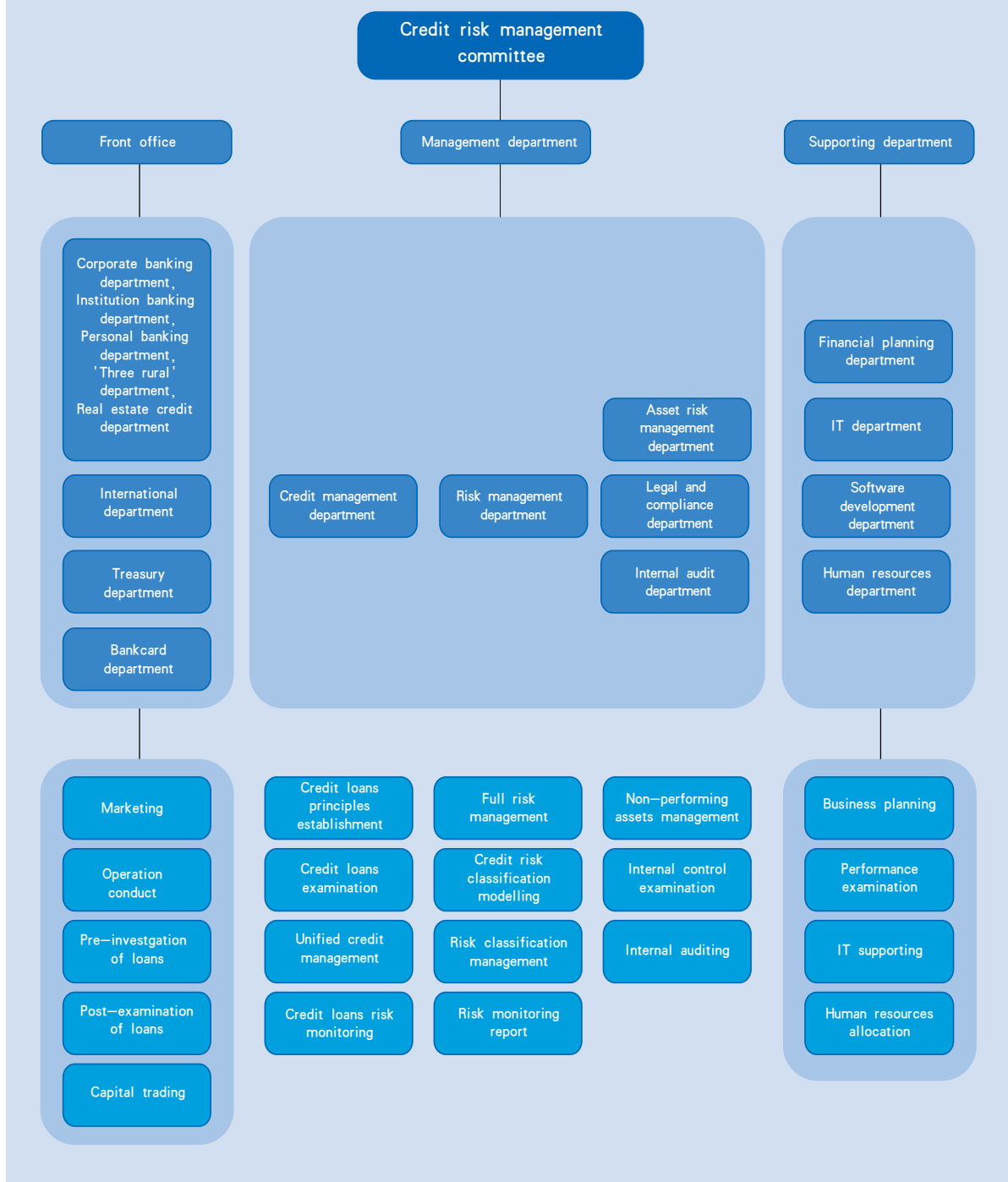
The Bank upgraded its credit rating system with optimized rating procedure and information system and improved rating efficiency and quality. We standardized the personal client's credit rating system, forming a unified rating criterion.

The Bank revised the regulation and operational procedure on classifying loan risks, took pilot tests according to the classification, and refined risk classification criterion, in order to be more scientific and accurate in classifying loan risks. With improved classification methods and computerized system, the reflection of loan quality will be more comprehensive, true to the fact, and in a timely manner.

Procedure and Guidance of Credit Risk Monitoring and Classification

According to relevant regulations on credit asset risk classification in the Guidance on Loan Risk Classification issued by CBRC, the Bank nailed down the principles, standards, operational procedures, departments' duties, statistics and monitoring methods on credit risk classification.

Organization structure and responsibility classification of credit risk management



Based on a comprehensive analysis of borrowers' repayment ability, records, and willingness, collaterals, legal responsibilities on repayment, loan-receiving projects' profitability, and our own credit management situation, we make a judgment whether the borrowers can repay the loans and interests in time. According to this procedure, we classify loans into five categories: pass, special-mentioned, sub-standard, doubtful, and loss, of which the latter three are regarded as non-performing loans.

This classification procedure should be followed under the leadership of general managers in each branch, and with close coordination and support among several departments, including risk management, customer relationship, audit, supervisory, accounting, personnel, technology, and legal and compliance department, etc.

In practice, it goes like this: preliminary segmentation by customer relationship department, examination by risk management departments; review by loans examination committee; approval by eligible approvers; and finally, input into computers by customer relationship departments.

Monitoring and Testing of Credit Assets Risk

In monitoring and testing credit assets' risk, the Bank stuck to the principle of accurate classification, dynamic monitoring, and fair examination with each role taking a specific responsibility. On-site and off-site monitoring methods were employed to make a round-the-clock monitoring. During the year, the Bank enhanced and standardized the online credit risk monitoring system that was able to accurately classify risks, accordingly give early alarming, and dispose them in time. The Bank collected results of risk classification monthly, published those results in the Bank on a quarterly basis and examined each branches annually.

Loan Quality

By the end of 2007, the amount of outstanding loans was RMB 3.48 trillion with an increase of RMB 330.26 billion from the beginning of the year. The amount of NPLs reached RMB 817.97 billion, which increased by RMB 82.69 billion compared to that at the beginning of 2007. And the NPL ratio was 23.50%, increased by 0.07 percentage point from the beginning of the year. The increase of NPLs was due to, as part of preparation for the shareholding reform, the application of a stricter criterion of loan quality classification and prudent cleanups of the previous years' loans, a move to reflect the situation of credit risk more accurately.

Non-performing Loans Collection and Disposal

The Bank has dedicated its efforts to the collection of non-performing loans with various methods. In 2007, the Bank collected NPLs and interests totaling RMB 57.40 billion, of which, principal amounted to RMB 45.45 billion and interests amounted to RMB 11.88 billion. The Bank disposed of NPLs of RMB 8 billion, of which, loan restructuring amounted to RMB 868 million, write-offs amounted to RMB 3.24 billion, and transfer to foreclosed asset category totaling RMB 3.89 billion. In addition, the Bank collected non-credit non-performing assets totaling RMB 1.72 billion.

In 2007, the Bank accelerated the pace of disposing of special assets, with disposed foreclosed assets totaling RMB 10.03 billion. During the year, the Bank disposed of a number of long-term equity investments, of which, 1651 were affiliates not completely separated from the Bank and 103 were affiliates that should have been separated from the bank. The amount of long-term equity investment decreased by RMB 2.10 billion from the beginning of the year.

12.2. Market Risk Management

Market Risk refers to risk caused by unfavorable price fluctuations (interest rate, exchange rate, stock price and wholesale goods price). Interest rate risk and exchange rate risk are the main market risks that ABC has to face up to.

RMB Interest Rate Risk Management

The Bank continued to improve the pricing and calculating mechanism of interest rates to enhance the interest rate risk parameters. Interest rate sensitivity exposure was calculated on a regular basis to accurately reflect affections of net interest income under various interest rate scenarios. We deepened the reform of internal interest rate management by establishing a well-managed and market-based internal interest rate forming mechanism, reinforcing the bank-wide sensitivity to market interest rates, and further improving the interest rate risk management mechanism. 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, thus improved the planning ability to deal with market risk.

Foreign Currency Interest Rate Risk Management

To ensure a reasonable match between interest rate of foreign currency assets and

liability and a stable interest rate spread, the Bank attached importance to analyzing and forecasting the fluctuating trend of interest rate on international market, and made timely adjustment on the interest rate of foreign currency deposit/loans and the credit line for branches. The Bank strengthened the sensitivity analysis on asset/liability interest rate gap, set up the effective duration of investment portfolio, made scenario analysis on interest rate gap on a regular basis, and effectively managed the interest rate risk of foreign currency bank accounts.

Foreign Exchange Rate Risk Management

Under the circumstance of accelerating RMB appreciation and big fluctuation in market, the Bank stepped up management innovations to make exchange rate risk under control. The Bank enhanced monitoring on exchange rate risk exposure, implemented quota management and loss-prevention operation as well as strictly controlled risk exposure dimension. Based on a close follow up and in-depth analysis of the market trend, the Bank increased the frequency of announcing buying and selling prices and gradually established a price transmission mechanism. In addition, efforts were made to readjust currency structure of asset/liability and hedge foreign exchange risk through products of currency swaps, forwards and options. Meanwhile, 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.

Risk Management for Trading

For the purpose of managing risk and liquidity, the Bank took a reasonable and prudent approach in its investment and portfolio management. The Bank made great efforts to enhance its risk-adjusted return on capital, and optimized its asset structure through the implementation of a comprehensive fund trading risk management system. The Bank emphasized research on macroeconomic situation, to actively grasp opportunities, and to properly adjust investment strategy. The portfolio structure has been improved with investment profit sharply increased. The Bank coordinated different management mechanism, improved pricing models and stepped up efforts in R&D, and pushed forward the innovation of products related to Shibor. We applied the same standards to internal risk monitoring and statistics so that we were able to exercise limit-setting management on RMB and Foreign Currency trading accounts and bullion-trade self-operated accounts, through various risk indicators such as DVBP and VAR. For bonds investment portfolio with foreign and domestic currency, the Bank calculated and controlled trading risks with fair value evaluation, duration analysis and pressure test

12.3. Liquidity Risk Management

Liquidity Risk refers to the risk caused by failure to timely meet current and future capital demand of customers and trading partners at a reasonable cost.

RMB Liquidity Risk Management

Liquidity management was done in ways to allocate assets through efforts to achieve balance between profit, safety and liquidity. While ensuring the implementation of macro-control measures and business development, we optimized the structure of assets and liabilities, improved operational efficiency of funds and expanded core deposits quantity and percentage. In order to ensure a sustainable, stable and highly efficient development, we strictly controlled loan-to-deposit ratio and proportion of medium- and long-term loans, and improved our capacity of preventing and resolving liquidity risk by raising reserves at proper time.

According to requirements of RMB Liquidity Management, the Bank laid down organizational structure, management policies and standards, and set up mechanism for monitoring, measuring, and early warning. A contingency mechanism has been established. All these efforts had helped to improve the coordination between liquidity management departments. Daily predictions were made on liquidity gap, messages of liquidity risk were spread across the Bank weekly, and monthly analysis were made on bank-wide liquidity indicators and fund surplus and deficit, so that the Bank was able to readjust liquidity management policy and properly keep adequate fund. We actively conducted pressure tests on liquidity risk to make sure that we have correct and effective liquidity risk management arrangements.

Foreign Currency Liquidity Risk Management

Foreign currencies held by our branches are under the management and control of the Head Office with branches having delegated authorities. According to the overall liquidity needs of foreign currency business, we actively explored the laws that should be observed in 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. With persistent efforts, our position management became more scientific and forward-looking so as to satisfy the liquidity demands of the entire bank. Authorization was strictly adhered to in all our branches, domestic or

overseas, and the Head Office maintained accurate liquidity information at all time.

Liquidity Indicators		%		
		2007	2006	2005
Loan/deposit Ratio	RMB	60.90	60.05	63.66
	Foreign currency	101.96	95.94	73.93
Liquidity Ratio	Domestic & Foreign currency	29.01	27.71	26.3
RMB Borrowing& Lending Ratio (%)	Borrowing	0.60	0.07	0.01
	Lending	1.09	0.66	0.46
Provision Ratio	RMB	2.58	4.64	3.38

12.4. Operational Risk Management

Operational Risk means the risk of loss caused by flawed internal program, employee and information technology system, or some external factors. Abiding by the regulation of Guidelines on Commercial Bank's Operational Risk Management, the Bank have continuously improved operational risk management system through introducing new management tools, integrating management resources and enhancing internal control.

Authorization Management

The Bank built an authorization management system, which was based on institutional authorization, positional authorization and warranty, covering all core operations. In practice, this system could be adjusted dynamically upon differentiations of regional level of economic development and business management capability. Institutions and individuals are more aware of their respective authority limits.

Crimes Prevention and Control

The Bank put in place the responsibility system of crime prevention, specified and decomposed prevention and investigation duty, and highlighted the implementation of internal control regulations. The Bank made great effort in investigation of suspicious criminal cases, especially those major cases and regulation violation cases. The Bank organized a special team of experts to diagnose each operation, to find flaws and loopholes in operational process, and conclude a feasible plan to prevent and control criminal cases. The bank laid an emphasis on the internal control of accounting, and made an overhaul of the accounting system. The accounting monitoring system was upgraded into a centralized one, with the establishment of a regulation violation database and an operational risk loss database, realizing regular monitoring of accounting operational risk.

Information Safety

The Bank formulated Rules on Information System Risk Management and Rules on Information System Security Affairs Report to reinforce risk prevention in the information system operation. We laid down Rules on Management of Key Technological Positions to reinforce the management of staff in those positions and avoid operation risks of information system. We also set up a unified anti-virus system according to Rules on Anti-virus to ensure the safety operation of the network. Meanwhile, we launched the construction of backup and recovery center in case of disaster, made backups for important data processing system, and prepared business contingency plans.

Compliance Management

The Bank's compliance risk management system was established through the making of regulations and organizations. By sorting through regulations, we improved the compatibility and feasibility of the rules and reduced the risks caused by incomplete regulations. According to the request of Compliance Risk Management Guidelines of Commercial Banks, we established Compliance Policies of Agriculture Bank of China, improved our compliance risk management infrastructure, and set up a compliance managing organization. We revised our Code of Conduct, compiled Compliance Handbook and provided training on implementation, to foster a sense of compliance and improve the efficiency of compliance management.

Anti-Money Laundering

The Bank built a complete system and an organizational structure to strengthen Anti-Money Laundering. We strictly abided by the requirements of the regulatory and performed our duty in carrying out anti-money laundering laws. We carefully examined customers' identity, kept customers' information and trading record according to relevant regulations, timely reported large-volume and suspicious trade to regulatory department, and coordinated regulatory and justice bodies to carry out anti-money laundering investigation. Along with the research and development of Anti-Money Laundering Information Management System, we effectively improved our risk control ability.

Internal Control

According to the requirements of "Guidelines on Commercial Bank Internal Control", the Bank has been adjusting and improving its organizational structure to cultivate good internal control environment. We established and improved the risk management organizational structure and internal control system, with risk identification and assessment covering the major business and management activities. We computerized our operations and management to facilitate information exchange, and also took measures to control possible risks brought about by the computer system. We established a power-balanced mechanism with horizontal and vertical departments under mutual supervision, to maintain an independent and vertical internal audit. The establishment of a relatively developed monitoring, evaluation, and correction mechanism enabled us to carry out supervision and evaluation with effective technology, and thus to continuously improve the internal control system.

13. Awards and Responsibilities

13.1. Awards

Credit Rating: *Standard & Poor: BBBpi ; Moody's: A1/stable.*

ABC was ranked No.7 in the "2007 Top 500 Chinese Enterprises in Information Technology", and was given the Great Achievement in IT Infrastructure Construction Award and the Best Technical Strategy Award.

ABC was awarded Excellent Trader of National Inter-bank Lending Center in 2007, Top 100 in Transaction Volume in Inter-bank Domestic Currency Market, and Top 100 Active Banks in Inter-bank Domestic Currency Market.

The Bank was honored as the Excellent Underwriter of Book-entry Bond and Certificate Bond in Year 2007 by Ministry of Finance.

The Bank was honored as the Annual Best Market Maker, Market Maker with Largest Transaction Volume, Market Maker with the Largest Market Making Transactions, Best Transaction Criterion, Excellent Transaction, and Excellent Derivatives Transaction, etc in Year 2007 by China Foreign Exchange Transaction Center.

The Bank won the Award of Excellent Development in Online Banking issued by China Finance Certification Center in 2007. The Bank was honored as The Most Influential Brand in 2007 China E-Bank market in the fourth China Brand Influence Forum. The Bank was honored as China Bank Preeminent Marketing Award in the Internet Selection Campaign hosted by China HeXun Financial web. The Bank's financing instrument "Jin-E-Shun" was honored as Satisfactory Electronic Financial Brand in China Electronic Finance Development Forum hosted by China Electronic Commerce Association. And ABC's self-service hot-line 95599 was honored as the Satisfactory Electronic Financial Service Brand.

ABC was honored as the Most Satisfactory Bank in the awarding ceremony of 2007 China Wealth Management Survey hosted by China's mainstream media in wealth management.

13.2. Social Responsibilities

While pursuing better performance in business, the Bank also focused on participating and supporting undertakings concerned with the well being of the whole nation, such as culture, education, sports, disaster relief, poverty alleviation and others to perform its social responsibilities.

Social Donations

To support the development of poverty-stricken areas and help relieve those hit by disasters, the Bank organized donations of more than RMB 30 Million, of which RMB 500,000 was donated to China's Paralympics Management Center by the Head Office, to support the Chinese Delegation in Beijing Paralympics 2008. The Head Office organized "Love and Warmth Project" raising donated funds of RMB 120,000, as well as quilts and wadded jackets.

Poverty Alleviation Activities

In 2007, ABC Head Office made a donation of RMB 1 million to Xian County and Wuqiang County in Hebei Province, the poverty alleviation target counties designated by the State Council. The money was given together with Farmer's Daily and other newspapers and magazines valued RMB 100,000. The Head Office also donated RMB 30,000 to ABC Hope Primary School of Xian County and Wuqiang County in Hebei Province for the purchase of computers and other teaching aids. The Bank increased



poverty alleviation loans in 2007, making poverty relief interest-discount loan of RMB 3.90 billion, among which RMB 3.25 billion was regular poverty relief interest-discount loan and RMB 651 million was recovery poverty relief interest-discount loan.

Donation for Education

In 2007, the bank organized an activity called "ABC Fuyun Student Aid Project - for the Children in Border Areas", to mobilize members of the Communist Youth League (CYL) in 9 provincial branches in eastern coastal China to donate money for students from poor households in the western border areas. More than RMB 1.78 million was received within two months and donated to Fuyun County, Xin Jiang Uygur Autonomous Region in supporting the NO. 1 Primary School of Keketuohai Town and the students from poor households in that area. The primary school was renamed as ABC CYL Hope Primary School.



Financial Statements and Notes



14. Financial Statements and Notes

14.1. Review Report

Zhong Tian Yin No.1(2008)

To Agricultural Bank of China

We have reviewed the accompanying balance sheet of Agricultural Bank of China at December 31, 2007, 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.

April 25, 2008

Chinese Certified
Public Accountant:

孙会珍



Chinese Certified
Public Accountant:

付屏南



14.2. Consolidated Balance Sheet

Agricultural Bank of China Balance Sheet

07-12-31
(Notes: I, II, III, IV, V)
(Unit: RMB 100 million)

Items	Notes	2007.12.31	2006.12.31
Assets			
Cash		442.59	363.70
Due from central bank	I	8,904.11	6,527.98
Due from banks and other financial institutions	II	205.25	328.31
Lending to banks and other financial institutions	III	563.79	772.59
Loans	IV	34,801.05	31,498.49
Less: Provision for loan losses	V	493.82	375.12
Interest receivables	VI	18.70	27.95
Other receivables	VI	121.65	177.63
Investments	VII	14,749.93	13,064.09
Fixed assets	VIII	700.58	660.70
Construction in process		78.64	92.99
Other assets	IX	408.80	496.97
Total Assets		60,501.27	53,636.28
Liabilities			
Deposits	X	52,833.14	47,553.12
Due to Central Bank		1,508.67	1,508.67
Due to banks and other financial institutions	XI	2,524.95	1,868.55
Borrowings from banks and other financial institutions	XII	319.39	262.06
Other liabilities	XIII	2,428.84	1,607.46
Total liabilities		59,614.99	52,799.86
Total owner's equity		886.28	836.42
Total liabilities and owner's equity		60,501.27	53,636.28

Notes are part of the balance sheet.

14.3. Consolidated Statement of Income

Agricultural Bank of China Statement of Income

07-12-31
(Notes: I, II, III, IV, V)
(Unit: RMB 100 million)

Items	Notes	2007	2006
Interest income	XIV	2,000.13	1,520.51
Interest Expense	XV	(1,019.66)	(796.84)
Net interest income		980.47	723.67
Fee and commission income		234.36	139.81
Fee and commission expenses		(6.72)	(5.49)
Other operating income	XVI	(43.56)	19.97
Other operating expenses	XVII	(16.25)	(2.97)
Net Operating Income		1,148.30	874.99
Operating expenses		(902.14)	(825.93)
Business tax and surcharges		(110.83)	(84.56)
Operating profit		135.33	(35.50)
Investment income		399.64	282.82
Subsidy income		—	—
Non-operating income	XVIII	51.00	20.13
Non-operating expenses	XIX	(260.36)	(151.38)
Profit before tax		325.61	116.07
Income tax		(206.89)	(63.81)
Net profit after tax		118.72	52.26

Notes are part of the balance sheet.

14.4. Consolidated Statement of Cash Flows

2007
(Note: I, II, IV and V)
(Unit: RMB 100 million)

Items	Amount
1.CASH FLOWS FROM OPERATING ACTIVITIES:	
Loan interest received	1,753.01
Income received from transactions with financial institutions	257.26
Other operating income	114.06
Fee and commission income received	234.36
Net increase in demand deposits	4,279.18
Net increase in deposits other than demand deposits	55,246.01
Medium- and long-term loans received	3,826.97
Net increase in balances with financial institutions	985.28
Cash received relating to operating activities	11.92
SUB-TOTAL OF CASH INFLOWS	66,708.05
Payment of deposit interest	712.29
Payments made on transactions with financial institutions	104.99
Other operating expenditures	173.87
Net increase in balances with central bank	0.00
Net cash from transactions with financial institutions	
Cash paid to and on behalf of employees	388.39
Withdrawal of deposits other than demand deposits	53,967.04
Net increase in short-term loans	962.08
Medium and long-term loans	6,391.76

Items	Amount
Payment of fee charges	6.72
Payment of income tax	82.16
Payment of taxes other than income tax	106.91
Cash paid relating to operating activities	387.49
SUB-TOTAL OF CASH OUTFLOWS	63,283.70
NET CASH FLOWS FROM OPERATING ACTIVITIES	3,424.35
2. CASH FLOWS FROM INVESTING ACTIVITIES	
Cash received from disposal of investment	16,073.82
Cash received from dividends or profit distribution	
Cash received from bond interest	398.70
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	156.46
Cash received relating to other investing activities	
SUB-TOTAL OF CASH INFLOWS	16,628.98
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	223.06
Cash paid for acquisition of equity investment	2.57
Cash paid for acquisition of debt investment	17,410.11
Cash paid for other investing activities	
SUB-TOTAL OF CASH OUTFLOWS	17,635.74
NET CASH FLOWS FROM INVESTING ACTIVITIES	(1,006.76)

Items	Amount
3. CASH FLOWS FROM FINANCING ACTIVITIES	
Cash received from investors	
Including: cash received by the subsidiaries from minority shareholders	
Cash received from bond issuance	0.01
Cash received from other financing activities	0.82
SUB-TOTAL OF CASH INFLOWS	0.83
Cash paid for repayment of liabilities	16.61
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	16.61
NET CASH FLOWS FROM FINANCING ACTIVITIES	(15.78)
4. NET CASH FLOWS FROM EXTRAORDINARY ITEMS	(1.08)
5. EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH FLOWS	(11.45)
6. NET INCREASE IN CASH AND CASH EQUIVALENTS	2,389.28

Notes are part of the financial statements.

14.5. Notes to Consolidated Financial Statements

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. Its business license number is 1000001000547, financial number is B0002H111000001, and tax registration certificate number is Jing Shui Zheng Zi 110108100005474.

The principal business activities of the Bank are as follows:

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 Estimates

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

The financial statements of ABC have been prepared according to 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 ABC under its sole legal person mechanism, applying a financial management system

characterized by centralized leadership, authority delegation, autonomous operation, 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 31, 2007, which was US\$1=RMB 7.3046.

(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 preparing the cash flow statement

Based on the characteristics 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) as medium-term loans; and loans 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 is 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 25%, doubtful loans 50% and loss loans 100%.

Overseas operations establish their provision according to 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 investment securities and trading securities. The former are purchased with an intention to hold to maturity, and the latter are purchased for trading and 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 proceeds 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). The item includes 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
Transportation facilities	5	19.40
Electronic equipments	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 are 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 2007, based on the five-category loan classification system, non-performing loans

accounted for 23.50% of the total ABC loan portfolio, up by 0.07 percentage point compared with 23.43% from the prior year.

IV. Change in financial statements consolidation

The consolidated financial statements of ABC began to cover its Tibet branch in 2007, and employed a retroactive adjustment approach to the data of early 2007. Therefore, the bank's total assets and total liabilities increased by RMB 26.30 billion and RMB 26.66 billion respectively at the end of 2006, while its total owners' equity and net profit for 2006 decreased by RMB 360 million and RMB 581 million respectively.

V. Notes on relevant items of the financial statement (Unit: RMB 100 million)

(I) Due from central bank

Due from central bank refers to the statutory deposit reserve and the excess deposit reserve placed with the People's Bank of China. The statutory deposit reserve ratio is stipulated by the People's Bank of China. During 2007, the reserve ratio has been readjusted 10 times for domestic currency deposits and once for foreign currency deposits. On December 31st, 2007, the statutory deposit reserve is made at the required rate of 15% for domestic currency deposits, and 5% 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	2007.12.31	2006.12.31
Due from banks	197.74	321.50
Due from other financial institutions	7.51	6.81
Total	205.25	328.31

2. By location:

Items	2007.12.31	2006.12.31
Domestic	122.90	231.84
Overseas	82.35	96.47
Total	205.25	328.31

(III) Lending to banks and other financial institutions**1.By types of financial institutions:**

Items	2007.12.31	2006.12.31
Lending to banks	524.90	706.71
Lending to other financial institutions	38.89	65.88
Total	563.79	772.59

2.By location

Items	2007.12.31	2006.12.31
Domestic	221.36	344.82
Overseas	342.43	427.77
Total	563.79	772.59

(IV) Loans**1.By maturity:**

Maturity	2007.12.31	2006.12.31
Short-term loans	12,594.66	11,735.67
Medium- and long-term loans	14,521.39	12,254.24
Overdue, idle and bad loans	7,685.00	7,508.58
Total	34,801.05	31,498.49

2. By currency:

Currency	2007.12.31	2006.12.31
RMB	33,754.22	30,523.21
Foreign currencies	1,046.83	975.28
Total	34,801.05	31,498.49

(V) Provision for loan losses

During 2007, the Bank charged RMB 15.10 billion of loan loss provision to the income statement. Additionally, the Bank wrote-off and reserved provision due to collection after write-off of RMB 3,228 million. At December 31st, 2007, the balance of provision for loan losses amounted to RMB 49.38 billion.

(VI) Receivables

Items	2007.12.31	2006.12.31
Interest receivables	18.70	27.95
Other receivables	121.65	177.63
Total	140.35	205.58

(VII) Investments**1. By maturity**

Maturity	2007.12.31	2006.12.31
Short-term investment	4,959.67	5,271.40
Long-term investment	9,790.26	7,792.69
Total	14,749.93	13,064.09

2. By type

Type	2007.12.31	2006.12.31
Bond investment	14,732.15	13,023.87
Including: Financial bonds	7,915.68	7,436.59
Treasury bonds	4,931.54	4,332.22
Other bond investment	1,884.93	1,255.06
Equity investment	17.78	40.22
Total	14,749.93	13,064.09

(VIII) Fixed asset

Items	2006.12.31	Increase	Decrease	2007.12.31
Original cost	994.34	242.03	190.21	1,046.16
Including: Buildings	705.78			728.73
Transportation vehicles	61.14			60.27
Electronic equipment	213.72			239.25
Others	13.70			17.91
Loss: Accumulated depreciation	(333.64)	(59.87)	(47.94)	(345.58)
Net book value	660.70			700.58

(IV) Other assets

Items	2007.12.31	2006.12.31
Other current assets	3.36	2.83
Fixed assets pending for disposal	0.61	0.90
Intangible assets	21.32	23.96
Long-term deferred expenses	24.08	42.93
Foreclosed assets	175.10	302.65
Others long-term assets	184.31	123.70
Deferred tax assts	0.02	—
Total	408.80	496.97

(X) Deposits**1. By maturity:**

Item	2007.12.31	2006.12.31
Short-term deposits	47,155.56	41,885.41
Long-term deposits	5,677.58	5,667.71
Total	52,833.14	47,553.12

2. By currency:

Items	2007.12.31	2006.12.31
RMB	51,949.41	46,709.59
Foreign currencies	883.73	843.53
Total	52,833.14	47,553.12

(XI) Due to other banks and financial institutions**1. By types of institutions:**

Items	2007.12.31	2006.12.31
Due to banks	658.38	1,029.73
Due to other financial institutions	1,866.57	838.82
Total	2,524.95	1,868.55

2. By locations:

Items	2007.12.31	2006.12.31
Domestic	2,522.06	1,866.66
Overseas	2.89	1.89
Total	2,524.95	1,868.55

(XII) Borrowings from banks and other financial institutions**1. By types of financial institutions:**

Items	2007.12.31	2006.12.31
Borrowings from banks	318.62	261.67
Borrowings from other financial institutions	0.77	0.39
Total	319.39	262.06

2. By locations:

Items	2007.12.31	2006.12.31
Domestic	119.87	51.08
Overseas	199.52	210.98
Total	319.39	262.06

(XIII) Other liabilities

Items	2007.12.31	2006.12.31
Bill financing	198.19	104.26
Securities sold under repurchase agreement	538.73	84.16
Outward remittance	250.25	284.86
Interest payable	431.67	229.50
Accrued payroll and welfare benefits payable	91.91	87.26
Taxes payable and surcharges	235.05	80.81
Other payables	236.25	262.92
Accrued expenses	0.02	0.04
Other current liabilities	361.77	377.61
Long-term borrowing	27.73	30.37
Long-term bonds	20.61	34.04
Long-term payables	0.85	2.11
Other long-term liabilities	35.81	29.48
Deferred tax liabilities	0.00	0.04
Total	2,428.84	1,607.46

(XIV) Interest income

Items	2007	2006
Interest income from customers	1,744.12	1335.15
Interest income from inter-bank transactions	256.01	185.36
Total	2,000.13	1,520.51

(XV) Interest expenses

Items	2007	2006
Interest expenses to customers	911.97	697.65
Interest expenses on inter-bank transactions	107.69	99.19
Total	1,019.66	796.84

(XVI) Other operating income

Items	2007	2006
Foreign exchange gain	-91.45	8.76
Gain on precious metal	0.40	0.16
Others	47.49	11.05
Total	-43.56	19.97

(XVII) Other operating expenses

In 2007, other operating expenses amounted to RMB 1625 million, mainly arising from securities trading and proprietary trading of financial derivatives.

(XVIII) Non-operating income

Items	2007	2006
Net income from disposal of fixed assets	30.04	8.80
Excess from fixed assets count	1.79	1.43
Income from penalty charges	0.17	0.15
Net income from disposal of foreclosed assets	2.49	1.88
Others	16.51	7.87
Total	51.00	20.13

(XIX) Non-operating expenses

Items	2007	2006
Net loss from disposal of fixed assts	17.93	20.51
Net loss from disposal of foreclosed assets	129.11	69.77
Fixed assets inventory shorts	11.39	0.83
Donations	0.27	0.23
Extraordinary losses	0.19	0.18
Loss arising from Criminal Cases	81.24	32.26
Compensation and payments on defaulted contracts	0.24	0.10
Others	19.99	27.50
Total	260.36	151.38

VI.Explanation of other important issues

(I) Contingent liabilities

Items	2007.12.31	2006.12.31
Bank draft acceptance	2,047.00	2,093.00
Letters of guarantee	1,321.69	820.81
Shipping guarantee	0.47	17.98
Letters of credit	539.06	457.66
Factoring payable	1.06	0.98
Fiduciary bond investment	27.81	38.38
Commitment	437.93	201.54
Total	4,375.02	3,630.35

(II) Income tax

We have obtained the permission from the tax bureau to postpone our tax filing for 2007 to June 30, 2008, due to certain policies and the pending approval on certain tax matters. The amount of income tax expenses for the year is estimated at RMB 20.69 billion.

(III) Related party transactions

No significant related party transaction had occurred in 2007.

(IV) Major pending litigations and arbitration

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

15. Directory of Our Branch Network

Overseas Institutions

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- **HONG KONG BRANCH**

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- **CHINA AGRICULTURAL FINANCE CO.,LTD, HONG KONG**

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SWIFT: ABOCCNBJ270

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SWIFT: ABOCCNBJ280

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SWIFT: ABOCCNBJ290

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SWIFT: ABOCCNBJ300

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SWIFT: ABOCCNBJ301

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SWIFT: ABOCCNBJ340

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SWIFT: ABOCCNBJ380

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SWIFT: ABOCCNBJ390

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SWIFT: ABOCCNBJ400

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SWIFT: ABOCCNBJ410

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