中国农业银行

AGRICULTURAL BANK OF CHINA

Agricultural Bank of China Limited

(A joint stock company incorporated in the People's Republic of China with limited liability)
Stock Code: 1288

Joint Dedication to Build a Beautiful China

2012 Annual Report

Profile

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

Being one of the major integrated financial service providers in China, the Bank is committed to catering to the needs of Sannong and capitalizing on the synergy between the Urban Areas and the County Areas. The Bank strives to expand into the international market and provides diversified services so as to become a first-class modern commercial bank. Capitalizing on the comprehensive business portfolio, extensive distribution network and advanced IT platform, the Bank provides various corporate and retail banking products and services for a broad range of customers and carries out treasury operations for our own accounts or on behalf of customers. Our business scope includes, among others, investment banking, fund management, financial leasing and life insurance. At the end of 2012, the Bank had total assets of RMB13,244,342 million, deposits of RMB10,862,935 million and loans of RMB6,433,399 million. Our capital adequacy ratio and non-performing loan ratio were 12.61% and 1.33%, respectively. The Bank achieved a net profit of RMB145,131 million in 2012.

The Bank had 23,472 domestic branch outlets, including the Head Office, the Business Department of the Head Office, three specialized institutions managed by the Head Office, 37 tier-1 branches (including branches directly managed by the Head Office), 348 tier-2 branches (including business departments of branches in provinces), 3,482 tier-1 sub-branches (including business departments in municipalities, business departments of branches directly managed by the Head Office and business departments of tier-2 branches), and 19,600 other establishments. Our overseas branch outlets consisted of four overseas branches and five overseas representative offices. Our major subsidiaries consisted of nine domestic subsidiaries and three overseas subsidiaries.

In 2012, the Bank ranked No. 84 in *Fortune's* Global 500, and ranked No. 5 in *The Banker's* “Top 1000 World Banks” list in terms of profit before tax for the year of 2011. In 2012, the Bank's issuer credit ratings were assigned A/A-1 by Standard & Poor's; the bank deposits ratings were assigned A1/P-1 by Moody's Investors Service; and the long-/short-term foreign-currency issuer default ratings were assigned A/F1 by Fitch Ratings. The Bank's outlook ratings assigned by the above credit rating agencies were “stable”.

Contents

Definitions

In this annual report, unless the context otherwise requires, the following terms shall have the meanings set out below:

1.	ABC/We/Our Bank/the Group/ the Bank/Agricultural Bank of China	Agricultural Bank of China Limited or its predecessor as applicable, and, except as the context otherwise requires, the subsidiaries of Agricultural Bank of China Limited and of its predecessor
2.	Articles of Association of the Bank/Articles of Association	The Articles of Association of Agricultural Bank of China Limited approved by the CBRC on 31 December 2012
3.	Basis Point(s)	A unit measure related to the change in an interest rate or exchange rate, which is equal to 0.01%
4.	CASs/PRC GAAP	The Accounting Standards for Enterprises promulgated on 15 February 2006 by the Ministry of Finance of the People's Republic of China and other related rules and regulations
5.	CBRC	China Banking Regulatory Commission
6.	County Area(s)	Areas designated as counties or county-level cities under China's administrative division system, excluding municipal districts
7.	County Area Banking Business	We provide customers in the County Areas with a broad range of financial products and services through our branch outlets located in counties and county-level cities in China. We refer to such banking business as the "County Area Banking Business" or "Sannong Banking Business"
8.	County Area Banking Division	An internal functional department of the Bank established in accordance with the requirements of restructuring state-owned commercial banks into shareholding enterprises. The department focuses on the operation of the County Area Banking Business with independent governance, operational decision making, financial accounting as well as incentives and restrictions systems
9.	CSRC	China Securities Regulatory Commission
10.	Duration	An approach employed to measure the average term of cash flows of debt securities, mainly reflecting the sensitivity of debt securities to interest rate movements
11.	Economic capital	Capital allocated to assets or business for the purpose of mitigating risks based on internal assessment of the management of commercial banks

12.	Hong Kong Listing Rules	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
13.	Hong Kong Stock Exchange	The Stock Exchange of Hong Kong Limited
14.	Huijin	Central Huijin Investment Ltd.
15.	Industries with high energy consumption, high pollution or overcapacity	Industries with high energy consumption, high pollution or overcapacity
16.	MOF	Ministry of Finance of the People's Republic of China
17.	PBOC	The People's Bank of China
18.	Sannong	Agriculture, rural areas and farmers
19.	SSF	National Council for Social Security Fund of the PRC
20.	Subordinated Bonds	Bonds issued by commercial bank which ranks after other equity capital and other debts. Subordinated Bonds fulfilling the conditions can be classified into supplementary capital

Basic Corporate Information

Legal name in Chinese and abbreviation	中國農業銀行股份有限公司 中國農業銀行
Legal name in English and abbreviation	AGRICULTURAL BANK OF CHINA LIMITED AGRICULTURAL BANK OF CHINA (ABC)
Legal representative	JIANG Chaoliang
Authorized representative	ZHANG Yun Li Zhenjiang
Board Secretary and Company Secretary	Li Zhenjiang Address: No. 69, Jianguomen Nei Avenue, Dongcheng District, Beijing, PRC Tel: 86-10-85109619 Fax: 86-10-85108557 E-mail: ir@abchina.com
Registered office address and postal code	No. 69, Jianguomen Nei Avenue, Dongcheng District, Beijing, 100005, PRC
Internet website	www.abchina.com
Principal place of business in Hong Kong	25/F, Agricultural Bank of China Tower, 50 Connaught Road Central, Hong Kong
Selected newspapers for information disclosure	China Securities Journal, Shanghai Securities News, Securities Times and Securities Daily
Website of Shanghai Stock Exchange publishing the annual report (A share)	www.sse.com.cn
Website of Hong Kong Stock Exchange publishing the annual report (H share)	www.hkexnews.hk
Location where copies of this annual report are kept	Office of the Board of Directors of the Bank
Listing exchange of A shares	Shanghai Stock Exchange
Stock name	農業銀行
Stock code	601288
Share registrar	China Securities Depository and Clearing Corporation Limited, Shanghai Branch (Address: 36/F, China Insurance Building, No. 166 Lujiazui Dong Road, Pudong New Area, Shanghai, PRC)
Listing exchange of H shares	The Stock Exchange of Hong Kong Limited
Stock name	ABC
Stock code	1288
Share registrar	Computershare Hong Kong Investor Services Limited (Address: Shops 1712–1716, 17th Floor, Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong)

Date of registration modification and registration authority	3 May 2012 State Administration for Industry and Commerce, PRC
Initial Registration	Please refer to the section headed "Statutory and General Information" in the prospectus of the Bank for the initial public offering for details
Corporate business license registration No.	100000000005472
Organizational code	10000547-4
Financial license registration No.	B0002H111000001
Tax registration certificate No.	Jing Shui Zheng Zi 110108100005474
Name and address of domestic legal advisor	King & Wood Mallesons Lawyers 40/F, Office Tower A, Beijing Fortune Plaza, 7 East 3rd Ring Middle Road, Chaoyang District, Beijing
Name and address of Hong Kong legal advisor	Freshfields Bruckhaus Deringer 11/F, Two Exchange Square, Central, Hong Kong
Name and address of domestic auditor	Deloitte Touche Tohmatsu Certified Public Accountants LLP (known as Deloitte Touche Tohmatsu CPA Ltd. before 1 January 2013) 30/F, No. 222, Yan An East Road, Shanghai
Name of the undersigned Accountant	WANG Pengcheng and ZHAO Yao
Name and address of international auditor	Deloitte Touche Tohmatsu 35/F, One Pacific Place, 88 Queensway, Hong Kong

Name and address of the supervisory sponsors	China International Capital Corporation Limited 28/F China World Office 2, No. 1 Jianguomen Wai Avenue Chaoyang District, Beijing	CITIC Securities Co., Ltd. 16/F, CITIC Securities Tower No. 8. Zhong Xin San Road Futian District, Shenzhen Guangdong
Name of the undersigned sponsor representative	FANG Baorong and WANG Jianyang	WANG Zhijian and ZHOU Jiwei
Supervision period	15 July 2010 to 31 December 2012	

(Financial data and indicators recorded in this annual report are prepared in accordance with International Financial Reporting Standards ("IFRSs") and denominated in RMB)

Financial Data

	2012	2011	2010	2009	2008
At the end of the reporting period (in millions of RMB)					
Total assets	13,244,342	11,677,577	10,337,406	8,882,588	7,014,351
Loans and advances to customers, net	6,153,411	5,410,086	4,788,008	4,011,495	3,014,984
Investment in securities and other financial assets, net	2,851,448	2,628,052	2,527,431	2,616,672	2,309,077
Total liabilities	12,492,988	11,027,789	9,795,170	8,539,663	6,723,810
Deposits from customers	10,862,935	9,622,026	8,887,905	7,497,618	6,097,428
Equity attributable to equity holders of the Bank	749,815	649,601	542,071	342,819	290,445
Operating results for the year (in millions of RMB)					
Net interest income	341,879	307,199	242,152	181,639	200,003
Net fee and commission income	74,844	68,750	46,128	35,640	23,798
Operating expenses	182,802	157,330	128,107	109,567	110,175
Provisions for impairment losses on assets	54,235	64,225	43,412	40,142	51,478
Net profit	145,131	121,956	94,907	65,002	51,453
Net profit attributable to equity holders of the Bank	145,094	121,927	94,873	64,992	51,474
Net cash generated from/(used in) operating activities	340,779	223,004	(89,878)	(21,025)	284,781

Financial Indicators

	2012	2011	2010	2009	2008
PROFITABILITY (%)					
Return on average total assets[1]	1.16	1.11	0.99	0.82	0.84
Return on weighted average net assets[2]	20.74	20.46	22.49	20.53	N/A
Net interest margin[3]	2.81	2.85	2.57	2.28	3.13
Net interest spread[4]	2.67	2.73	2.50	2.20	3.02
Return on risk-weighted assets[5]	2.01	1.91	1.76	1.49	1.51
Net fee and commission income to operating income	17.61	18.10	15.78	15.94	11.12
Cost-to-income ratio[6]	37.05	35.84	38.53	43.37	45.30
DATA PER SHARE (RMB Yuan)					
Basic earnings per share[2]	0.45	0.38	0.33	0.25	N/A
Net cash per share generated from/ (used in) operating activities	1.05	0.69	(0.28)	(0.08)	N/A

	31 December 2012	31 December 2011	31 December 2010	31 December 2009	31 December 2008
ASSET QUALITY (%)					
Non-performing loan ratio[7]	1.33	1.55	2.03	2.91	4.32
Allowance to non-performing loans[8]	326.14	263.10	168.05	105.37	63.53
Allowance to total loans[9]	4.35	4.08	3.40	3.06	2.75
CAPITAL ADEQUACY (%)					
Core capital adequacy ratio[10]	9.67	9.50	9.75	7.74	8.04
Capital adequacy ratio[10]	12.61	11.94	11.59	10.07	9.41
Total equity to total assets ratio	5.67	5.56	5.25	3.86	4.14
Risk-weighted assets to total assets ratio	54.48	54.71	52.08	49.23	48.42
DATA PER SHARE (RMB Yuan)					
Net assets per share attributable to equity holders of the Bank	2.31	2.00	1.67	1.32	1.12

Note:
1. *Calculated by dividing net profit by the average balance of total assets at the beginning and the end of the year.*
2. *Calculated in accordance with the "Rules for the Compilation and Submission of Information Disclosure by Companies that Offer Securities to the Public No. 9 — Computation and Disclosure of Return on Net Assets and Earnings per Share" (Revision in 2010) issued by the CSRC. The Bank has no dilutive potential ordinary shares.*
3. *Calculated by dividing net interest income by average balance of interest-earning assets.*
4. *Calculated as the difference between the average yield on interest-earning assets and the average cost on interest-bearing liabilities.*
5. *Calculated by dividing net profit by risk-weighted assets at the end of the period (including adjustment to market risk capital), and the risk-weighted assets are calculated in accordance with the relevant regulations of the CBRC.*
6. *Calculated by dividing operating expenses (excluding business tax and surcharges) by operating income.*
7. *Calculated by dividing the balance of non-performing loans by total loans and advances to customers.*
8. *Calculated by dividing allowance for impairment losses on loans by balance of non-performing loans.*
9. *Calculated by dividing allowance for impairment losses on loans by total loans and advances to customers.*
10. *Calculated in accordance with the relevant regulations of the CBRC.*

Other financial indicators

		Regulatory Standard	31 December 2012	31 December 2011	31 December 2010
Liquidity ratio[1] (%)	RMB	≥25	44.75	40.18	38.36
	Foreign Currency	≥25	161.78	154.66	127.03
Loan-to-deposit ratio[2] (%)	RMB and Foreign Currency	≤75	59.22	58.61	55.77
Percentage of loans to the largest single customer[3] (%)		≤10	3.59	2.80	3.18
Percentage of loans to top ten customers[4] (%)			15.76	16.31	18.45
Loan migration ratio[5] (%)	Normal		2.49	2.26	3.10
	Special mention		4.65	2.61	4.15
	Substandard		21.79	14.82	24.34
	Doubtful		4.96	5.41	5.26

Notes:
1. *Calculated by dividing current assets by current liabilities in accordance with the relevant regulations of the CBRC.*
2. *Calculated by dividing total loans and advances to customers by deposits from customers.*
3. *Calculated by dividing loans to the largest single customer by net capital base.*
4. *Calculated by dividing loans to top ten customers by net capital base.*
5. *Calculated in accordance with the relevant regulations of the CBRC by using domestic data.*

WPP	Top 50 Most Valuable Chinese Brands 2013
The Asset 財資	2012 Financial Platinum Corporate Award
LACP	Gold Vision Award for 2011 Annual Report
香港商報	Gold Award for Transparency among Asia-Pacific Major Listed Banks Excellence Award for Media Relations among Asia-Pacific Major Listed Banks Special Award for Reputation Risk Control among Asia-Pacific Major Listed Banks
Global Entrepreneur 环球企业家	Bank with the Best Financial Services for Small- and Medium-sized Enterprises in 2012
银行家 The Chinese Banker	2012 Top 10 Innovative Financial Product Award ("Bao Jie Dai" Product)
首席财务官 CFO WORLD	2012 Best Trade Financing Award 2012 Best Cash Management Brand Award 2012 Best Investment Banking Business Award
中国银行业协会 CHINA BANKING ASSOCIATION	2011 Best Financial Institution in Social Responsibility of the Year 2011 Best Social Responsibility Case of the Year
第一财经 CBN	2012 Banking Wealth Management Brand of the Year 2012 Most Innovative Electronic Banking Award 2012 China Corporate Social Responsibility Ranking — Outstanding Enterprise Award
21世纪经济报道 21st CENTURY BUSINESS HERALD	2012 Winner of the 9th Annual Chinese Best Corporate Citizen Award 2012 Best Bank Serving Sannong in Asia

"Leading China" Award for the Best Bank of 2012 in China's Financial Industry

"Leading China" Award for the Best Private Banking of 2012 in China's Financial Industry

Best State-owned Bank in Investment Banking Business for 2012

Best State-owned Bank in Credit Card Business for 2012

Best State-owned Bank in Private Banking Business for 2012

Excellent Bank in Credit Card Business for the year 2011 to 2012

Excellent Bank in Social Responsibility for the year 2011 to 2012

Best Team of Design and Innovation in 2012

Top 10 Best Banking Wealth Management Product in China in 2012

Top 10 Listed PRC state-owned Enterprise in Social Responsibility in 2012

Top 10 Commercial Bank in Supporting the Development of Small and Medium Enterprises in China in 2011

Top 10 Model Case of Corporate Culture Establishment in 2012 (Compliance Culture)

Jiang Chaoliang
Chairman

In 2012, in response to the complex and ever-changing domestic and overseas economic and financial environment, we persisted in the philosophy of scientific development and prudent operation, and withstood the challenges brought by the economic downturn. We enhanced our capabilities for serving the real economy and thus whilst achieved enhancement in development pace, quality and effectiveness. We achieved a net profit of RMB145,131 million for 2012, representing an increase of 19.0% compared to the previous year. Our return on average total assets and return on weighted average net assets were 1.16% and 20.74%, respectively, representing an increase of 0.05 and 0.28 percentage point compared to the previous year, respectively. The non-performing loans and non-performing loan ratio both continued to decline and amounted to RMB85,848 million and 1.33%, respectively. At the end of 2012, our total assets amounted to over RMB13.2 trillion, ranking sixth among the worldwide banks. Furthermore, in the process of building a first-class modern commercial bank during the past year, we gained deeper understanding of the business philosophies of modern commercial banks and established operation guidelines for maximizing shareholders' value. As a result, the philosophies of strategy-oriention, capital constraints, risk constraints and financial constraints became more culturally engrained. I hereby express my heartfelt gratitude for the support of our shareholders, customers and the society, and the dedication and contribution of our employees, to the achievement of these results.

The internal and external environment of the banking industry of China is undergoing a dramatic change, which has brought new historic opportunities for the development of the banking industry, and also raised more urgent requirements for enhancing and improving financial services and establishing differential competitive advantages. In response to the new situation and the new mission, we formulated the reform and development plan for 2013 to 2015 based on comprehensive analysis of the external operation environment and our strengths and weaknesses. In the next three years, we will adhere to the business philosophy of a modern commercial bank and accelerate the transformation of business and operation. We will exert efforts in coordinating the development of businesses in County Areas and Urban Areas as well as different regions, improve our capability to provide diversified services and strengthen the management reformation and innovation. We are dedicated to strengthening our competitive advantages, increasing the return of equity (ROE), raising the satisfaction levels of our customers and employees, and improving social recognition through reform and development.

The new Three-Year Plan is the top-down plan for the reform and development of the Bank. Following the new Three-Year Plan, we will further consolidate and extend our differential competitive advantages, enhance perseverance in our strategy and accelerate our transformation. We aim to achieve new progress in our corporate governance, differential development, modern financial services and modern commercial bank management, so as to make our edge and characteristics more outstanding.

Aiming to Achieve New Progress in Corporate Governance. Advanced business philosophies, system designs and codes of conduct are the core of the operations of a modern commercial bank. We will continuously strengthen our corporate governance by improving our business philosophy, strategy implementation and governance mechanisms, so as to reform ourselves into a modern commercial bank in terms of both form and substance. Firstly, the fundamental guiding principle of our operation is to maximize our shareholders' value. As a public listed bank, we will make our operating decisions with the overall aim of increasing our ROE level, dividing this strategy into sub-targets for all component parts of our business to ensure a persistent increase in shareholders' return. Secondly, we will consistently adhere to the development strategy as our general principle, which is founded upon establishing our differential competitive advantages.

According to the new Three-Year Plan, we will persevere with promoting the implementation of our strategy and lay a solid foundation for our long-term development. Lastly, we will continue to refine our corporate governance mechanism. In light of establishing a corporate governance mechanism for a state-controlled commercial bank with Chinese characteristics, we will endeavor to fulfill requirements of essential elements for corporate governance, and fully develop the positive aspects of corporate governance at all levels.

Aiming to Achieve New Progress in Differential Development. Consolidating and extending our differential competitive advantages is the key for enhancing our market competitiveness and value creativity. According to the strategy-oriented requirement, we will continue to refine our resource allocation and balance the relationship between all our businesses effectively, so as to enhance our capability for differential development. Firstly, we will balance the relationship of corporate, retail and financial market banking businesses in an effective way. We will fully develop the pivotal role of corporate banking business, strengthen the establishment of core customer clusters and focus on expanding high quality Small- and Medium-sized Enterprise customers. We will reduce capital consumption, improve pricing power, and increase profitability. We will consolidate the strategic position of the retail banking business, improve the experience of our customers by providing diversified services and implementing classified management, and secure sustainable funding at a low cost. We will expand the percentage of retail banking business to our total assets portfolio and progressively increase its contribution to our total income. We will further enhance the capital utilization efficiency based on the characteristics and rules of the financial market business, expand our influence in the market and gain a competitive edge in the financial market. Secondly, we will balance the relationship between Urban Area Banking Business and County Area Banking Business. We will expand the Urban Area Banking Business, and at the same time, consolidate and strengthen the market position of the County Area Banking Business. We will seize the new opportunities brought by urbanization and enhance the financial support offered to customers in rural-urban fringe areas and cross-urban and -county areas. Thirdly, we will balance the relationship among branches in different regions effectively. In addition to supporting the branches in eastern China to consolidate the market position and developing them in advance, we will also put great emphasis on the development of branches in central and western China and northeast China. We will refine the allocation of resources among branches in different regions and enhance the compatibility between the resources invested and the growth of regional economy so as to improve our profit margin. Lastly, we will balance the relationship between businesses in RMB and foreign currencies as well as domestic and overseas businesses. We will focus on developing our business in China and support the expansion of domestic demand. Meanwhile, we will steadily establish overseas institutions based on our management capability and enhance the synergy between domestic and overseas businesses, so as to well develop international businesses as support for our overall strategies.

Aiming to Achieve New Progress in Modern Financial Services. The integrated operation, accelerated combination of information technology and financial services and financial innovation provide customers with a broader scope of financial services and increased requirements on financial services, which brings significant challenges and impacts to the traditional financial services model of commercial banks. We highly focus on the new developing trend in the financial industry and exert our efforts in speeding up the reformation of traditional financial services to modern financial services. Firstly, we will transform from mainly focusing on the on-balance-sheet business into putting equal emphasis on on- and off-balance-sheet businesses in full response to the market situation, speed up the innovation of products and services, and improve the utilization of fund and assets. Secondly, we will transform our traditional counter services and manual customer services into electronic and online services, speed up the establishment of an electronic banking system and strengthen our competitive edge in channels of distribution. Thirdly, we will transform our traditional commercial banking services into modern integrated financial services. We will further improve our customer services capabilities by providing cross-market and cross-business diversified services.

Aiming to Achieve New Progress in the Management of Modern Commercial Bank. The competition among modern commercial banks is not only the competition of business but also the competition of management. Our rapid growth in recent years is mainly attributable to our reform and refined management. In particular, we have established a governance mechanism for a modern commercial bank and improved our management effectively through joint-stock system reform of the Bank. In the new phase of establishing a modern commercial bank, we will continue to carry out internal reform, consolidate our management foundation and utilize modern management tools so as to improve our management capability to a higher level. Firstly, we will continue to carry out reform. We will establish a systematic and rational policy system with more flexible and powerful mechanism through reform. We will push forward the reform of product R&D and management system, operational management system and human resources management system in order to effectively overcome our development restrictions and continue to gain benefit from deepening reform. Secondly, we will consolidate the management foundation. We will focus on improving the operation motivation and risk prevention capability of branch outlets in order to consolidate the foundation and enhance productivity. We will focus on strengthening risk management, credit management and IT management to make up our management short board and continue to achieve effectiveness from strengthening management. Thirdly, we will utilize modern management tools. We will further enhance the applications of modern management tools such as Whole Process Management, Total Quality Management and Product Lifecycle Management, to improve sophisticated and scientific management in all aspects, so as to realize managing in line with the changes of market and customers.

2013 is the first year of implementing the new Three-Year Plan of the Bank and a pivotal year for deepening reform and expediting transformation. Aiming to establish ourselves as a first-class modern commercial bank, we will continue to provide services to the real economy, adhere to a strict approach to risk limitation, continuously deepen reform, consolidate foundation, implement prudent approach of steady development and carry out transformation, so as to enhance development quality and effectiveness. Looking forward, we truly hope to work for a better future together with the whole society.

Chairman: JIANG Chaoliang
26 March 2013

Zhang Yun
President

In 2012, we maintained our prudent approach of steady development. We focused on steady growth, restructuring and risk control and maintaining the continuity and stability of development. By reinforcing reform and innovation, we enhanced our organic growth impetus and development dynamics. Despite the complicated environment, our operation remained healthy and well-coordinated with improved business scale, quality and effectiveness.

Focusing on Enhancing Return to Shareholders and Continuously Improving Operation Effectiveness. Responding to challenges such as the economic downturn, acceleration of interest liberalization and enhancement of constraints on production factor, we prioritized improving the quality and effectiveness of development while improving management of core operation indicators including capital return ratio, net interest margin, cost-to-income ratio and capital adequacy ratio. We also optimized our performance appraisal system to strive for coordinated, sustainable and quality growth. In 2012, the total asset and net profit of the Bank increased by 13.4% and 19.0%, respectively. Higher growth rate of net profit compared to the growth rate of assets has been recorded for three consecutive years. Return on weighted average net assets was 20.74%, representing an increase of 0.28 percentage point compared to the previous year. Net interest margin of 2.81% remained outstanding among our peers. With further improvement in capital position, capital adequacy ratio was 12.61% at the end of 2012, representing an increase of 0.67 percentage point compared to the end of the previous year.

Strengthening Risk Management Prospectively and Proactively to Ensure the Stability of Overall Asset Quality. We closely monitored changes in various types of risk factors, continued to strengthen comprehensive risk management, proactively prevented and controlled the risk, and realized effective balance between business development and risk management. In 2012, we further refined the risk management structure system and expanded the coverage of risk management to the frontline in order to enhance the risk management capability of the frontline. We actively promoted the implementation of the New Basel Capital Accord and further applied the internal rating results. In addition, we applied for, and completed, the Advanced Measurement Approach (AMA) review conducted by the CBRC. We strengthened credit risk prevention and control by refining industry-specific credit policies, industry-specific credit limits and list-based management and reinforced in-depth risk inspection, monitoring and warning systems. Credit risk in areas such as local government financing vehicles, real estate industry and Industries with high energy consumption, high pollution or overcapacity were well-controlled. As such, the asset quality of the Bank remained stable, with a decline in both non-performing loans and non-performing loan ratio. At the end of the year, as the allowance to non-performing loans ratio and allowance to total loans ratio were 326.14% and 4.35%, respectively, the ability to withstand risks was further strengthened. We focused on strengthening market risk management in response to changes in interest rate and exchange rate. In addition, the internal control and compliance system was enhanced and compliance culture was nurtured. We launched the "Peace ABC" campaign. Various risk and swindle prevention and control were carried out in three major areas, namely key businesses, staff conduct and security to improve our sensitivity to operational risk and enforcement of risk control policies, so that potential risks were effectively reduced.

Capitalizing on Competitive Advantages and Steadily Improving Competitiveness in Urban and County Areas. In line with the distinct characteristics of the markets of Urban and County Areas. we enhanced our resource integration and innovative reformation, and carried out differential and distinctive operation. We continued to prioritize the development of branches in major cities and successfully met our three-year development target. The market share of branches in major cities grew steadily and their value contribution continued to increase. As for County Areas, we expanded our financial services for strengthening and benefiting the agricultural industry, rural areas and rural households based on the principles of risk prevention, cost reduction and sustainable business development. In 2012, we implemented the "121 Project" in sub-branches of County Areas as well as "Project with Thousands or Hundreds of Units" and "Kins Huinongtong Project" for rural industries and improved products and channel system for County Areas. Our differential competitive edges in agricultural industrialization, mid-to high-end markets in County Areas and basic financial services in the County Areas were further strengthened. We enhanced innovation of our service model and the sustainable development capability of County Area Banking Business by adopting service models such as "Leading Enterprises + Rural Households" and "Cooperatives + Rural Households". At the end of 2012, outstanding loans of County Area Banking Business set a record high of over RMB2 trillion and interest spread between deposits and loans was 0.54 percentage point above the average of the Bank.

Further Optimizing Customer Base and Business Structure and Enhancing Sustainable Development Capability. From our basis of providing services for the real economy and the strategy-orientation of the Bank, we focused on optimizing credit portfolio and supported major national construction projects, Sannong, small and micro enterprises and strategic emerging industries. In 2012, the growth rate of loans to small and micro enterprises was higher than the average of the Bank by 11.2 percentage points. The proportion of loans to corporate customers with A+ grade or above increased by 4.3 percentage points. The growth rate of loans to customers in the central and west region and northeast China was 0.8 percentage point higher than the average of the Bank. Benefitting from the structural optimization, the growth rate of risk-weighted assets significantly declined while marginal capital consumption reduced by 31% compared to the previous year. We actively expanded into emerging service areas and accelerated the innovations in channels of distribution and products to establish a service brand with our characteristics. Businesses including electronic banking, credit cards, wealth management, custody and financial institution agency experienced rapid development. Fee and commission income maintained steady growth. The operation efficiency of our financial market business was further improved. Integrated and international operations made remarkable progress. We successfully invested in Jiahe Life Insurance Co., Ltd. (renamed as ABC Life Insurance Co., Ltd.). The operations of rural banks and non-banking subsidiaries remained promising. Benefits from synergistic marketing between the Bank and its subsidiaries and cross-selling developed gradually. With the opening of institutions in the United Kingdom, New York and Seoul, we had 12 overseas institutions. Our cross-border service capability was enhanced remarkably with the initial establishment of the overseas financial service network covering Asia, Europe, America and Oceania.

Consolidating Basics of Management for Better Management Efficiency. We continued to implement the "Year for Further Improvement in Basics of Management" and adopted sophisticated management in five major areas, namely credit management, finance and accounting, operational management, information technology and conducts of employees and better improved management efficiency. We extended the reform of "centralized back office operation, centralized authorization and centralized monitoring systems" and realized the coverage of the whole branch network. Thus, preliminary versions of operation model and centralized risk management and control model were formulated. "3 Targets and 3 Strict Rules" were implemented in branch outlets to facilitate the normalization and institutionalization of our business operations. The first phase of BoEing, the new generation of core banking system, was successfully launched. Electronic banking transactions accounted for 67.8% of the total transactions of the Bank with the significant enhancement in technological support. In addition, with the aim to improve customers' service experience and boost recognition from the society, we stepped up efforts for corporate culture establishment and brand promotion by launching the "Year of Service Quality Enhancement".

In 2013, the economic and financial situation at home and abroad will remain uncertain. In the face of complicated business environment, we will adhere to the general principle of "deepening reformation, consolidating foundation, prudent approach of steady development, development with transformation" with a focus on development quality, efficiency and business transformation. We also will strive to eliminate production factors constraints through business transformation and adhere to the risk limitations through our Whole Process Management. We will firmly build up the philosophy of capital constraint and make efforts to reduce capital consumption. By optimizing the structure of assets and liabilities and strengthening pricing management, we will endeavour to stabilize interest margin. Innovation of our fee- and commission-based business will be increased in order to diversify our source of income. We will tighten control on non-performing loan ratio to ensure the steady decline in credit cost. Management of cost-to-income ratio will be enhanced to ensure better cost control, and we will make our effort to realize healthy business operation, as well as coordinated and sustainable business development.

President: ZHANG Yun
26 March 2013

Che Yingxin

Chairman of the Board of Supervisors

Environment and Prospects

In 2012, the growth of the global economy remained slow against the backdrop of the fiscal cliff of the United States, the European debt crisis, excessive global liquidity and the trend of trade protectionism. According to statistics of the IMF, the global economy grew at a rate of 3.2% in 2012, representing a decrease of 0.7 percentage point as compared with the previous year. The growth rates of the economy in United States, Euro Zone and Japan were 2.3%, -0.4% and 2.0% respectively while the emerging economies recorded a growth rate of 5.1%.

In 2012, the global monetary policy was further relaxed. The benchmark interest rate in major developed economies remained low and various quantitative easing policies were adopted. FED announced a third round of quantitative easing in September and further expanded the existing asset acquisition plan following the end of operation twist at the end of the year. Major emerging economies adopted more relaxed monetary policies, including successive interest rate cuts and lower deposit reserve ratios.

Influenced by the dual effect of the worsening crisis and more relaxed policies, the global financial market was volatile in 2012. Major stock indexes increased with some fluctuations. Over the year, Dow Jones Industrial Average Index, EURO STOXX50 Index and Nikkei 225 index increased by 7.26%, 8.78% and 22.94%, respectively. The upward track of USD Index at the beginning of the year subsequently turned downward and recorded a slight decrease of 0.57% over the end of last year. Commodity markets remained volatile with low prices and the CRB Spot Market Price Index slightly increased by 0.43% in the year.

The growth of the Chinese economy declined compared to the previous year and the economic cycle was slowing down and beginning to stabilize. In 2012, the GDP of China increased by 7.8% from the previous year, to RMB51,932.2 billion. Influenced by the declining growth of investment and consumption, the total investment in fixed assets and the total sales of consumer goods recorded an increase of 20.6% and 14.3% respectively over the previous year, representing a decrease of 11.9 and 2.8 percentage points respectively over the previous year. The growth of foreign trade dropped significantly and exports and imports grew 7.9% and 4.3% over the previous year respectively, representing a significant decrease of 12.4 and 20.6 percentage points as compared with the previous year. As inflation pressure decreased, the Consumer Price Index increased by 2.6% over the previous year, representing a decrease of 2.8 percentage points compared to the previous year.

In 2012, the Chinese government continued to implement proactive fiscal policies and prudent monetary policies, put greater emphasis on maintaining steady growth and strengthened efforts in economic restructuring. The PBOC lowered benchmark deposit and loan interest rates twice and reduced the statutory deposit reserve ratio twice. With accelerated liberalization of interest rates and exchange rates, the floating range of deposit interest rates for financial institutions was enlarged and the daily fluctuation of the trading price of RMB against USD in the inter-bank spot foreign exchange market expanded to 1%. The CBRC promulgated the Regulation Governing Capital of Commercial Banks (Provisional), marking the final establishment of a capital regulatory framework for China’s banking industry. Through the governance activities specified for regulating service charges and off-balance-sheet credit products, the operation of banks was further regulated. The business transformation of the banking industry accelerated and the operation of our small and micro enterprises business, County Areas market and private banking business faced more intense competition. The significant changes that took place in the structure of the financial industry, and integrated operation, internationalism, Internet financing and off-balance-sheet business became the major trends of the banking industry.

In 2012, the monetary credit and financial market in China operated in a stable manner. As of the end of the year, broad money supply (M2) increased by 13.8% over the end of the previous year, representing an increase of 0.2 percentage point compared to the end of the previous year. The total social financing scale amounted to RMB15.76 trillion in the year, representing an increase of 22.8% over the previous year. New RMB loans amounted to RMB8.2 trillion, representing an increase of 9.8% over the previous year. Newly-granted debt securities financing and off-balance-sheet financing of financial institutions amounted to RMB2.25 trillion and RMB3.62 trillion respectively, representing an increase of 64.7% and 43.7% compared to the previous year. Equity financing on the domestic stock market by non-financial enterprises decreased by 57.3% from the previous year to RMB250,800 million. The accumulated volume of inter-bank market transactions amounted to RMB263,610 billion. At the end of the year, the median price of USD against RMB was at 6.2855, up by 0.25% over the end of the previous year. The closing index-level of SSE Composite Index and SZSE Component Index was 2,269.13 and 9,116.48 respectively, representing an increase of 3.2% and 2.2% during the year, respectively.

Looking forward to 2013, it is expected that the global economic recovery will be moderate and the economy will grow at a slow pace. The monetary policy will remain relaxed and governments will continue to focus on fiscal consolidation, resulting in lower systematic risk in the market. In particular, the Chinese government has further identified development plans for new industrialization, informatization, urbanization and agricultural modernization, which will have a profound impact on China's economic growth patterns and trends. It is expected that the Chinese government will persist in its proactive fiscal policies and prudent monetary policies in 2013. Under the influence of economic cycle and government policies, it is expected that the growth of infrastructure investment in China will accelerate and consumption growth will pick up steadily. Foreign trade is expected to be stable and the economy growth will hopefully stabilize and keep recovering. As urbanization development is expected to achieve a breakthrough, the foundation of agriculture will be consolidated, and more favourable and preferential policies for strengthening and benefiting agricultural industry, rural areas and rural households will be launched, bringing strategic opportunities for the development of economy in County Areas as well as our County Area Banking Business. It is expected that the monetary and regulatory environment will remain stable in the Chinese banking industry. The business transformation of the banking industry will be boosted by the implementation of the New Basel Accord, acceleration of financial disintermediation and liberalization of interest rates and the development of Internet financial businesses.

Three-Year Plan

With the strategic aim of developing Agricultural Bank of China into a first-class commercial bank which caters to the needs of Sannong, leverages on its synergistic strengths between the Urban Areas and County Areas, engages in the international market and provides diversified services, the Bank formulated a reform and development plan for 2013-2015 based on the internal and external environment of the PRC banking industry and its own strengths and weaknesses, setting out the guiding principles, basic requirements, strategic focus and goals of reform and development and the prospects of the Bank in the next three years.

In the next three years, in order to maximize value for the shareholders, we will be dedicated to achieving further progress in consolidating the differential development advantages of the County Area Banking Business, meanwhile accelerating expansion of the Urban Area Banking Business. Furthermore, we will be dedicated to achieving further progress in consolidating the strategic position of retail banking business and forming a featured edge of financial market business, meanwhile strengthening the pivotal position of our corporate banking business. In addition, we will be dedicated to achieving further progress in pushing forward the coordinated development of branches in different regions, meanwhile supporting market consolidation and prior development of branches in eastern China. Finally, we will be dedicated to achieving further progress in becoming involved in the international market and offering diversified services, meanwhile focusing on our domestic business and core business of commercial bank.

— Speeding up the transformation of our business and operations. The key focus of the transformation of our County Area Banking Business is to find an explicit market position under which we will be strategically focused on financial services strengthening and benefiting the agriculture industry, rural areas and rural households during the course of urban and rural integration. We will also vigorously support the industrialization, informatization, urbanization and agricultural modernization in County Areas and establish an effective model of Sannong service to create a differential competitive edge. The transformation of corporate banking will place its emphasis on optimizing the customer structure, reducing capital consumption, strengthening product cross-selling, improving pricing power, expanding Small- and Medium-sized Enterprises customer base to increase profitability and market competitiveness. The transformation of retail banking will leverage on the advantages of our branch outlet network, improve the experience of our customers by providing layered services, and maintain stable sources of funds at low cost so as to establish as a first-class retail banking brand. The transformation of our financial market business will capitalize on the advantages of adequate fund sources and low loan-to-deposit ratios, refine the organization and management systems of the financial market business and improve its business procedures so as to establish it as a featured business with high market competitiveness.

— Enhancing the synergistic strengths of our Urban and County Area Banking Business and the coordinated development among different regions. We will increase support to the financial services in fringe areas by improving product innovation and promotion systems and reinforcing synergistic marketing between Urban and County Areas. In addition to existing developing business in eastern China, we will also adjust resources allocation based on economic growth and put greater emphasis on the development of central and western China and northeast China to coordinate development among different regions. We will continue to expedite the development of branches in major cities in order to facilitate the synergy between the Urban and County Area Banking Business and the coordinated development of different regions.

— Strengthening our international business and the capability of offering diversified services. We will improve our capabilities to offer cross-border financial services by optimizing the financial service systems for cross-border trading, providing more financial support for international cooperation and progressively developing overseas institutions. We will actively and steadily implement integrated operations while persisting in the commercial banking businesses. Leveraging on our advantages in branding, customers, network and resources, we will reinforce business synergies and enhance our capability to provide cross-market and cross-business diversified services to customers.

In the next three years, we will consistently promote reform and innovation in respect of product R&D management, risk management and internal controls, asset and liability and capital management, performance appraisals and accounting management, operational systems, IT, corporate structure and human resources management, corporate culture and branding according to the requirements of business development. Building on these reforms, we will establish a dynamic and efficient system, mechanism and management style with reduced capital consumption, stabilized cost-to-income ratio and effective risk constraint, so as to continuously release the ‘reform dividend’ and enhance our operation management level and value creativity. We will also be dedicated to establishing a corporate governance system which not only meets the requirements of modern corporate governance, but also has features unique to the Bank, so as to provide support and guarantee the acceleration of our operational transformation and management reform. We will promote the implementation and assessment of plans, so as to establish a scientific implementation of our strategies and management processes covering each stage from strategy formulation to development of a plan, from plan to execution plan, and then to project.

Financial Statement Analysis

Income Statement Analysis

In 2012, we achieved a net profit of RMB145,131 million, representing an increase of RMB23,175 million or 19.0% over the previous year. This was primarily due to the increase in net interest income and net fee and commission income as well as the decrease in provisions for impairment losses on assets.

Changes of Key Income Statement Items

In millions of RMB, except for percentages

Item	2012	2011	Increase/ (decrease)	Growth rate (%)
Net interest income	341,879	307,199	34,680	11.3
Net fee and commission income	74,844	68,750	6,094	8.9
Other non-interest income	8,241	3,807	4,434	116.5
Operating income	**424,964**	**379,756**	**45,208**	**11.9**
Less: Operating expenses	182,802	157,330	25,472	16.2
Provisions for impairment losses on assets	54,235	64,225	(9,990)	-15.6
Profit before tax	187,927	158,201	29,726	18.8
Less: Income tax expense	42,796	36,245	6,551	18.1
Net Profit	**145,131**	**121,956**	**23,175**	**19.0**
Attributable to:				
Equity holders of the Bank	145,094	121,927	23,167	19.0
Non-controlling interests	37	29	8	27.6

Net Interest Income

Net interest income is the major component of our operating income. In 2012, net interest income was RMB341,879 million, representing an increase of RMB34,680 million compared to the previous year, and accounted for 80.4% of our total operating income.

The table below sets out the average balance, interest income/expense and percentage of average yield/cost of interest-earning assets and interest-bearing liabilities.

In millions of RMB, except for percentages

Item	2012			2011		
	Average balance	Interest income/ expense	Average yield/cost (%)	Average balance	Interest income/ expense	Average yield/cost (%)
Assets						
Loans and advances to customers	6,065,274	388,863	6.41	5,334,557	322,305	6.04
Debt securities investments[1]	2,669,422	97,978	3.67	2,502,600	84,266	3.37
Non-restructuring-related debt securities	2,132,689	81,002	3.80	1,898,596	64,701	3.41
Restructuring-related debt securities[2]	536,733	16,976	3.16	604,004	19,565	3.24
Balances with central banks	2,376,422	43,123	1.81	2,207,555	37,086	1.68
Amounts due from banks and other financial institutions[3]	1,036,517	36,099	3.48	728,333	29,264	4.02
Total interest-earning assets	**12,147,635**	**566,063**	**4.66**	**10,773,045**	**472,921**	**4.39**
Allowance for impairment losses[4]	(256,022)			(200,063)		
Non-interest-earning assets[4]	566,362			475,567		
Total assets	12,457,975			11,048,549		
Liabilities						
Deposits from customers	10,162,433	186,717	1.84	9,187,454	140,606	1.53
Amounts due to banks and other financial institutions[5]	961,056	32,264	3.36	724,924	21,646	2.99
Other interest-bearing liabilities[6]	135,714	5,203	3.83	94,283	3,470	3.68
Total interest-bearing liabilities	**11,259,203**	**224,184**	**1.99**	**10,006,661**	**165,722**	**1.66**
Non-interest-bearing liabilities[4]	536,342			406,021		
Total liabilities	11,795,545			10,412,682		
Net interest income		341,879			307,199	
Net interest spread			**2.67**			**2.73**
Net interest margin			**2.81**			**2.85**

Notes: 1. Debt securities investments include debt securities investments at fair value through profit or loss, available-for-sale debt securities investments, held-to-maturity investments and debt securities classified as receivables.

2. Restructuring-related debt securities include receivable from the MOF and special PRC government bonds.

3. Amounts due from banks and other financial institutions primarily include the deposits and placements with banks and other financial institutions, and the financial assets held under resale agreements.

4. The average balances of non-interest-earning assets, non-interest-bearing liabilities and allowance for impairment losses are the average of their respective balances at the beginning and the end of the reporting period.

5. Amounts due to banks and other financial institutions primarily include the deposits and placements from banks and other financial institutions, as well as the financial assets sold under repurchase agreements.

6. Other interest-bearing liabilities primarily include the certificates of deposit issued and bonds issued.

The table below sets out the changes in net interest income due to changes in volume and interest rate.

In millions of RMB

	Increase/(decrease) due to		Net increase/
	Volume	Interest Rate	(decrease)
Assets			
Loans and advances to customers	46,848	19,710	66,558
Debt securities investments	6,123	7,589	13,712
Balances with central banks	3,064	2,973	6,037
Amounts due from banks and other financial institutions	10,733	(3,898)	6,835
Changes in interest income	66,768	26,374	93,142
Liabilities			
Deposits from customers	17,914	28,197	46,111
Amounts due to banks and other financial institutions	7,927	2,691	10,618
Other interest-bearing liabilities	1,588	145	1,733
Changes in interest expense	27,429	31,033	58,462
Change in net interest income	**39,339**	**4,659**	**34,680**

Note: Changes caused by the combination of volume and interest rate have been allocated to the changes in volume.

Net Interest Margin and Net Interest Spread

In 2012, the net interest margin decreased by 4 basis points to 2.81%, and the net interest spread decreased by 6 basis points to 2.67%. The decrease in net interest margin and net interest spread were mainly because: (1) the interest rate of time deposit was re-priced in the first half of the year upon the increase of interest rate of the PBOC in 2011, which resulted in the increase in cost of deposits. The PBOC decreased the benchmark interest rate for deposits twice in June and July 2012, and meanwhile, the upper end of the floating range of deposit interest rate was raised to 1.1 times of the benchmark interest rate. We increased the interest rate of time deposit with maturity within a year by up to no more than 10%, partially offsetting the influence of the decrease in the benchmark interest rate; (2) we re-priced our loans after the PBOC decreased the benchmark interest rate for loans twice, resulting in the decrease of the yield of loans during the year after reaching its highest point in the middle of the year; and (3) the average interest rate in money market and the yield of amounts due from banks and other financial institutions decreased as compared with the previous year as a result of the relatively loose market liquidity in 2012 compared to 2011.

Interest Income

We achieved an interest income of RMB566,063 million in 2012, representing an increase of RMB93,142 million over the previous year. The increase in interest income was primarily due to the increase in the average yield of interest-earning assets from 4.39% in 2011 to 4.66% in 2012 and the average balances of interest-earning assets increased by RMB1,374,590 million.

Interest Income from Loans and Advances to Customers

Interest income from loans and advances to customers increased by RMB66,558 million or 20.7% over the previous year to RMB388,863 million. The increase in interest income was primarily due to the increase of RMB730,717 million in the average balances and the increase of 37 basis points in the average yield.

The table below sets out the average balances, interest income and average yield of loans and advances to customers by product type.

In millions of RMB, except for percentages

	2012			2011		
Item	**Average balance**	**Interest income**	**Average yield (%)**	**Average balance**	**Interest income**	**Average yield (%)**
Corporate loans	4,222,511	276,938	6.56	3,833,926	238,565	6.22
Short-term corporate loans	1,884,640	123,246	6.54	1,572,079	97,125	6.18
Medium- and long-term corporate loans	2,337,851	153,692	6.57	2,261,847	141,440	6.25
Discounted bills	124,193	8,264	6.65	101,166	6,825	6.75
Retail loans	1,554,262	98,603	6.34	1,305,467	74,833	5.73
Overseas and others	164,308	5,058	3.08	93,998	2,082	2.21
Total loans and advances to customers	**6,065,274**	**388,863**	**6.41**	**5,334,557**	**322,305**	**6.04**

Interest income from corporate loans increased by RMB38,373 million or 16.1% to RMB276,938 million compared to the previous year. The increase was primarily due to the increase of RMB388,585 million in the average balances in corporate loans and the increase of 34 basis points in the average yield. The increase in the average yield was primarily due to (1) re-pricing of corporate loans with higher rate during the first half of 2012 due to the increase in interest rate by the PBOC for three times in 2011; (2) further strengthened loan pricing management; and (3) further increase of the proportion of loans for County Area Banking Business, which had a relatively higher yield.

Interest income from discounted bills increased by RMB1,439 million or 21.1% to RMB8,264 million compared to the previous year. The increase was primarily due to the increase of RMB23,027 million in the average balances, partially offset by the slight decrease of 10 basis points to 6.65% in the average yield. The decrease in the average yield was primarily due to the change in interest rate of discounted bills market.

Interest income from retail loans increased by RMB23,770 million or 31.8% to RMB98,603 million compared to the previous year. The increase was primarily due to the increase of RMB248,795 million in the average balances and the significant increase of 61 basis points in the average yield. The increase in the average yield was mainly because the yield of retail loans significantly increased upon the re-pricing of the interest rate for residential mortgage loans since 1 January 2012 as the PBOC increased the interest rates thrice in 2011.

Interest income from overseas and other loans increased by RMB2,976 million or 142.9% to RMB5,058 million compared to the previous year. The increase was primarily due to the increase of RMB70,310 million in the average balances and the increase of 87 basis points in the average yield as a result of the expansion in trade financing business of overseas institutions.

Interest Income from Debt Securities Investments

Interest income from debt securities investments was the second largest component of our interest income. In 2012, the interest income from debt securities investments increased by RMB13,712 million from the previous year to RMB97,978 million. The increase was primarily due to an increase of 30 basis points in the average yield and RMB166,822 million in the average balances. The increase in the average yield was mainly because: (1) we strengthened the analysis on monetary policies and market liquidity and implemented prudent investment in response to the fluctuation in the yield of debt securities; (2) we further improved the structure of non-restructuring-related debt securities by increasing the proportion for bonds issued by the PRC policy banks and corporations with better risk and return combination; and (3) the MOF's successive repayment of part of our receivable from the MOF which lowered the proportion of restructuring-related debt securities with relatively low yield.

Interest Income from Balances with Central Banks

Interest income from balances with central banks increased by RMB6,037 million to RMB43,123 million compared to the previous year. The increase was mainly due to the increase of RMB168,867 million in the average balances and the increase of 13 basis points in the average yield. The increase in the average balances was primarily due to the increase in the balances of deposits from customers, partially offset by the PBOC's decreases of the statutory deposit reserve ratio during the year.

Interest Income from Amounts Due from Banks and Other Financial Institutions

Interest income from amounts due from banks and other financial institutions increased by RMB6,835 million to RMB36,099 million compared to the previous year. The increase was primarily due to the significant increase of RMB308,184 million in the average balances, partially offset by the decrease by 54 basis points to 3.48% in the average yield. The decrease in the average yield was mainly due to the relatively loosen market liquidity as compared with the previous year and the decrease in interest rates of the money market as a result of the decrease of the statutory deposit reserve ratio and the implementation of open market activities such as reverse repurchase by the PBOC.

Interest Expense

Interest expense increased by RMB58,462 million to RMB224,184 million compared to the previous year. The increase was mainly due to the increase in the average cost from 1.66% in 2011 to 1.99% in 2012 and the increase of RMB1,252,542 million in the average balances of the interest-bearing liabilities.

Interest Expense on Deposits from Customers

Interest expense on deposits from customers increased by RMB46,111 million to RMB186,717 million compared to the previous year. The increase was mainly due to the increase in the average cost from 1.53% in 2011 to 1.84% in 2012 and the increase of RMB974,979 million in the average balances. The increase in the average cost was primarily because: (1) the interest rate for time deposit was re-priced in the first half of the year upon the increase of benchmark interest rate by the PBOC in 2011, which resulted in the increase of costs of deposits. The PBOC decreased the benchmark interest rate for deposits twice in June and July 2012, and meanwhile, the upper end of the floating range of deposit interest rate was raised to 1.1 times of the benchmark interest rate. We increased the interest rate of time deposit with maturity within a year by up to no more than 10%, partially offsetting the influence of the decrease in interest rate; and (2) proportion of time deposit increased compared to the previous year as customers tended to choose time deposit for their savings.

Analysis of Average Cost of Deposits by Product

In millions of RMB, except for percentages

	2012			2011		
Item	**Average balance**	**Interest expense**	**Average cost (%)**	**Average balance**	**Interest expense**	**Average cost (%)**
Corporate deposits						
Time	1,430,987	48,757	3.41	1,213,491	34,134	2.81
Demand	2,642,553	19,576	0.74	2,617,099	19,361	0.74
Sub-Total	4,073,540	68,333	1.68	3,830,590	53,495	1.40
Retail deposits						
Time	3,179,011	105,804	3.33	2,766,741	74,412	2.69
Demand	2,909,882	12,580	0.43	2,590,123	12,699	0.49
Sub-Total	6,088,893	118,384	1.94	5,356,864	87,111	1.63
Total deposits from customers	**10,162,433**	**186,717**	**1.84**	**9,187,454**	**140,606**	**1.53**

Interest Expense on Amounts Due to Banks and Other Financial Institutions

Interest expense on amounts due to banks and other financial institutions increased by RMB10,618 million to RMB32,264 million compared to the previous year. The increase was mainly due to the increase in the average balances by RMB236,132 million and the increase in average cost from 2.99% in 2011 to 3.36% in 2012. The increase in the average cost was primarily due to the increase in the proportion of deposits from banks and other financial institutions such as insurance companies.

Interest Expense on Other Interest-bearing Liabilities

Interest expense on other interest-bearing liabilities increased by RMB1,733 million to RMB5,203 million compared to the previous year, mainly due to the increase in the average balances by RMB41,431 million and the increase in average cost by 15 basis points. The increase in the average balances was mainly due to the RMB50 billion Subordinated Bonds issued in 2011 and 2012 respectively. The increase in the average cost was mainly due to the relatively higher interest rate for the Subordinated Bonds newly issued.

Net Fee and Commission Income

In 2012, we gained net fee and commission income of RMB74,844 million, representing an increase of RMB6,094 million or 8.9% compared to the previous year. The proportion of net fee and commission income in our operating income was 17.61%, representing a decrease of 0.49 percentage point compared to the previous year.

Composition of Net Fee and Commission Income

In millions of RMB, except for percentages

Item	2012	2011	Increase/ (decrease)	Growth rate (%)
Settlement and clearing fees	20,617	19,696	921	4.7
Agency commissions	18,630	11,830	6,800	57.5
Consultancy and advisory fees	16,017	19,489	(3,472)	-17.8
Bank card fees	12,559	10,828	1,731	16.0
Electronic banking service fees	5,364	4,461	903	20.2
Credit commitment fees	2,228	2,855	(627)	-22.0
Custodian and other fiduciary service fees	2,495	1,672	823	49.2
Others	663	693	(30)	-4.3
Fee and commission income	**78,573**	**71,524**	**7,049**	**9.9**
Less: Fee and commission expenses	3,729	2,774	955	34.4
Net fee and commission income	**74,844**	**68,750**	**6,094**	**8.9**

Settlement and clearing fees increased by RMB921 million or 4.7% to RMB20,617 million compared to the previous year. The increase was mainly due to the continuous increase in fee income from settlements boosted by the wide network channels and customer base of the Bank.

Agency commissions increased by RMB6,800 million or 57.5% to RMB18,630 million compared to the previous year. The increase was mainly due to the rapid growth of financial institution agency services and the increase in income from the agency services of disposal of assets from MOF as compared to the previous year. Affected by the sluggish capital market, the income from agency distribution of fund products and insurance agency services decreased.

Consultancy and advisory fees decreased by RMB3,472 million or 17.8% to RMB16,017 million compared to the previous year. The decrease was mainly due to the changes in regulatory policies, which resulted in decrease in the income from financial consultancy and advisory services.

Bank card fees increased by RMB1,731 million or 16.0% to RMB12,559 million compared to the previous year. The increase was mainly due to the continuous increase in bank card issuance and the fee income from bank card spending.

Electronic banking service fees increased by RMB903 million or 20.2% to RMB5,364 million compared to the previous year. The increase was mainly attributable to the rapid development of electronic banking businesses, such as Internet banking, telephone banking, Zhifutong and mobile finance business.

Credit commitment fees decreased by RMB627 million or 22.0% to RMB2,228 million compared to the previous year. The decrease was mainly due to the significant decrease in commitment fee income as a result of the changes in regulatory policies.

Custodian and other fiduciary service fees increased by RMB823 million or 49.2% to RMB2,495 million compared to the previous year. The increase was mainly due to the increase in income from insurance, wealth management, fund and receipt, and payment account custody businesses resulting from the significant increases in the type and scale of assets entrusted to the Bank.

Other Non-interest Income

In 2012, other non-interest income amounted to RMB8,241 million, representing an increase of RMB4,434 million over the previous year.

Net trading gain amounted to RMB3,070 million, representing an increase of RMB2,547 million as compared to the previous year. The increase was mainly due to the turnaround to profit for derivative financial instruments and silver trading business this year as compared to the previous year.

Net losses arising from financial instruments designated as at fair value through profit or loss amounted to RMB309 million, representing a decrease in losses of RMB1,998 million over the previous year. The decrease in losses was mainly due to the decrease in losses arising from financial liabilities designated as at fair value through profit or loss.

Major Composition of Other Non-Interest Income

In millions of RMB

Item	2012	2011
Net trading gain	3,070	523
Net loss on financial instruments designated as at fair value through profit or loss	(309)	(2,307)
Net loss on investment securities	(28)	(200)
Other operating income	5,508	5,791
Total	**8,241**	**3,807**

Operating Expenses

In 2012, the operating expenses amounted to RMB182,802 million, representing an increase of RMB25,472 million compared to the previous year, and the cost-to-income ratio was 37.05%.

Staff costs amounted to RMB94,760 million, representing an increase of RMB12,790 million, or 15.6%, over the previous year. The increase was mainly due to the increase of staff remuneration resulting from the changes in the market and the increase of staff number as well as the increase in expenses of social insurance.

General operating and administrative expenses increased by RMB4,413 million or 10.9% to RMB44,874 million compared to the previous year, mainly due to our business expansion. Meanwhile, the Bank increased strategic expenditures in major regions, major projects and the County Area Banking Business.

Depreciation and amortization increased by RMB2,366 million or 18.0% over the previous year to RMB15,496 million, mainly because we increased expenditure on the construction of outlets and electronic channels in recent years, resulting in a corresponding increase in depreciable assets.

Composition of Operating Expenses

In millions of RMB, except for percentages

Item	2012	2011	Increase/ (decrease)	Growth rate (%)
Staff costs	94,760	81,970	12,790	15.6
General operating and administrative expenses	44,874	40,461	4,413	10.9
Business tax and surcharges	25,374	21,207	4,167	19.6
Depreciation and amortization	15,496	13,130	2,366	18.0
Others	2,298	562	1,736	308.9
Total	**182,802**	**157,330**	**25,472**	**16.2**

Provisions for Impairment Losses on Assets

In 2012, provisions for impairment losses on assets decreased by RMB9,990 million to RMB54,235 million compared to the previous year.

Provisions for impairment losses on loans decreased by RMB7,472 million to RMB54,628 million compared to the previous year, primarily due to the decrease in the provisions for impairment losses on loans on a collectively assessed basis.

Provisions for impairment losses on other assets amounted to RMB-393 million, representing a decrease of RMB2,518 million compared to the previous year, primarily due to the reversal of allowance for impairment losses on financial assets such as available-for-sale financial assets and investments classified as receivables.

Income Tax Expense

In 2012, our income tax expense amounted to RMB42,796 million, representing an increase of RMB6,551 million, or 18.1%, compared to the previous year. The increase was primarily due to the increase in our profit before tax. The effective tax rate was 22.77% in 2012, which was lower than the statutory tax rate. This was mainly because: (1) the interest income derived from the PRC treasury bonds held by the Bank was exempted from the enterprise income tax; and (2) 90% of the interest income on small loans to rural households was included in the calculation of taxable profits.

Segment Information

We assessed our performance and determined the allocation of resources based on segment reports. The segment information was reported in the same manner as the basis of internal management and reporting. At present, we exercised management on all segments from perspectives of geographical segments, business lines and the County Area Banking Business.

The table below sets out our operating income by business segment during the period indicated.

In millions of RMB, except for percentages

	2012		2011	
Item	**Amount**	**Percentage (%)**	**Amount**	**Percentage (%)**
Corporate banking business	249,522	58.7	218,628	57.6
Retail banking business	149,398	35.2	137,383	36.2
Treasury operations	23,473	5.5	22,844	6.0
Other business	2,571	0.6	901	0.2
Total operating income	**424,964**	**100.0**	**379,756**	**100.0**

The table below sets out our operating income by geographic segment during the period indicated.

In millions of RMB, except for percentages

Item	2012 Amount	2012 Percentage (%)	2011 Amount	2011 Percentage (%)
Head Office	42,951	10.1	50,033	13.2
Yangtze River Delta	91,650	21.6	85,045	22.4
Pearl River Delta	54,775	12.9	49,201	13.0
Bohai Rim	67,717	15.9	56,181	14.8
Central China	55,400	13.0	45,412	11.9
Western China	92,474	21.8	79,547	20.9
Northeastern China	15,519	3.6	12,231	3.2
Overseas and others	4,478	1.1	2,106	0.6
Total operating income	**424,964**	**100.0**	**379,756**	**100.0**

Note: Please refer to "Note 48 to the Financial Statements: Operating Segments" for details of geographic segments.

The table below sets out operating income of the County Area Banking Business and Urban Area Banking Business during the period indicated.

In millions of RMB, except for percentages

Item	2012 Amount	2012 Percentage (%)	2011 Amount	2011 Percentage (%)
County Area Banking Business	167,319	39.4	146,551	38.6
Urban Area Banking Business	257,645	60.6	233,205	61.4
Total operating income	**424,964**	**100.0**	**379,756**	**100.0**

Balance Sheet Analysis

Assets

At 31 December 2012, our total assets amounted to RMB13,244,342 million, representing an increase of RMB1,566,765 million or 13.4% compared to the end of the previous year. Net loans and advances to customers increased by RMB743,325 million or 13.7%. Net investment in securities and other financial assets increased by RMB223,396 million or 8.5%. Cash and balances with central banks increased by RMB126,029 million or 5.1%, which was mainly due to the increase in deposits from customers of the Bank. Deposits and placements with banks and other financial institutions increased by RMB141,056 million or 40.9%, which was mainly because we increased the utilization of funds to improve efficiency. Financial assets held under resale agreements increased by RMB285,180 million or 53.9%, which was mainly due to the increase in bonds held under resale agreements.

Key Items of Assets

In millions of RMB, except for percentages

Item	31 December 2012 Amount	31 December 2012 Percentage (%)	31 December 2011 Amount	31 December 2011 Percentage (%)
Total loans and advances to customers	6,433,399	—	5,639,928	—
Less: Allowance for impairment losses on loans	279,988	—	229,842	—
Loans and advances to customers, net	6,153,411	46.4	5,410,086	46.3
Investment in securities and other financial assets, net	2,851,448	21.5	2,628,052	22.5
Cash and balances with central banks	2,613,111	19.7	2,487,082	21.3
Deposits and placements with banks and other financial institutions	485,613	3.7	344,557	3.0
Financial assets held under resale agreements	814,620	6.2	529,440	4.5
Others	326,139	2.5	278,360	2.4
Total assets	**13,244,342**	**100.0**	**11,677,577**	**100.0**

Loans and Advances to Customers

At 31 December 2012, total loans and advances to customers amounted to RMB6,433,399 million, representing an increase of RMB793,471 million or 14.1% over the end of the previous year.

Distribution of Loans and Advances to Customers by Business Type

In millions of RMB, except for percentages

Item	31 December 2012 Amount	31 December 2012 Percentage (%)	31 December 2011 Amount	31 December 2011 Percentage (%)
Loans granted by domestic branches	6,242,913	97.0	5,522,635	97.9
Corporate loans	4,427,989	68.8	3,989,570	70.7
Discounted bills	107,601	1.7	102,545	1.8
Retail loans	1,707,323	26.5	1,430,520	25.4
Overseas and others	190,486	3.0	117,293	2.1
Total	**6,433,399**	**100.0**	**5,639,928**	**100.0**

Corporate loans increased by RMB438,419 million or 11.0% over the end of the previous year to RMB4,427,989 million, primarily because we proactively provided services for the real economy, optimized the loan portfolios and prioritized the capital needs of core customers of the Head Office and branches, major projects and key regions. In addition, we also improved the quality of financial services provided to enterprises in County Areas and small and micro enterprises and achieved steady growth of corporate loans.

Retail loans increased by RMB276,803 million or 19.3% over the end of the previous year to RMB1,707,323 million, primarily because we continued to implement the strategy of prioritizing the development of retail loans, steadily developed the residential mortgage loan business, further developed the credit card instalment business and actively expanded the start-up loan business.

Discounted bills increased by RMB5,056 million or 4.9% over the end of the previous year to RMB107,601 million, primarily because we timely adjusted the scale of discounted bills in response to the changes of macro-economy, monetary policies and market conditions.

Overseas and other loans increased by RMB73,193 million or 62.4% over the end of the previous year to RMB190,486 million, which was mainly because we further enhanced the synergistic marketing of domestic and overseas loan businesses, resulting in a significant growth of trade finance in overseas branches.

Distribution of Corporate Loans by Maturity

In millions of RMB, except for percentages

	31 December 2012		31 December 2011	
Item	**Amount**	**Percentage (%)**	**Amount**	**Percentage (%)**
Short-term corporate loans	2,052,593	46.4	1,698,960	42.6
Medium- and long-term corporate loans	2,375,396	53.6	2,290,610	57.4
Total	**4,427,989**	**100.0**	**3,989,570**	**100.0**

Short-term corporate loans increased by RMB353,633 million or 20.8%. Medium- and long-term corporate loans increased by RMB84,786 million or 3.7%, representing a decrease of 3.8 percentage points over the end of the previous year to 53.6% as a percentage of our corporate loans. During the reporting period, China's economic growth slowed down and the growth of fixed assets investment recorded a slight decrease compared to the previous year, which resulted in the slowdown in the growth of medium- and long-term loans.

Distribution of Corporate Loans by Industry

In millions of RMB, except for percentages

Item	31 December 2012 Amount	31 December 2012 Percentage (%)	31 December 2011 Amount	31 December 2011 Percentage (%)
Manufacturing	1,349,998	30.4	1,204,029	30.2
Production and supply of power, thermal power, gas and water	478,177	10.8	451,082	11.3
Real estate[1]	459,978	10.4	497,241	12.5
Transportation, logistics and postal services	515,501	11.6	458,781	11.5
Retail and wholesale	477,434	10.8	388,818	9.7
Water, environment and public utilities management	200,362	4.5	182,064	4.6
Construction	202,875	4.6	169,323	4.2
Mining	188,557	4.3	148,521	3.7
Leasing and commercial services	290,196	6.6	258,432	6.5
Information transmission, software and computer services	20,798	0.5	14,640	0.4
Others[2]	244,113	5.5	216,639	5.4
Total	**4,427,989**	**100.0**	**3,989,570**	**100.0**

Note: 1. Loans in the above table are based on the industries in which the borrowers operate. Real estate loans include loans for the development of real estate projects of enterprises mainly engaging in the real estate industry, mortgage loans for operating properties and other non-real estate loans to enterprises in the real estate industry.

2. Others mainly include agriculture, forestry, animal husbandry, fishery, education, hotels and catering industries.

During the reporting period, we strictly complied with the macro-control and regulatory requirements of China and strengthened the study on macro-economic and industrial policies. We insisted on green credit and supported the upgrades and transformation projects of conventional industries including the technological upgrades of major industries and development of cyclic economy. We prioritized supporting strategic emerging industries oriented toward the domestic market with mature technology such as high-end equipment manufacturing industry and the new generation of information technology industry. We strictly implemented the industry-specific risk limitation management and customer list-based management, and tightened the control of credit facilities to real estate industry, government financing vehicles and Industries with high energy consumption, high pollution or overcapacity effectively.

At 31 December 2012, the five major industries of our corporate loans included: (1) manufacturing; (2) transportation, logistics and postal services; (3) production and supply of power, thermal power, gas and water; (4) retail and wholesale; and (5) real estate. The gross loans to corporate customers in the five major industries accounted for 74.0% of our total corporate loans, representing a decrease of 1.2 percentage points compared to the end of the previous year. The concentration of the industries decreased. The three industries with the highest growth in proportion to our total corporate loans were: (1) retail and wholesale; (2) mining; and (3) construction, while real estate industry had the largest decrease in proportion to total corporate loans.

Distribution of Retail Loans by Product Type

In millions of RMB, except for percentages

Item	31 December 2012		31 December 2011	
	Amount	Percentage (%)	Amount	Percentage (%)
Residential mortgage loans	1,050,999	61.6	891,502	62.3
Personal consumption loans	170,365	10.0	144,131	10.1
Loans to private business	200,397	11.7	157,424	11.0
Credit card overdraft	149,138	8.7	100,350	7.0
Loans to rural households	134,484	7.9	134,535	9.4
Others	1,940	0.1	2,578	0.2
Total	**1,707,323**	**100.0**	**1,430,520**	**100.0**

At 31 December 2012, residential mortgage loans increased by RMB159,497 million or 17.9% over the end of the previous year to RMB1,050,999 million. We exerted our efforts in implementing the macro-control polices in real estate market and prioritized the provision of loans to households purchasing their first residential house for their own personal use. We also developed our residential mortgage loans business steadily through cooperating with high quality real estate developers and second-hand housing agencies.

Personal consumption loans increased by RMB26,234 million or 18.2% over the end of previous year to RMB170,365 million. The increase was primarily because we enhanced product innovation and marketing management to satisfy the credit demand for personal consumption in response to the government's policies of boosting consumption and domestic demand.

Loans to private businesses increased by RMB42,973 million or 27.3% over the end of the previous year to RMB200,397 million. The increase was mainly because we actively expanded the start-up loans and increased credit support to owners of small and micro enterprises and self-employed businesses.

Credit card overdraft increased by RMB48,788 million or 48.6% over the end of the previous year to RMB149,138 million. The rapid increase was mainly because we further developed credit card instalment business which resulted in rapid growth of credit card overdraft.

Loans to rural households decreased by RMB51 million over the end of the previous year to RMB134,484 million. The decrease was mainly because we enhanced integrated operation of loans to rural households, and optimized customer, product and collateral structures.

Distribution of Loans by Geographic Region

In millions of RMB, except for percentages

	31 December 2012		31 December 2011	
Item	**Amount**	**Percentage (%)**	**Amount**	**Percentage (%)**
Head Office	106,084	1.6	91,189	1.6
Yangtze River Delta	1,663,800	25.8	1,511,027	26.8
Pearl River Delta	910,887	14.2	808,715	14.3
Bohai Rim	1,131,843	17.6	996,549	17.7
Central China	783,830	12.2	678,615	12.1
Northeastern China	243,592	3.8	205,807	3.6
Western China	1,402,877	21.8	1,230,733	21.8
Overseas and others	190,486	3.0	117,293	2.1
Total	**6,433,399**	**100.0**	**5,639,928**	**100.0**

We maintained the credit facilities to Yangtze River Delta, Pearl River Delta and Bohai Rim and moderately allocated more credit resources to Central China, Western China and Northeastern China which demonstrated relatively large credit demand. We increased the credit facilities provided to national key regions and main functional areas. In 2012, the total loans and advances to customers in Central China, Western China and Northeastern China amounted to RMB2,430,299 million, representing 37.8% of the gross loans and advances to customers, increased by 0.3 percentage point compared to the end of the previous year. In addition, we strengthened the synergistic marketing between domestic and overseas loan businesses, resulting in an increase in the proportion of overseas loans.

Investments

At 31 December 2012, our net investment in securities and other financial assets increased by RMB223,396 million or 8.5% to RMB2,851,448 million over the end of the previous year.

Distribution of Investments by Type of Instruments

In millions of RMB, except for percentages

	31 December 2012		31 December 2011	
Item	**Amount**	**Percentage (%)**	**Amount**	**Percentage (%)**
Non-restructuring-related debt securities	2,234,895	78.4	2,022,695	77.0
Restructuring-related debt securities	486,183	17.0	567,383	21.6
Equity instruments	1,445	0.1	1,185	—
Others[1]	128,925	4.5	36,789	1.4
Total	**2,851,448**	**100.0**	**2,628,052**	**100.0**

Note: 1. Mainly including the assets generated by investment of the proceeds from issuance of wealth management products.

At 31 December 2012, non-restructuring-related debt securities investments increased by RMB212,200 million, which was mainly because we seized the opportunities arising from the bond yield fluctuations and moderately increased the investments in medium-term debt securities. The restructuring-related debt securities investments decreased by RMB81,200 million over the end of the previous year, mainly because the repayment of part of our receivable from the MOF during the reporting period.

Distribution of Non-restructuring-related Debt Securities Investments by Issuer

In millions of RMB, except for percentages

	31 December 2012		31 December 2011	
Item	**Amount**	**Percentage (%)**	**Amount**	**Percentage (%)**
Government bonds	654,454	29.3	551,569	27.3
PBOC bills	107,353	4.8	460,159	22.7
Bonds issued by policy banks	1,001,584	44.8	647,706	32.0
Bonds issued by other banks and financial institutions	92,739	4.2	82,417	4.1
Bonds issued by entities in public sectors and quasi-governments	69,256	3.1	50,295	2.5
Corporate bonds	309,509	13.8	230,549	11.4
Total	**2,234,895**	**100.0**	**2,022,695**	**100.0**

In 2012, we continued to refine our bond investment portfolio. The proportions of investment in bonds issued by other banks and financial institutions and bonds issued by entities in public sectors and quasi-governments remained stable. The proportions of investment in government bonds and corporate bonds slightly increased by 2.0 percentage points and 2.4 percentage points compared to the end of the previous year, respectively. The proportion of investment in bonds issued by policy banks, being the focus of our bond investment, increased by 12.8 percentage points compared to the end of last year. The proportion of investment in the PBOC bills in the total non-restructuring-related debt securities investments decreased by 17.9 percentage points compared to the end of the previous year. This was mainly because the PBOC suspended the issuance of PBOC bills and certain PBOC bills we held matured.

Distribution of Non-restructuring-related Debt Security Investments by Remaining Maturity

In millions of RMB, except for percentages

	31 December 2012		31 December 2011	
Item	**Amount**	**Percentage (%)**	**Amount**	**Percentage (%)**
Overdue	5	—	9	—
Less than 3 months	83,005	3.7	110,337	5.5
3–12 months	400,558	17.9	557,979	27.6
1–5 years	1,113,211	49.8	826,054	40.8
More than 5 years	638,116	28.6	528,316	26.1
Total	**2,234,895**	**100.0**	**2,022,695**	**100.0**

The proportion of our investment in debt securities with the remaining maturity within one year decreased mainly because the PBOC bills matured and the supply for short-term debt securities in the market decreased significantly. The proportion of our investment in debt securities with the remaining maturity of over one year increased mainly because: (1) we increased the investment in debt securities with terms of one to five years, which has relatively high investment value; and (2) we increased the investment in debt securities with terms of more than five years by taking advantage of the fluctuation of the yield of debt securities.

Distribution of Non-restructuring-related Debt Securities Investment by Currency

In millions of RMB, except for percentages

	31 December 2012		31 December 2011	
Item	**Amount**	**Percentage (%)**	**Amount**	**Percentage (%)**
RMB	2,171,858	97.2	1,968,584	97.3
USD	44,897	2.0	42,022	2.1
Other foreign currencies	18,140	0.8	12,089	0.6
Total	**2,234,895**	**100.0**	**2,022,695**	**100.0**

In 2012, our foreign currency investment business steadily developed and the overall risk was under control. At 31 December 2012, we did not hold any bond issued by governments and institutions of southern European countries. The positions related to investments in Europe were reduced significantly. Adequate allowance for impairment losses on the relevant remaining positions was charged to anticipate any adverse effects caused by the fluctuation of the European sovereign-debt crisis.

Distribution of Investments by Holding Purpose

In millions of RMB, except for percentages

Item	31 December 2012 Amount	31 December 2012 Percentage (%)	31 December 2011 Amount	31 December 2011 Percentage (%)
Financial assets at fair value through profit or loss[1]	178,555	6.3	68,052	2.6
Available-for-sale financial assets	755,503	26.5	651,198	24.8
Held-to-maturity investments	1,308,796	45.9	1,178,888	44.8
Debt securities classified as receivables	608,594	21.3	729,914	27.8
Total	**2,851,448**	**100.0**	**2,628,052**	**100.0**

Note: 1. Including financial assets held for trading and financial assets designated as at fair value through profit or loss.

Investment in Financial Bonds

Financial bonds refer to the securities issued by the PRC policy banks, commercial banks and other financial institutions that are to be repaid pursuant to a pre-determined schedule. At 31 December 2012, the balance of financial bonds was RMB1,094,323 million, including bonds of RMB1,001,584 million issued by the PRC policy banks and bonds of RMB92,739 million issued by commercial banks and other financial institutions. The table below sets out the top ten financial bonds held by the Bank in terms of face value as of 31 December 2012.

In millions of RMB, except for percentages

Bond	Face value	Annual interest rate	Maturity date	Allowance[1]
2012 policy bank bonds	11,590	3.19%	2013/09/17	—
2012 policy bank bonds	10,130	3.37%	2013/12/20	—
2011 policy bank bonds	10,000	3.81%	2017/12/23	—
2011 policy bank bonds	10,000	One-year time deposit interest rate+0.73%	2017/12/23	—
2012 policy bank bonds	10,000	3.12%	2014/01/20	—
2012 policy bank bonds	10,000	3.22%	2014/06/29	—
2012 policy bank bonds	10,000	3.10%	2014/04/28	—
2012 policy bank bonds	10,000	3.94%	2014/12/28	—
2012 policy bank bonds	9,990	3.45%	2013/04/06	—
2011 policy bank bonds	9,550	4.00%	2016/11/08	—

Note: 1. Allowance in this table refers to individually assessed allowance, not including collectively assessed allowance.

Liabilities

At 31 December 2012, our total liabilities increased by RMB1,465,199 million or 13.3% over the end of previous year to RMB12,492,988 million. Deposits from customers increased by RMB1,240,909 million or 12.9%, while deposits and placements from banks and other financial institutions increased by RMB209,837 million or 29.0%. Financial assets sold under repurchase agreements decreased by RMB84,448 million or 91.7% mainly due to the decrease in borrowings of the Bank as a result of the loose market liquidity. Bonds issued increased by RMB50,963 million or 51.0%, mainly due to the issuance of RMB50,000 million Subordinated Bonds by the Bank during the reporting period. Other liabilities increased by RMB47,938 million or 9.8%.

Key Items of Liabilities

In millions of RMB, except for percentages

	31 December 2012		31 December 2011	
Item	**Amount**	**Percentage (%)**	**Amount**	**Percentage (%)**
Deposits from customers	10,862,935	87.0	9,622,026	87.3
Deposits and placements from banks and other financial institutions	934,073	7.5	724,236	6.6
Financial assets sold under repurchase agreements	7,631	—	92,079	0.8
Bonds issued	150,885	1.2	99,922	0.9
Other liabilities	537,464	4.3	489,526	4.4
Total	**12,492,988**	**100.0**	**11,027,789**	**100.0**

Deposits from Customers

In 2012, in response to the fierce competition from other banks and challenges brought by the liberalization of interest rate, we further promoted product innovation, expanded marketing channels, improved the sophisticated management of interest rate on deposits, and fully developed the synergies between wealth management products and deposits, which resulted in steady growth in customer deposits. At 31 December 2012, deposits from customers increased by RMB1,240,909 million or 12.9% over the end of previous year to RMB10,862,935 million. In terms of customer structure of deposits, the corporate deposits increased by RMB336,921 million or 9.2% over the end of previous year, and the retail deposits increased by RMB795,799 million or 14.1% over the end of previous year. In terms of the maturity of deposits, the proportion of demand deposits decreased by 2.3 percentage points over the end of previous year to 54.4%.

Distribution of Deposits from Customers by Business Line

In millions of RMB, except for percentages

Item	31 December 2012		31 December 2011	
	Amount	Percentage (%)	Amount	Percentage (%)
Domestic deposits	10,813,416	99.5	9,591,984	99.7
Corporate deposits	3,980,483	36.6	3,643,562	37.9
Time	1,277,486	11.8	1,007,590	10.5
Demand	2,702,997	24.8	2,635,972	27.4
Retail deposits	6,421,876	59.1	5,626,077	58.5
Time	3,200,068	29.5	2,807,618	29.2
Demand	3,221,808	29.6	2,818,459	29.3
Other deposits[1]	411,057	3.8	322,345	3.3
Overseas and others	49,519	0.5	30,042	0.3
Total	**10,862,935**	**100.0**	**9,622,026**	**100.0**

Note: 1. Including margin deposits, remittance payables and outward remittance and so on.

Distribution of Deposits from Customers by Geographic Region

In millions of RMB, except for percentages

Item	31 December 2012		31 December 2011	
	Amount	Percentage (%)	Amount	Percentage (%)
Head Office	60,463	0.6	69,788	0.7
Yangtze River Delta	2,451,437	22.5	2,192,043	22.7
Pearl River Delta	1,496,633	13.8	1,348,651	14.0
Bohai Rim	1,920,441	17.7	1,652,034	17.2
Central China	1,774,725	16.3	1,584,429	16.5
Northeastern China	578,199	5.3	506,852	5.3
Western China	2,531,518	23.3	2,238,187	23.3
Overseas and others	49,519	0.5	30,042	0.3
Total	**10,862,935**	**100.0**	**9,622,026**	**100.0**

Distribution of Deposits from Customers by Remaining Maturity

In millions of RMB, except for percentages

Item	31 December 2012		31 December 2011	
	Amount	Percentage (%)	Amount	Percentage (%)
Demand	6,564,313	60.4	6,040,089	62.8
Less than 3 months	1,277,751	11.8	1,116,450	11.6
3–12 months	1,966,871	18.1	1,718,502	17.9
1–5 years	1,053,988	9.7	744,676	7.7
More than 5 years	2	—	2,309	—
Total	**10,862,935**	**100.0**	**9,622,026**	**100.0**

Shareholders' Equity

At 31 December 2012, our shareholders' equity amounted to RMB751,354 million, comprising share capital of RMB324,794 million, capital reserve of RMB98,773 million, surplus reserve of RMB43,996 million, general and regulatory reserve of RMB75,349 million and retained earnings of RMB208,488 million. At 31 December 2012, net assets per share was RMB2.31.

The table below sets out the composition of shareholders' equity as of the dates indicated.

In millions of RMB, except for percentages

Item	31 December 2012		31 December 2011	
	Amount	Percentage (%)	Amount	Percentage (%)
Share capital	324,794	43.2	324,794	50.0
Capital reserve	98,773	13.1	98,773	15.2
Investment revaluation reserve	(901)	(0.1)	1,324	0.2
Surplus reserve	43,996	5.9	29,509	4.5
General and regulatory reserve	75,349	10.0	64,854	10.0
Retained earnings	208,488	27.8	131,086	20.2
Foreign currency translation reserve	(684)	(0.1)	(739)	(0.1)
Equity attributable to equity holders of the Bank	749,815	99.8	649,601	100.0
Non-controlling interests	1,539	0.2	187	—
Total equity	**751,354**	**100.0**	**649,788**	**100.0**

Off-Balance Sheet Items

Our off-balance sheet items mainly include the contingent liabilities and commitments, such as credit commitments, capital expenditure commitments, operating and finance lease commitments, bond underwriting and redemption commitments and legal proceedings. Credit commitments were a major component of the off-balance sheet items and comprised loan commitments, acceptances, letters of guarantee issued and guarantees, letters of credit issued and credit card commitments.

Composition of Credit Commitments

In millions of RMB, except for percentages

Item	31 December 2012 Amount	31 December 2012 Percentage (%)	31 December 2011 Amount	31 December 2011 Percentage (%)
Loan commitments	563,941	37.9	796,913	47.3
Acceptances	397,311	26.6	346,048	20.5
Letters of guarantee issued and guarantees	181,872	12.2	223,389	13.2
Letters of credit issued	146,712	9.9	160,307	9.5
Credit card commitments	199,555	13.4	161,187	9.5
Total	**1,489,391**	**100.0**	**1,687,844**	**100.0**

Other Financial Information

Changes in Accounting Policies

There was no significant change in accounting policies during the reporting period.

Differences between the financial statements prepared under IFRSs and those prepared in accordance with CASs.

There were no differences between the net profit and shareholder's equity in the consolidated financial statements prepared under IFRSs and those prepared in accordance with CASs by the Bank.

Items Measured at Fair Value and Internal Control

The Bank measured the fair value of financial instruments in an active market mainly based on their market price or the market interest rate. As for financial instruments with no market price or interest rate available, the Bank will determine the fair value of such financial assets or liabilities based on its present value of future cash flow or other valuation techniques using observable market information.

The Bank's financial instruments measured at fair value primarily include RMB-denominated bonds, foreign currency denominated bonds and derivatives. The fair value of RMB-denominated bonds is mainly based on quoted market price provided by China Government Securities Depository Trust & Clearing Co., Ltd. The fair value of foreign currency denominated bonds is mainly based on the quoted prices from dealers and valuation service providers. The fair value of derivatives is mainly determined by adopting valuation model and obtaining the prices from counter-parties. Except for the fair value of a few financial instruments which was determined according to the regular quoted prices from dealers and prices obtained from counter-parties, fair value measurement of most of the financial instruments of the Bank was conducted on a daily basis.

The Bank has set up a strict internal control system for fair value measurement. A clear separation of the front, middle and back office functions with cross-supervision and checking mechanism has been implemented for our fund investment and transactions business, under which operations of the front office is counterbalanced by the middle office through risk management policies, authorization, credit approval and limit, and by the back office through transaction verification and account reconciliation. Fair value measurement is conducted by the middle office, which is separated from business operations to ensure its independence.

Items Measured at Fair Value

In millions of RMB

Item	31 December 2011	Gains/ (Losses) arising from fair value changes for the year	Accumulated fair value changes recognised in equity	Impairment loss charged for the year	31 December 2012
Financial assets at fair value through profit or loss	68,052	992			178,555
Available-for-sale financial assets	650,976		(1,224)	535	755,279
Derivative financial assets	8,524	(3,660)			4,825
Investment properties	287				—
Precious metals	8,007	405			13,890
Total assets	**735,846**	**(2,263)**	**(1,224)**	**535**	**952,549**
Total liabilities	**(218,694)**	**5,065**			**(164,259)**

Notes: 1. Total liabilities included financial liabilities at fair value through profit or loss and derivative financial liabilities.

2. The assets and liabilities set out in the above table do not represent the reconciliation of movement of each account balance during the reporting period.

Equity Investment in Other Companies

Shares Held by the Bank in Other Listed Companies and Financial Enterprises[1]

Name of investee company	Investment cost (RMB Yuan)	Number of shares held at the beginning of the period (10,000 shares)	Shareholding percentage at the beginning of the period (%)	Number of shares held at the end of the period (10,000 shares)	Shareholding percentage at the end of the period (%)	Book value at the end of reporting period (RMB Yuan)	Gain/loss during the reporting period[2] (RMB Yuan)	Change in shareholders' equity during the reporting period (RMB Yuan)	Accounting item	Source of shares
Hunan Gaea Gem Co., Ltd.[3]	141,232,596	9,756	17.92	9,266	17.02	107,744,187	16,766,434	—	Interests in associates	Take-over of secured equity for debt
MasterCard Incorporated	10,573,299	4	0.01	4	0.01	112,695,962	—	24,234,532	Available-for-sale financial assets	Investment of self-owned capital
Visa Inc.	15,290,007	6	0.03	6	0.03	51,655,898	—	15,723,435	Available-for-sale financial assets	Investment of self-owned capital
China UnionPay Co., Ltd	146,250,000	11,250	3.84	11,250	3.84	146,250,000	3,975,500	—	Available-for-sale financial assets	Investment of self-owned capital
Evergrowing Bank Co., Ltd	11,750,000	2,691	0.37	3,176	0.45	11,750,000	—	—	Available-for-sale financial assets	Investment of self-owned capital
China Guangfa Bank Company Limited	61,433,777	2,219	0.14	2,219	0.14	61,433,777	—	—	Available-for-sale financial assets	Investment of self-owned capital
Shaanxi Coal and Chemical Industry Group Financial Co., Ltd	100,074,554	—	—	—	10.00	101,357,023	1,361,636	—	Financial assets at fair value through profit or loss	Investment of self-owned capital

Notes: 1. The shares of listed companies and financial enterprises specified above are recognized as interests in associates, financial assets at fair value through profit or loss and available-for-sale financial assets.

2. Mainly including investment gains.

3. In February 2013, Changde Branch of the Bank transferred all of its shares in Hunan Gaea Gem Co., Ltd. to Hunan Jinxia Grain Industrial Corp., Ltd..

Trading of shares of other listed companies

Number of shares bought during the reporting period (shares)	Number of shares sold during the reporting period (shares)	Capital used (RMB Yuan)	Investment return incurred (RMB Yuan)
—	53,970,000	—	16,594,315

Business Review

Corporate Banking

In 2012, we continued the transformation of our corporate banking business and focused on effective development while under capital constraints. We also accelerated the restructuring of our business and income structure and supported the development of major projects in China, such as key national infrastructure projects, projects for strategic emerging industries and projects for energy saving and environmental protection. In order to prevent and control risk in key sectors, we implemented industry-specific risk limit management and tightened controls on loans to Industries with high energy consumption, high pollution or overcapacity. We focused on innovation in marketing models and further extended our marketing efforts specifically towards leading enterprises. We provided comprehensive banking services by utilizing our cash management platforms and electronic banking systems to fully capitalize on our comprehensive service capability and advantages as a large scale bank. We conducted synergistic marketing to promote our products and services in trade financing, supply chain financing, syndicated loans and easy loans for small-sized enterprises, and also accelerated the establishment of synergistic marketing practices between corporate and retail banking, the Bank and its subsidiaries, and domestic and international markets and so on. The competitiveness of our branches in major cities was significantly improved as a result of the continuance of our strategy of accelerated reform and development of major city branches. We continued to optimize our three-level core customer tier-based management system, further refined our customer structure and improved our customer base. We upgraded our technology system and enhanced the functions of the corporate customer relationship management system. Moreover, we increased efforts to support SMEs and Micro Enterprises, especially focusing on those with businesses in line with China's industrial policies and have high growth potential. We also expedited the establishment of specialized units to provide banking services to small-sized enterprises.

As of 31 December 2012, we had 2.94 million corporate banking customers, of which 76,100 had outstanding loan balances.

Corporate Loans and Deposits

In 2012, in response to the economic growth slowing down and the move forward liberalization of the interest rate, we accelerated innovation of our financial products and services, expanded and strengthened the relationship with our customers. We leveraged our advantage in comprehensive services and synergistic marketing to achieve a steady increase in corporate deposits. At 31 December 2012, the balance of our domestic corporate deposits reached RMB3,980,483 million, representing an increase of RMB336,921 million or 9.2% over the end of the previous year.

We refined our loan portfolio, reduced capital consumption, explored high-quality loan projects and cultivated valued loan customers. At 31 December 2012, our outstanding domestic corporate loans and discounted bills aggregated to RMB4,535,590 million, representing an increase of RMB443,475 million or 10.8% over the end of the previous year. Valued corporate customers accounted for 73.6% of the total number of our corporate customers. The proportion of loans to valued corporate customers amounted to 87.3% of total corporate loans, representing an increase of 3.77 percentage points over the end of the previous year.

During the reporting period, we strictly followed the macro-control policies on the real estate industry, controlled the total loans provided for real estate industry and refined the structure of real estate loans by region and by customer. We strengthened credit authorization management and post-disbursement management, and prevent risk related to real estate loans. At 31 December 2012, the balance of real estate loans to corporate customers amounted to RMB346,789 million, representing a decrease of RMB27,590 million over the end of the previous year. Real estate loans granted to customers of AA-grade or above amounted to RMB255,489 million, accounting for 73.7% of the total real estate loans to corporate customers. Non-performing loans amounted to RMB3,129 million, representing a decrease of RMB1,429 million over the end of the previous year. The non-performing loan ratio decreased by 0.32 percentage point from the end of the previous year to 0.9%.

Small Enterprise Banking Business

In 2012, in response to the macro-economic downturn and the increasing pressure of the bounded credit risk, we adopted various measures to help small and micro enterprises solve their financing problems. We endeavoured to build specialized units on the ground and used them to form a banking service network for small and micro enterprises covering all cities and counties in China. We also established specific credit plans for small and micro enterprises and formulated separate credit management policies, credit rating rules and risk pricing measures. We extended the scope of credit authorization and streamlined the credit application procedures for small and micro enterprises to realize "one-stop" credit approval. We strengthened the research and development of products. In addition to existing popular products including "Easy Loans", "Self-Service Revolving Credit Facilities" and "Factory Mortgage Loans", we also launched new products such as "Bills Replacement" and "Online Application", and facilitated SMEs obtaining direct financing from the offering of collective bills. As of the end of 2012, we had 43,497 small and micro enterprises customers. Loans amounted to RMB599,801 million[1], representing an increase of RMB121,178 million or 25.3% over the end of the previous year. The growth rate was higher than that of the total loans of the Bank by 11.2 percentage points.

In 2012, the Bank was awarded as "Outstanding Services Financial Institution for Small and Micro Enterprises in China Banking Industry" by the CBRC, "Most Competitive Bank for Small and Medium Enterprises in 2012" by China Association for Small and Medium Enterprises. We were also awarded as "Top 10 Commercial Bank Supporting the Development of Small and Medium Enterprises in China" by China Association for Small and Medium Commercial Enterprises.

1 *In June 2011, the Ministry of Industry and Information Technology, the National Bureau of Statistics, the National Development and Reform Commission and the MOF issued the Notice Regarding New Classification Standards of Enterprise Operation Scale (Gong Xin Bu Lian Qi Ye [2011] No. 300). In 2012, the Bank completed the transition from old to new classification standards of enterprise operation scale according to the relevant regulatory requirements and started to apply the new standards. The definitions of small and micro enterprises were different from the previous years.*

Institutional Banking

As of the end of 2012, we established agent cooperation with 121 banks. The third-party depositary services maintained a relatively rapid growth. We offered third-party depositary services to 98 securities firms for their transaction settlement funds, and the number of our contracted customers reached 13,429.8 thousand. The average daily balance of fund deposited amounted to RMB69,730 million. A total of 153 futures brokerage companies used our Bank-Futures Account System and 158 futures brokerage companies established cooperation relationships with us, with outstanding margin deposits amounting to RMB29.9 billion. Our banking-leasing cooperation developed rapidly and we established comprehensive cooperation relationships with bank-owned financial leasing companies. Balance of credit support reached RMB46.1 billion.

We improved our integrated banking services for state financial, livelihood and cultural sectors. We set up "Yin Cai Tong", "Yin Guan Tong", "Yin Yi Tong", "Yin Cai Tong" and an information collection system for housing funds. We also accelerated the rapid growth in businesses, including financial agency service, corporate cards, social security cards, co-brand cards for housing funds, campus cards, agency services provided on the centralized payment of social insurance and provident funds. We strengthened cooperation with institutional customers in different sectors, such as science, education, cultural, health and irrigation sections, and the asset business maintained a steady growth. In 2012, the aggregate transaction volume of agency services provided to the treasury of the PRC central government amounted to RMB252,425 million, representing an increase of RMB31,682 million or 14.4% compared to the previous year.

Our presence in the bancassurance market continued to expand and the number of insurance companies using our bancassurance system reached 38. We collected new insurance premiums of RMB90,030 million and recorded a total income of RMB3,832 million from bancassurance this year. Our market share ranked first for three consecutive years among the Big Four banks in terms of revenue.

Settlement and Cash Management

Payment and Settlement

The Bank consistently strengthened its efforts on the marketing of settlement account services to corporate customers, and promotion of settlement package to SMEs and settlement card products to corporate customer. Through exerting efforts in marketing the settlement agency products, the number of third-party payment depository customers increased significantly and the scope of cooperation also expanded. As of the end of 2012, we had 3,717 thousand RMB-denominated corporate settlement accounts, representing an increase of 6.9% over the end of the previous year. RMB-denominated corporate settlement transaction volume amounted to RMB289.34 trillion this year, representing an increase of 24.0% compared to the previous year.

Cash Management

We continuously expanded our target customer base of cash management service and consolidated the high-end customer base. We launched an express banking platform to enhance the services for Small-and Medium-sized Enterprises. The Global Cash Management Service Center (Hong Kong) commenced operation, so as to provide customers with comprehensive domestic and overseas services. As of the end of 2012, we had approximately 162 thousand cash management customers, representing an increase of 57.3% compared to the end of the previous year. Total transaction volume of cash management reached RMB108.13 trillion, representing an increase of 42.6% compared to the previous year. In 2012, the Bank was granted "2011 Best Cash Management Case Award" by JRJC which is a financial website, and "Best Cash Management Brand" by ***CFO World.***

Trade Financing and International Settlement

In 2012, the Bank overcame the effects caused by unfavorable external conditions, including weak growth of import and export and responded positively to the demand for trading and financial services in the market, we streamlined our trading business procedures and exerted our efforts in developing key products in trade financing under domestic letters of credit, trading financing for bulk commodities and receivables pool financing. As a result of our active promotion and development of innovative products, our cross-border RMB-denominated settlement business experienced a rapid growth. In 2012, the accumulated volume of international trade financing from our domestic branches amounted to USD133,955 million, representing an increase of 31.3% over the previous year. The total volume of international settlement conducted by our domestic branches amounted to USD671,306 million, representing an increase of 13.4% over the previous year. Our domestic branches issued an aggregate of USD14,385 million of letters of guarantee, representing an increase of 34.6% over the previous year. Cross-border RMB-denominated settlement totalled RMB384,451 million, representing an increase of 149.0% over the previous year.

In 2012, the Bank was awarded "The Best Trade Financing Award" in the election of "The Most Reliable Bank to CFO in China", and "The Best Growing Trade Financing Bank" in the election of "Outstanding Bank for Trade Financing" organized by China Banking Association.

Investment Banking

In 2012, we proactively adjusted the development strategies of investment banking business in response to the changes in regulatory policies and market environment. In addition to maintaining the steady growth of investment banking business, we exerted effort in developing high-end investment banking businesses, including bond underwriting, syndicated loans, wealth management financing and Mergers and Acquisitions (M&A). We put great emphasis on restructuring of our business and enhancing quality of our services. In 2012, income generated from our investment banking business reached RMB14,501 million.

We issued 166 debt financing instruments with proceeds of RMB234,779 million. We acted as a lead manager and participated in 185 syndicated projects this year and outstanding syndicated loans amounted to RMB385,115 million. Besides, we supported M&A of medium- and large-sized enterprises and approved 17 M&A loans this year, with new M&A loans amounting to RMB14,336 million. We developed our credit asset-backed securitization business and proactively expanded pilot programs for credit asset-backed securitization. Furthermore, we closely followed the energy saving and emission reduction and green development policy formulated by the government, and fully leveraged on and further developed advantages in the innovation of green banking. Two Clean Development Mechanism (CDM) projects, which we provided consultation services to, registered in the United Nations successfully, representing a breakthrough of large commercial banks in China in this sector. We were the first provider of the new products including "Certification Emission Reduction (CER) resale consultation" and "Energy Management Contract (EMC) consultation and financing" in the banking industry of China.

We were awarded the "Best Investment Bank", "Best Bank of Syndicated Financing", "Best Bank of Financial Advisory", "Best Debt Financing Project" and "Best Short-Term Commercial Paper Project" in the election of the best investment banks in China by Securities Times in 2012. We were also awarded "Best Syndicate Development" and "Best Deal of Syndicate" by China Banking Association in its Annual Award Selection Event. We were also awarded the "Best Investment Banking Business" in the sixth election of the Most Reliable Bank to CFO organized by CFO World.

Custody Service

As of the end of December 2012, we had RMB2,973,802 million of assets under custody, representing an increase of 43.0% over the end of the previous year. Among them, insurance assets under custody amounted to RMB1,344,992 million, representing an increase of 17.3% over the end of the previous year, ranking first among all commercial banks in China. In 2012, our custodian and other fiduciary service fees amounted to RMB2,495 million, representing an increase of 49.2% compared to the previous year.

Pension Business

In 2012, we won the bids for a number of pension fund projects of several well-known enterprises, actively promoted the integrated schemes for corporate annuity and expanded our custody business for the new rural pension insurance fund program and various social security funds steadily to enhance the diversification of our pension business. As of the end of this year, pension funds under our custody reached RMB167,908 million, representing an increase of 26.1% over the end of the previous year.

Retail Banking

In 2012, in response to the changes in macro-economic and market demand, we emphasized on developing retail banking business in the strategy of the Bank, accelerated our retail banking business transformation and put effort to become a first-class retail bank in China. We implemented the "Year for Further Improvement of Service Quality", conducted consultation on the transformation of our outlets and strengthened the supervision on the service quality of outlets to improve customers' experience and satisfaction effectively. We adopted sophisticated customer management and enhanced the training of employees of retail banking business. We also carried out the "2111" project in relation to the management of customer information data, and established a new system for retail banking customer relationship management. The marketing services platform for VIP customers was also strengthened to enrich our value-added services. We strengthened the synergistic marketing of retail banking products as well as the synergistic marketing between corporate and retail banking business. We expanded our customer base effectively and improved our capability of identifying customers and exploring their potential value. Targeting to enhance the core competitive edge of our retail banking business, including retail deposits, retail loans, bank cards and private banking, we speeded up the development of innovative products and promotion of financial products.

As of the end of 2012, we had over 409 million retail customers, ranking first among all large commercial banks, and among which we had more than 15,000 thousand VIP retail customers. We had over 14,000 domestic Associate Financial Planners (AFP), over 1,900 international Certified Financial Planners (CFP) and more than 600 Executive Financial Planners (EFP), maintaining a leading position among all commercial banks in China.

Retail Loans

In 2012, we grasped the opportunities brought by the guidelines of the government policies to expand domestic demand and encourage consumption and implemented the strategy to prioritize developing retail loan business. Apart from strengthening risk management, we increased lending to retail customers. As such, the retail loans business maintained a steady growth. At 31 December 2012, the balance of domestic retail loans reached RMB1,707,323 million, representing an increase of RMB276,803 million or 19.3% over the end of the previous year.

In 2012, we enhanced the differential housing credit policies in compliance with the national macro-control polices in the real estate market, and satisfied the financing needs of households to purchase first common commercial house for their own use. Grasping the opportunities brought by the escalating trend of urbanization, we expanded residential mortgage loans business in central and western China and coordinated the development of different regions. We provided support to residents for settling down in new towns to take advantage of the new pattern of urbanization. Moreover, we refined the risk pricing mechanism and implemented differential pricing of retail loans. We refined product design, improved customer experience and promoted products including residential loans secured by mortgages and loan credits based on salary level according to government policies which aimed to stimulate consumption and expand domestic demand. In response to policies of the government to support the development of small and micro enterprises, we extended more credits to small and micro enterprises. We improved our capabilities of serving for real economy by enhancing wholesale marketing, synergistic marketing and targeted marketing. In 2012, we launched a credit service project named "Hundreds of the Best and Thousands of the Excellences", which was offering start-up loans, loans for shop rental, "Ka Jie Dai" and self-service revolving loans to hundreds of private enterprises in major specified markets or business circles. In 2012, our centralized operation of retail loans had an in-depth development and our services have been more specific. Our brand value further improved and our "Jin Yao Shi • Hao Shi Dai" was upgraded and renamed as "Hao Shi Dai", which became an exclusive brand of our retail loan business. We were awarded "Retail Loans Provider with Outstanding Competitiveness" for three consecutive years till 2012. "Bao Jie Dai" was selected as "Top 10 Financial Products Innovation Award" in "2012 Financial Services Innovation Award in China" jointly organized by Chinese Academy of Social Sciences (CASS) and *The Chinese Banker*.

Retail Deposits

In 2012, the PBOC continued to implement prudent monetary policies, which were fine tuned in a timely and appropriate manner when necessary. Under such measures, the liquidity remained stable and loose and the liberalization of deposit interest rate was in steady progress. According to the changes in macro-economic condition, we proactively altered the development plan of our liability business, enhanced the customer relationship management, developed and refined our retail products portfolio, and improved the functions of managing retail deposit accounts. The retail deposits recorded a steady growth. At 31 December 2012, the balance of domestic retail deposits reached RMB6,421,876 million, representing an increase of RMB795,799 million over the end of the previous year.

Bank Cards

As of the end of 2012, the number of debit cards issued amounted to 550 million, representing an increase of 88 million over the end of last year. The number of debit IC cards issued amounted to 21,898.4 thousand. The transaction volume of debit cards amounted to RMB3,799,888 million, representing an increase of 33.2% over the previous year. As of the end of 2012, the number of credit cards issued amounted to 36.98 million and our dedicated merchants of credit cards amounted to 584 thousand. The transaction volume of credit cards amounted to RMB630,670 million, representing an increase of 33.8% compared to the previous year.

We strengthened the brand building of Kins card, accelerated the research and development and promotion of debit IC cards and enriched the product lines of debit cards. We launched Corporate Kins Card, security cards for soldiers of armed police force and funding cards for high school students. We also organized "Debit IC Cards Forum for Senior Management", which was the first forum in the banking industry in China. We rolled out the first IC credit cards featuring QQ in China, Kins and Han Ting Hotel Eastern Miles Co-brand Card and Kins and Mangocity Co-brand Credit Card to broaden the types of credit cards. We also organized marketing activities for credit cards throughout the year, and held activities for London Olympic, health seminars and travel promotion activities, which increased the utility rate of credit cards effectively. We continued to expand the credit card instalment payment business by extending instalment periods and optimizing the variety of instalments. We also actively developed third-party payment channels for credit cards.

Item	31 December 2012	31 December 2011	Growth Rate (%)
Number of debit cards issued (unit: 10,000)	55,041.26	46,227.01	19.1
Number of credit cards issued (unit: 10,000)	3,243.99	2,694.36	20.4
	2012	**2011**	**Growth Rate (%)**
Transaction volume for debit cards (RMB100 million)	37,998.88	28,519.38	33.2
Transaction volume for credit cards (RMB100 million)	6,221.81	4,621.63	34.6

Agency Distribution of Fund Products

In 2012, to celebrate the tenth anniversary of the business of agency distribution of fund products, we started a marketing activity namely "The Grateful Decade of Jijinbao". Moreover, we further enhanced our market competitiveness and developed our distribution of fund products steadily through integrating sales channels, strengthening the team building of employees and improving the quality of customer service. In 2012, we distributed fund products with a total transaction volume of RMB234,422 million, representing an increase of RMB132,885 million over the last year and received fees and commissions of RMB796 million.

Agency Sales of PRC Government Bonds

In 2012, we acted as an agent for the issuance of 17 batches of saving treasury bonds, among which, 3 batches of certificated saving treasury bonds with actual sales of RMB8,618 million and 14 batches of electronic saving treasury bonds with actual sales of RMB16,572 million. We were granted the award of "Outstanding Underwriters of PRC Government Bonds in Book Entry Form" by the MOF and the PBOC in 2012.

Private Banking Business

As of the end of 2012, we established the private banking departments in 19 domestic branches. The number of customers of private banking business reached 35 thousand and the assets under custody amounted to RMB396 billion.

During the reporting period, we grasped the opportunities brought by the transformation of retail business and enhanced services to provide each of our high-end customers with a specific customer manager, wealth management consultant and wealth management plan. We integrated resources and established a diversified product platform to satisfied wealth management demands from customers with exclusive wealth management products, investment products and tailor-made products. We also strengthened the synergy between corporate banking and retail banking so as to refine the financial services to private banking customers, including cross-broader financial services, exclusive credit services, legal and tax consultation services and integrated financial services for corporate shareholders. We strengthened the information technology support and accelerated the establishment of trading system, management system and channel system. Furthermore, we expanded individualized value-added services, including artwork financing, high-end business travel and tailor-made orders of diamond products.

Treasury Operations

In 2012, although the recovery of the global economy was slow and difficult, the growth of China's economy continued at a modest and steady rate. Persisting in prudent operation, we proactively adjusted our investment strategies, rolled out product innovation, developed wealth management business and improved our risk management. Our operation efficiency of assets was further enhanced.

Money Market Activities

In 2012, the PBOC adopted prudent monetary policies and lowered the statutory deposit reserve ratio and benchmark interest rates for deposit and loans twice. The floating ranges of exchange rate and interest rate were further enlarged. The PBOC suspended to issue notes in the open market, and normalized the reserve-repurchase operation. The liquidity of RMB capital was tight balance and the high interest rate in monetary market in the beginning of the year was in a downward tendency with fluctuation. We enhanced prospective market studies and monitoring in order to improve our fund profitability and efficiency while ensuring our liquidity. In 2012, our domestic RMB-denominated financing transaction volume amounted to RMB15,721,913 million, including lending of RMB13,810,029 million and borrowing of RMB1,911,884 million. The total financing volume recorded an increase of 51.3% compared to the previous year.

We continued to adopt a prudent strategy for short-term foreign currency investment and closely monitored the changes in credit level of overseas counterparties.

Investment and Trading Activities

At the end of 2012, our net investment securities and other financial assets amounted to RMB2,851,448 million, representing an increase of RMB223,396 million compared to the end of the previous year.

Trading Activities

In 2012, the yield in bond markets was more fluctuated. We closely monitored the movement in bond market and adjusted our management strategies of trading portfolios dynamically. The yield of bonds in trading book surpassed the yield of the market index by 3.8 percentage points and the RMB-denominated bond trading volume amounted to RMB982,723 million in 2012.

Banking Book Activities

In 2012, the yield of major products by maturity term in RMB-denominated bonds market recorded a slight increase generally with violent fluctuation. Based on the prospective analysis and the tendency judgments of interest rates, we adjusted the portfolio and maturity structure of new investments dynamically, proactively increased investments, so as to improve the yield of the investment portfolio effectively. We continued to optimize the investment portfolios of government bonds, financial bonds issued by policy bank and corporate bonds and increased the proportion of bonds issued by policy banks and corporations with better risk-return ratio. At the end of 2012, the balance of our RMB bond investments in banking book reached RMB2,616,309 million.

Treasury Transactions on Behalf of Customers

We actively involved in developing foreign exchange market in China, continued to optimize the business structure of the exchange settlement and encouraged the development of foreign currency trading. We put efforts into product innovation and continued to strengthen our risk control. In 2012, the transaction volume of our RMB exchange settlement on behalf of customers reached USD232,698 million, and that of foreign currency trading on behalf of customers amounted to USD10,580 million. In 2012, we were awarded five prizes for excellent inter-bank foreign exchange market makers by the China Foreign Exchange Trading System, namely "Best Spot Market Maker", "Most Disciplined Spot Market Maker", "Most Progressive Market Maker", "Best Market Maker on Back-end Support" and "Best Market Maker for Foreign Currency Pairs".

Wealth Management

Retail Wealth Management

Facing intense competition among the banking industry and non-bank financial institutions, such as brokerage firms and fund management companies, we focused on both regulation and development, and accelerated retail wealth management business. In 2012, we issued retail wealth management products of RMB3,655,794 million. As of 31 December 2012, the balance of our retail wealth management products amounted to RMB334.4 billion and our market share was further increased.

In 2012, we introduced semi open-ended wealth management products in addition to the open-ended wealth management products, and improved or launched equity wealth management products and physical wealth management products based on the bond products in order to satisfy the diversified wealth management needs of customers. Our proprietary wealth management products were recognized as the "Wealth Management Brand of the Year" in the 2012 *China Business News* Financial Brand Ranking, and was awarded the "Top 10 Best Banking Wealth Management Products in China in 2012" and the "Best Team of Design and Innovation of 2012" in the election of the Most Respected Bank and Best Retail Bank Contest in China in 2012 hosted by *Money Week*. Our proprietary wealth management products were also the winner of the 5th China assets management "Golden Shell Awards", that is the "Best Risk Management Banks Award of 2012", at the 2012 China assets management awards ceremony held by *21th Century Business Herald*.

Corporate Wealth Management

In 2012, we issued corporate wealth management products of RMB1,401,157 million and the business scale further increased. As of 31 December 2012, the balance of our corporate wealth management products amounted to RMB133.0 billion. Our products such as "An Xin Kuai Xian" open-ended series products, "Ben Li Feng" corporate series products, "An Xin De Li" corporate series products, "Hui Li Feng" corporate series products and "KaiYang" equity series products gained positive feedback from customers for their stable yields and flexible maturities. The number of contracted customers for wealth management further increased.

Accounting and management of off-balance sheet wealth management products

The accounting and management of the off-balance sheet wealth management products of the Bank were in compliance with the PRC accounting standards and relevant regulations. Funds from our off-balance sheet wealth management products were all under custody. We prepared separate operating reports for each of the asset portfolio. We continued to improve the investment management of off-balance sheet wealth management products, properly assigned the maturity structure of their assets and liabilities, and imposed strict measures to manage market risk. All of the off-balance sheet wealth management products issued and redeemed during the reporting period achieved the expected yield.

Precious Metal Business

In 2012, the prices of gold and silver in the international market were generally volatile in a range and the difference between the domestic and international prices narrowed down, which reduced the trading opportunities. We endeavoured to trade in the Shanghai Gold Exchange, the Shanghai Futures Exchange and overseas over-the-counter market. In 2012, we traded 451 tons of gold and 2,982.41 tons of silver for our own account and on behalf of customers. The income of precious metal business was RMB1,051 million, representing an increase of 38.3% compared to the previous year. In 2012, we carried out precious metal leasing and hedging businesses and promoted the sales of physical precious metals. The business volume of the precious metal leasing business and the sales volume of the physical precious metals increased by 480.1% and 33.4% respectively compared to the previous year. In 2012, we launched the client terminal for agency trading system of the Shanghai Gold Exchange for our retail precious metal transaction business and completed the preparation for the operation of retail under-account precious metal transaction system, which further broadened the product lines of precious metal business. In 2012, we won the Outstanding Member Award by the Shanghai Gold Exchange and "Enterprises with Top 10 Gold Trading Volumes" by the China Gold Association.

Distribution Channels

Branch Outlets

In 2012, aiming at stabilizing township outlets, adjusting county area outlets and optimizing urban outlets, we continued to refine our branch outlets layout, implement standardized transformation and reconstruction of branch outlets and enhance marketing capabilities effectively. We completed the relocation of 1,140 branch outlets, the standardized transformation and reconstruction of 3,701 branch outlets in 2012. As of the end of 2012, we had 17,308 branch outlets with specific functional zones, representing an increase of 2,707 compared to the end of previous year.

Electronic Banking

We put great emphasis on targeting the Bank as a "Smart Bank" featuring comprehensive account management, flexible fund procurement, easy investment and wealth management and safe technical support with a service system covering five major online financial services, namely Internet banking, telephone banking, mobile banking, self-service banking and E-commerce banking to offer interconnection, keen insight, intelligent response and user-friendly experience. The Bank was endeavored to breaking through the time and space limitation and providing flexible, effective, convenient and secured customized services to our customers. In 2012, we completed 31,653 million electronic transactions, representing an increase of 50.1% over the previous year, accounting for 67.8% of our total number of transactions, representing an increase of 5.19 percentage points over the previous year. Our efforts were recognized by numerous awards, including "Top 10 User Favourite Electronic Finance Brand" by China E-Commerce Association and "Most Innovative Electronic Banking Award" by *China Business News*.

Internet Banking

We adopted the most advanced Internet technology to consolidate and enhance Internet banking functions, enrich Internet banking application, streamline the business processes, and improve our customers' experience. In 2012, we optimized the operating environment of retail Internet banking system and improved the sale system of wealth management products via retail Internet banking. We also developed new functions of foreign exchange transactions for retail Internet banking and launched retail Internet banking for Hong Kong branches. As of the end of 2012, we had 88.37 million retail Internet banking customers and total transaction volume for our retail Internet banking amounted to RMB72.64 trillion.

We continued to refine and upgrade our corporate Internet banking system, comprising the Zhixin Version, Zhirui Version, Zhibo Version and Zhiyi Version. We optimized the functions in businesses such as wealth management, foreign exchange transactions and supply chain financing, and provided differentiated services to various customers including micro-, small-, medium-, and large-sized enterprises as well as conglomerates. At the end of 2012, we had approximately 1,900.1 thousand corporate Internet banking customers and the total transaction volume of our corporate Internet banking was RMB54.26 trillion in 2012.

We continued to build our portal websites and refine the visual application and interactive effects of portal websites. We also supported overseas branches establishing sub-sites to expand the coverage of our portal websites, so as to increase the influence of the portal websites. During the reporting period, the click-through rate of our portal websites exceeded 4.4 billion, representing an increase of 31.0% over the previous year and ranking top among banks in China.

Telephone Banking

In 2012, we formulated the plan for the establishment of centralized customer service system, speeded up the establishment of "new-generation" customer service platforms and upgraded our customer service systems. We refined our telephone banking functions and speeded up the trials of telephone banking call-out business. During the reporting period, we received 435 million calls via our 95599 customer service center and 52.73 million calls via our manual customer service.

Mobile Banking

In 2012, we launched the "Mobile E-banking" series of mobile banking products and the mobile banking client series. We added wealth management products to mobile banking, upgraded the versions and functions of mobile banking, and enriched the value-added functions of mobile banking. Moreover, we speeded up the integration of electronic banking channels, explored new mode for County Area mobile banking business and carried out pilot scheme of mobile payment in County Areas. At the end of 2012, our mobile banking Internet business had 56.85 million customers and the transaction volume amounted to RMB421,084 million in 2012. We also had 149.43 million customers contracted for our mobile banking SMS business with a total of 6,480 million short messages sent to the contracted customers in 2012.

Self-Service Banking

In 2012, we proceeded with the construction of the integrated platform for self-service facilities and completed the installation of the first phase of management and monitoring system of self-service facilities and the first phase of Zhifutong in the Bank. We also refined the application approval procedures for cash-related self-services banking of financial IC cards. Furthermore, we extended the application of self-service banking facilities by increasing self-service banking facilities in villages and towns to facilitate the "Huinongtong" project. As of the end of 2012, we had 76,234 cash-related self-service banking facilities, with a total transaction volume in 2012 amounted to RMB8.77 trillion. We had 34,314 self-services terminal facilities, with a total transaction volume of RMB6.93 trillion in 2012. We had 3.18 million Zhifutong machines, with a total transaction volume of RMB8.97 trillion in 2012.

E-Commerce Banking

In 2012, we carried out trials of new e-commerce payment platform and promoted the online "K-code payment products" and cross-bank payment products. We provided various payment methods, including "Mobile WAP Payment" and "Phone Wallet Payment" through different platform products, such as the B2C general payment platform, the B2B general payment platform, the direct sale of funds payment platform and the online trade market payment platform. As of the end of 2012, our merchant's network had a total of 5,850 members with a transaction volume of RMB654,891 million in 2012.

Coping with the Challenges in the Internet Finance Era

We highly focused on the rapid development of Internet finance business over the past year. Leveraging the innovation of Internet technology and business model, third-party payment platforms, e-commerce enterprises, communications operators and social networking companies of e-commerce and communications industries increased their presence in the financial sector. Continuous efforts were also made to innovate financial service model and develop a new business ecosystem of Internet finance. IT reform has boosted the revolution of new financial business model, marking the beginning of the Internet finance era.

Coupled with the trend of financial disintermediation in the Internet finance era, some of the financial intermediary and payment agency functions of commercial banks may expose to the risk of being substituted. As exchangeable and open-ended Internet channels can provide favorable customer experience, commercial banks may opt for re-positioning and integrating their channels. To stay competitive against emerging Internet finance enterprises' real-time and interactive social networking customer relationship management and personalized financial services developed according to the data analysis of massive customers, the traditional customer relationship management model and the standardized product development model of commercial banks are subject to transformation. But meanwhile, new business opportunities will arise continuously from the restructuring of value chain and business ecosystem. Commercial banks will no longer compete with domestic banks of similar products. Instead, they will compete in terms of business model and business ecosystem.

We believe that the future development of China's banking industry in the Internet finance era may present a new landscape and commercial banks are embracing a significant strategic opportunity for the business transformation. The challenges of Internet finance will boost the overall adjustment and in-depth integration of business concepts, organization structure, management process, operation model and IT structure of commercial banks, which make commercial banks well involved into the new technologies, new life and new business model, with the business philosophies and concepts of Internet enterprises. China's banking industry has started to advocate strategic themes of establishing smart banking and implementing smart transformation. Through adopting advanced Internet technologies, the commercial banks aim to establish a financial business model which was highly-intelligent, promptly responding to market changes, catering for customers' needs, creating the best customer experience and providing of hassle-free financial services anytime, anywhere.

In response to the challenges arising from the Internet finance, our management adopted effective strategic measures to comply with the transformation of smart banking. In 2012, we formulated and implemented innovative development of electronic banking strategies and strived for an international advanced "smart banking" with the broadest business coverage and the largest customer base. We introduced new initiatives of financial services for the networking economy. We also conducted basic Internet finance researches and advanced technology researches while applying successful research results.

— **Accelerating business strategic transformation.** Capitalizing on the latest IT development achievements, we will apply the elements of Internet finance into our business, management and technology. We carried out informationized, integrated and intelligent transformation with a view to creating the best service experience for customers.

— **Integrating service channel systems.** We will strive to operate under a unified major channel. Separate and decentralized channel operation will be transformed into centralized and integrated operation to facilitate real-time access to financial data and information as well as customized share of various Internet channels. As such, customers can enjoy comprehensive channel services by accessing a single channel.

— **Optimizing basic IT structure.** We will accelerate the unification of product development standard. We will also establish free access to various channels and introduce the flexible installation of function modules and the public interface of "block" banking platform. A dynamic IT structure which can promptly respond to business needs and adapt to the ever-changing business environment will be established. We will realize precise analysis of massive data, sensitivity to customer behavior and intelligent responses.

— **Establishing new business model.** We will plan to establish a new version of e-commence and finance banking platform and continue to reinforce the cooperation with customers and business alliances. Targeting market participants such as information service providers, payment service providers and e-commence enterprises, we will provide new networking finance services of extended supply chain. As a result, a one-stop financial solution covering information release, product display, online sales, payment settlement, financing and loan and asset custody will be provided for customers.

— **Innovating customer relationship management.** Based on our core banking system, we will enhance our customer-oriented data collection and processing and intelligent analysis capacity to identify changes in transaction activities of customers. As such, we will improve our layered customer marketing and product research system and realize personalized customer services offering and optimize both customer values for life and operation of the Bank.

Overseas Business and Diversified Operation

Overseas Business

In 2012, we steadily implemented the strategy of engaging in the international market, and progressively pushed forward in the layout and development of overseas institutions. Agricultural Bank of China (UK) Limited., our Seoul branch, representative office in Vancouver, New York branch and representative office in Hanoi all commenced business in succession, and the number of our overseas institutions increased to 12 in total. The business license of our Singapore branch was upgraded from an offshore bank to a wholesale bank license and the application for the establishment of our Dubai branch was approved by the relevant overseas regulatory authorities. The application for the establishment of our Russia sub-branch and the upgrading of the representative office in Frankfurt to an operational organization were both approved by the CBRC.

Our overseas institutions pursued a prudent operational strategy in 2012. We put our efforts into accommodating the demands of domestic customers on cross-border financial services, developing high-quality local customer base, refining assets allocation and customer structure, and improving risk prevention and compliance management. The operation scale of our overseas institutions was further expanded, the capacity of operating was significantly enhanced and the level of leverages on the synergistic strengths between domestic and overseas was continuously improved. The market competitiveness of ABC International Holdings Limited was enhanced by expediting the establishment of new business lines, setting up multi-level investment platforms at home and abroad and improving the functions of investment banking business. As of the end of 2012, total assets of our overseas branches and subsidiaries reached USD38,783 million. Net profit for 2012 was USD288 million.

Major Subsidiaries

ABC-CA Fund Management Co., Ltd.

ABC-CA Fund Management Co., Ltd. was established in March 2008 and its registered capital amounted to RMB200 million, 51.67% of which was held by the Bank. The principal scope of business are fund raising, sales of fund and asset management, and the major products include stocks, mixed, bonds and monetary market funds.

At 31 December 2012, the total assets and net assets of ABC-CA Fund Management Co., Ltd. amounted to RMB369 million and RMB301 million, respectively. It recorded a net profit of RMB30 million for 2012.

ABC International Holdings Limited

ABC International Holdings Limited was established in Hong Kong in November 2009. The registered capital of ABC International Holdings Limited was HKD2.913 billion, 100% of which was held by the Bank. ABC International Holdings Limited is eligible to engage in core investment banking business including listing sponsor, underwriting of bonds, direct investment, finance consultation, institutional sales, securities brokerage and assets management in Hong Kong. It is eligible to engage in various capital market businesses in mainland, except sponsor of A-share listing, to provide comprehensive financial services to the public.

At 31 December 2012, the total assets and net assets of ABC International Holdings Limited amounted to HKD5.738 billion and HKD3.463 billion, respectively. It recorded a net profit of HKD176 million for 2012.

ABC Financial Leasing Co., Ltd.

ABC Financial Leasing Co., Ltd. was established in September 2010 and its registered capital was RMB2 billion, 100% of which was held by the Bank. The principal scope of business includes financial lease, acceptance of lease deposit from lessee, transfer of lease receivables to commercial banks, issuance of financial bond with approval, interbank lending, borrowing from financial institutions, overseas foreign exchange loan, realization and disposal of leased items, financial consultation and other business approved by the CBRC.

At 31 December 2012, the total assets and net assets of ABC Financial Leasing Co., Ltd. amounted to RMB27.314 billion and RMB2.475 billion, respectively. It recorded a net profit of RMB297 million for 2012.

ABC Life Insurance Co., Ltd.

The registered capital of ABC Life Insurance Co., Ltd. was RMB2,033 million, 51% of which was held by the Bank. ABC Life Insurance Co., Ltd. primarily engages in insurance business including life insurance, health insurance and accident insurance; reinsurance business for the abovementioned business; businesses with the application of insurance funds as permitted by the laws and regulations of the PRC; and other businesses approved by the China Insurance Regulatory Commission.

At 31 December 2012, ABC Life Insurance Co., Ltd. had total assets of RMB23,512 million, net assets of RMB1,991 million and solvency adequacy ratio of 196% and the total premium for the year was RMB4,100 million.

Agricultural Bank of China (UK) Limited

The registered capital of Agricultural Bank of China (UK) Limited was USD100 million, 100% of which was held by the Bank. Agricultural Bank of China (UK) Limited engages in corporate financing business, including corporate deposits, bilateral loans, syndicated loans, trade financing, international settlement, foreign exchange and derivatives.

As of 31 December 2012, Agricultural Bank of China (UK) Limited had total assets of USD493 million, net assets of USD98.82 million and the net profit for 2012 was USD187,900.

China Agricultural Finance Co., Ltd.

The registered capital of China Agricultural Finance Co., Ltd. was HKD588.79 million, 100% of which was held by the Bank.

ABC Hubei Hanchuan Rural Bank Limited Liability Company

ABC Hubei Hanchuan Rural Bank Limited Liability Company was established in August 2008 in Hanchuan, Hubei with the registered capital of RMB20.00 million, 50% of which was held by the Bank. At 31 December 2012, ABC Hubei Hanchuan Rural Bank Limited Liability Company had total assets of RMB187 million, loans of RMB97 million, deposits of RMB149 million and net assets of RMB35 million and the net profit for the year was RMB5.6103 million.

ABC Hexigten Rural Bank Limited Liability Company

ABC Hexigten Rural Bank Limited Liability Company was established in August 2008 in Hexigten Banner, Chifeng City, Inner Mongolia Autonomous Region with the registered capital of RMB19.60 million, 51.02% of which was held by the Bank. At 31 December 2012, ABC Hexigten Rural Bank Limited Liability Company had total assets of RMB134 million, loans of RMB63 million, deposits of RMB95 million and net assets of RMB32 million and the net profit for the year was RMB5.008 million.

ABC Ansai Rural Bank Limited Liability Company

ABC Ansai Rural Bank Limited Liability Company was established in March 2010 in Ansai County, Yanan City, Shaanxi Province with the registered capital of RMB20.00 million, 51% of which was held by the Bank. At 31 December 2012, ABC Ansai Rural Bank Limited Liability Company had total assets of RMB161 million, loans of RMB76 million, deposits of RMB105 million and net assets of RMB25 million and the net profit for the year was RMB3.8212 million.

ABC Jixi Rural Bank Limited Liability Company

ABC Jixi Rural Bank Limited Liability Company was established in May 2010 in Jixi County, Xuancheng City, Anhui Province with the registered capital of RMB29.40 million, 51.02% of which was held by the Bank. At 31 December 2012, ABC Jixi Rural Bank Limited Liability Company had total assets of RMB223 million, loans of RMB151 million, deposits of RMB164 million and net assets of RMB37 million and the net profit for the year was RMB4.9142 million.

ABC Zhejiang Yongkang Rural Bank Limited Liability Company

ABC Zhejiang Yongkang Rural Bank Limited Liability Company was established in April 2012 in Yongkang City, Jinhua City, Zhejiang Province with the registered capital of RMB210 million, 51% of which was held by the Bank. At 31 December 2012, ABC Zhejiang Yongkang Rural Bank Limited Liability Company had total assets of RMB264 million, loans of RMB210 million, deposits of RMB55 million and net assets of RMB208 million.

ABC Xiamen Tong'an Rural Bank Limited Liability Company

ABC Xiamen Tong'an Rural Bank Limited Liability Company was established in May 2012 in Tong'an District, Xiamen City, Fujian Province with the registered capital of RMB100 million, 51% of which was held by the Bank. At 31 December 2012, ABC Xiamen Tong'an Rural Bank Limited Liability Company had total assets of RMB206 million, loans of RMB120 million, deposits of RMB107 million and net assets of RMB98 million.

Information Technology

During the reporting period, we enhanced the operational management of our information systems and expedited the establishment of the New-Generation Core Banking System (BoEing). We also made efforts in R&D information technology products and continued to optimize the IT infrastructure and improve IT governance, so as to provide a solid technology support to the development of our businesses.

Secure and Stable Operation of Information Systems

We completed the preliminary construction of an integrated operational system, which improved the sophistication, standardization and automation level of our operations. As the daily transaction volume of core business system reached new highs, our information systems ensured smooth and stable financial services.

Operation of the First Phase of BoEing

We commenced the operation of the first phase of BoEing. A one-off launch of the basic technology platform, common base applications and business and products such as public funds, national bonds and private banking among the Bank was completed. The modification of peripheral systems was also finished.

Effective Construction of IT System in Overseas Institutions

The modified core systems of Agricultural Bank of China (UK) Limited, representative office in Tokyo, New York branch and Dubai branch commenced operation, which ensured the smooth operation of the overseas branches.

Strong support to Product Innovation and Business Management

We implemented the establishment of various major information systems and continued to improve the level of sophisticated management. We also carried out basic capacity expansion of electronic banking and reorganization of customer information. A client terminal for mobile banking was introduced and the operation of platforms for "Kins Huishang Card" and platforms for global cash management was commenced. We launched new financial service functions for Huinong Card and developed tele-transfer machines and smart phone payment terminal. The risk management system commenced operation, forming an integrated technology framework to support the whole-process risk management of the three major areas. In addition, we completed the promotion of the integrated operation platform to all tier-1 branches (excluding the Tibet Branch) and a new operational pattern with separate front, middle and back offices was established.

Continuous Improvement in IT Infrastructure

We continued to integrate and improve our IT infrastructure. The hardware expansion and microcode upgrade for the host platform of the two data centers in Shanghai and Beijing were completed successfully and the functions of the host platform were further enhanced. We also launched the promotion project for new-generation open platform of centralized monitoring system. A monitoring platform with two levels, Head Office level and branch level, was set up to reduce system operation risk and strengthen the early-warning capability of the systems. The new generation of network framework planning was implemented to further enhance the normalization and standardization of our network.

Continuous Improvement of IT Governance

We formulated the 2012–2015 IT development plan and prepared and improved the IT construction plans for specific areas pursuant to our strategic targets. In order to enhance the sophistication of our IT management, the project to obtain ISO27001 certification by the IT management department and the software R&D center of the Head Office was in smooth progress. We completed an inspection into the information security of the Bank, and the protection tests and ratings of the security grades of information system, which contributed to the continuous enhancement of the Bank's risk control capability.

Human Resources Management and Organization Management

Human Resources Management

Human Resources Reform

During the reporting period, we continued to facilitate the implementation of the comprehensive reform in human resources, implemented a new pattern of position and remuneration system in the Bank, and formed a human resources management system which met with the operation management requirements of modern commercial banks. The organization structures of all-level branches were optimized according to our strategies. Besides, the multi-channels development of talents was expedited and the trial recruitment of high-quality professionals completed successfully and commenced throughout the Bank. We also improved the performance management system, refined assessment indicators and strengthened the application of assessment results, so the positive motivation was enhanced effectively. The initial stage of development of the new e-HR system was completed and launched in the Bank.

Development and Cultivation of Human Resources

We strived to establish an excellent operation and management team. Heads of tier-1 branches and departments of the Head Office were selected pursuant to position needs, and further developed an operation team with young, educated and professional members. We also improved the selection and appointment policy of managers and standardized the method, scope of selection and appointment procedures. Competition in the selection of managers was enhanced by raising the level and proportion of competitive selection. We strengthened the training and cultivation of leaders, and improved the quality and optimized the structure of the operation team through training and rotation.

We continued to expand our team building of talents, particularly the IT talents, talents with international sight, employees in County Areas and management trainees in order to transform our quantitative advantage to qualitative advantage in respect of human resources. Employment policy with cost constraint was introduced to improve the utilization efficiency of human resources. We recruited talents from various channels such as campus recruitment, social recruitment, the recruitment of university graduates who had been working as "village officials" after graduation and contracted counter officers. We filled the vacancies in front desks and branch outlets and mitigated the structural shortage of employees. Retraining program for middle-aged employees was implemented to fully develop potentials of the middle-aged employees. Development of young talents in County Areas was conducted to support the development of County Area Banking Business. We improved the selection and training of dispatched employees to provide talents for the rapid growth of the overseas institutions.

We established a training system based on needs and accelerated the formation of "Agricultural Banking University". Trainings at different levels and types were implemented based on the needs of positions. In the year, we held a total of 38,355 terms of training class and trained 2.23 million employees, and arranged over 110 thousand employees to attend qualification examinations for different positions. The leadership and executive abilities of the managers, business skills of the professionals and operation level of the technicians were significantly enhanced through the trainings. Special trainings such as the "ABC Lecture", demonstrative training for the middle-aged employees and training for college graduates, who had been working as "village officials", have become brands of the Bank. An online learning project of "2012 e-learning and e-training" was implemented and the online academy had accumulated over 10 million visits. Aiming at forming "Agricultural Banking University", we endeavoured to develop an internal learning and training vehicle and platform with the training institutes, training center in Hong Kong and the online academy.

Management of Remuneration and Benefit

During the reporting period, we continued to innovate and improve the remuneration and benefit management system and mechanism and established a uniformed remuneration system based on positions. We strictly complied with relative national laws and regulations and protected the legal rights of the employees by maintaining basic endowment insurance, basic medical insurance, unemployment insurance, workplace injury insurance, maternity insurance and housing provident fund. We also proceeded with the enterprise annuity program and established a supplemental medical insurance system in the Bank.

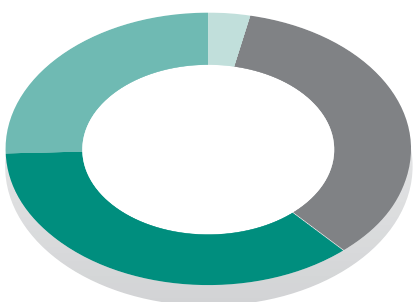
Information on Employees

We had 461,100 employees (and additional contracted labour of 40,662) at the end of 2012, representing an increase of 13,699 persons over the end of last year. Among our employees, 2,876 persons were at our major domestic subsidiaries and 462 persons were local employees at our overseas institutions. The expenses of retired staff of the Bank were borne by the Retirement Benefits Fund and Annuity Scheme.

Distribution of Employees of the Bank by Regions

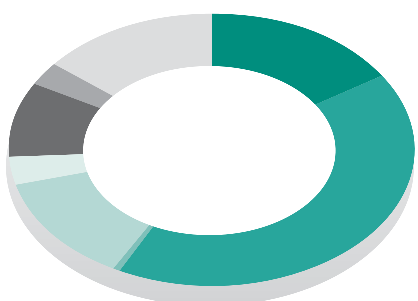
	31 December 2012	
	Number of Employees	Percentage (%)
Head Office	7,045	1.5
Yangtze River Delta	58,007	12.6
Pearl River Delta	48,849	10.6
Bohai Rim	60,726	13.2
Central China	103,485	22.5
Northeastern China	53,605	11.6
Western China	126,045	27.3
Sub-total of Domestic Branch Outlets	457,762	99.3
Major Domestic Subsidiaries	2,876	0.6
Overseas Institutions	462	0.1
Total	**461,100**	**100.0**

Distribution Chart of Employees of the Bank by Education Background



Associate Degree and Vocational School, 35.90%
Bachelor's Degree, 35.00%
Doctorate's Degree, 0.10%
Below College, 25.50%
Master's Degree, 3.50%

Distribution Chart of Employees of the Bank by Departments



Corporate Banking, 16.00%
Retail Banking, 41.60%
Treasury Operation, 0.70%
Financial and Accounting, 12.70%
Management, 3.30%
Risk Management, Internal Control and Legal Affairs, 9.00%
Information Technology, 2.80%
Others, 13.90%

Age of Employees of the Bank

	31 December 2012	
	Number of Employees	Percentage (%)
30 or below	70,248	15.2
31–40	111,391	24.2
41–50	230,152	49.9
51 or above	49,309	10.7
Total	**461,100**	**100.0**

Management of Branch Outlets

Domestic Branch Outlets

At the end of 2012, we had 23,472 domestic branch outlets, including the Head Office, the Business Department of the Head Office, three specialized institutions managed by the Head Office, 37 tier-1 branches (including branches directly managed by the Head Office), 348 tier-2 branches (including business departments of branches in provinces), 3,482 tier-1 sub-branches (including business departments in municipalities, business departments of branches directly managed by the Head Office and business departments of tier-2 branches), and 19,600 other establishments.

Number of Domestic Outlets by Regions

	31 December 2012	
	Number of Domestic Branch Outlet	Percentage (%)
Head Office[1]	8	—
Yangtze River Delta	3,101	13.2
Pearl River Delta	2,560	10.9
Bohai Rim	3,329	14.2
Central China	5,214	22.2
Northeastern China	2,233	9.5
Western China	7,027	30.0
Total of Domestic Branch Outlets	**23,472**	**100.0**

Note: 1. *Including Head Office, Business Department Dealing with Discounted Bills, VIP Corporate Customer Department, Private Banking Department, Credit Card Center, Changchun Training Institute, Tianjin Training Institute and Wuhan Training Institute.*

Overseas Branch Outlets

At the end of 2012, we had four overseas branches and five overseas representative offices, namely the Hong Kong, Singapore, Seoul and New York branches and the Tokyo, Frankfurt, Sydney, Vancouver and Hanoi representative offices. In February 2013, we have obtained the official approval from the Dubai Financial Services Authority in respect of the application on establishing our Dubai branch.

Major Subsidiaries

At the end of 2012, we had nine major domestic subsidiaries, including ABC-CA Fund Management Co., Ltd., ABC Financial Leasing Co., Ltd., ABC Life Insurance Co., Ltd., ABC Hubei Hanchuan Rural Bank Limited Liability Company, ABC Hexigten Rural Bank Limited Liability Company, ABC Ansai Rural Bank Limited Liability Company, ABC Jixi Rural Bank Limited Liability Company, ABC Xiamen Tong'an Rural Bank Limited Liability Company and ABC Zhejiang Yongkang Rural Bank Limited Company, and three major overseas subsidiaries, including Agricultural Bank of China (UK) Limited, ABC International Holdings Limited and China Agricultural Finance Co., Ltd.

Please refer to "Discussion and Analysis — Business Review — Overseas Business and Diversified Operation" for details.

County Area Banking Business

We provided customers in the County Areas with a broad range of financial services through all branch outlets in counties and county-level cities. We refer to such banking business as the “Sannong Banking Business” or “County Area Banking Business”. During the reporting period, we adhered to furtherance of our reform and the “two engines” of growth, leveraged on the synergistic strengths between the Urban Areas and County Areas, focused our efforts on innovating our products and services, extended the coverage of financial services in County Areas and continued to consolidate our leadership and dominant position in the County Areas.

Mechanism Reform

Product R&D

During the reporting period, we reinforced the brand building of County Area Banking Business products and released eight sub-brands of “Jinyinong”, which formed a product system of the County Area Banking Business comprising 103 featured products for the County Areas and 413 general banking products for both Urban and County Areas. Targeting towns with shortage of basic banking services, we introduced “Yinxuntong” to provide rural households with basic banking services such as small sum deposit and withdrawal and transfer as well as bill payment services of new rural pension insurance and new rural cooperative medical insurance. We also introduced auto mobile banking services in order to extend the counter to rural households. In addition, based on local condition, our branches introduced credit loan products supporting rural production and operation such as loans for young entrepreneur in rural area, venture loans for rural households in the Chinese Agricultural Valley and loans for rural village and households supporting the local government’s action of connecting both villages and households, and featured agricultural loan products such as operation loans for rural tourism and credit facility for rural household taking tobacco drying orders.

Credit Management

In response to the slowdown of economic growth and the increased uncertainties in the macro environment, the Bank promptly adjusted its credit structure in County Areas by allocating credit resources to key segments, including modern agricultural production, urbanization development, pillar industries and quality SMEs in County Areas, distinctive resources development and commodity distribution, and strictly controlled the growth of loans to investment and financing vehicles of local governments, real estates and industries with high pollution and, high energy consumption or overcapacity. The Bank also accelerated the development of loan products to agriculture-related industries. Specific credit policies for loans were formulated and customer list-based management was adopted for agriculture-related industries including meat processing, dairy product processing, sugar production and white wine industries. Specific credit policies were also formulated for the core grain production area, animal husbandry area and tobacco plantation area to refine the management. In addition, the Bank improved the authorization management, optimized business procedures, commenced the pilot centralized operation and management of loans to farmers and formulated the guidelines on credit approval in County Areas to further improve quality and efficiency of the approval procedures.

During the reporting period, the credit business in County Areas maintained satisfactory growth. At the end of 2012, the balance of loans of the County Area Banking Business amounted to RMB2.05 trillion, with a growth rate higher than the level of the Bank of 2.9 percentage points. The percentage of loans to customers with A+ grade or above increased by 5.68 percentage points over the end of the previous year, while the balance of non-performing loans and non-performing loan ratio both declined.

Risk Management

In order to strengthen the structure of risk management system in the County Areas, risk management departments were established in branches in the County Areas. Risk prevention of retail loans business for County Areas was further improved by conducting pilot centralized operation and management, transferring the examination and approval decision-making functions to higher management level, standardizing the approval procedures and adopting specialized post-disbursement management. Risk evaluation of credit products for County Areas was conducted to offer points of reference on how to improve products. Risk tolerance was determined based on risk and return levels, and was used as the risk control limitation of products. Management of suspension and resumption of credit products in the County Areas was also refined to reinforce the risk control of products in the County Areas. Risks of key segments, major industries and specific products were monitored regularly and specific assessment on major businesses in the County Areas was conducted in order to mitigate the loan risks in the County Areas.

Fund and Capital Management

During the reporting period, we further improved the management policy of assets and liabilities for County Areas Banking Division. We established a value-oriented credit resource allocation mechanism for County Areas and improved the operating model for separate capital management in County Areas by determining the working capital separately and carrying out separate budget management and performance evaluations of economic capital. Moreover, we implemented centralized fund management in the County Areas and actively implemented a pilot program of applying differential deposit reserve ratios in the County Area Banking Division so as to further improve the efficiency of the use of funding in County Areas. In addition, we refined the loan pricing management system in County Areas and managed the differentiated pricing and authorization of County Areas based on the characteristics of the County Area Banking Business.

Accounting and Performance Appraisal

We made improvements to the performance appraisal system of the County Area Banking Division. According to County Area development plan, we improved the integrated performance appraisal system for the County Area banking sub-division, the performance appraisal system for departments under the County Area Banking Division and the grading appraisal system for sub-branches in the County Areas. According to development plan for key sub-branches in County Areas, we formulated a performance appraisal policy for key sub-branches in the County Areas for 2012.

Human Resources Management

During the reporting period, we launched separate targeted recruitment program for the County Areas and adopted various recruitment methods, such as campus recruiting, a recruiting program for university graduates who had been working as "village officials" and contracted teller recruiting, to expand the talent pool working in the County Areas. In order to effectively encourage the priority business development of key sub-branches, we implemented the "121" campaign by giving bonuses to key sub-branches in County Areas with good performance and launched incentive policies to promote the strategic development of Huinong Card, small-amount loans to rural households and electronic channels in County Areas. We also raised the grading of qualified key County Area sub-branches or promoted ranking of the presidents who fulfilled the promotion criteria. We applied for setting up tier-1 sub-branches in six administrative counties, namely Mohe County, Tahe County and Huma County of Heilongjiang Province, Wulan County and Tianjun County in Qinghai Province and Chaoyang County in Liaoning Province to further expand the service coverage of County Area Banking Business. Featured training program for staff in Country Areas was organized. We held training workshops for the heads of the County Area sub-branches, organized training programs for outstanding middle-aged staff in County Areas and trained university graduates who had been working as "village officials".

County Area Corporate Banking Business

During the reporting period, we carried out our "Projects with Thousands or Hundreds of Units" for the rural industrial financial business, which set a series of the development targets for the rural industrial banking business with thousands or hundreds of units, and developed a new integrated service model for the County Areas. We capitalized on the advantages of our synergistic marketing and product portfolio by focusing on agricultural industrialization enterprises, urbanization, Small- and Medium-sized Enterprises in County Areas, merchandise distribution, tourism in County Areas and industries relating to the local population's livelihood in County Areas and expanded the middle-to-high-end customer base in the County Areas. We also strived to enhance our core management and marketing ability in order to further consolidate our competitive advantage in County Areas.

To enhance product and service innovation, we promoted and improved six integrated service models driven by leading enterprises, featured industries, featured resources development, commercial channels, major markets and industrial clusters in County Areas. In addition, we formulated specific financial service proposals for tourism, industry zones and industrial parks in County Areas and improved specific products for County Areas such as loans for small-scaled hydropower projects, loans for tourism development projects and loans for urbanization. We conducted R&D for new products, including pledged loans, featured agricultural products, loans for new countryside construction projects and loans to the coal industry, to further enrich the product variety and strengthen product adaptability and competitiveness.

We improved marketing management for core customers by establishing a list of the core customers of the Rural Industries Banking Department of the head office, implementing core customer management measures and updating and improving solutions for integrated financial services, credit approval and post-disbursement management from time to time. We launched the marketing strategy of "head office to head office" for leading customers in each industry, set up a specialized marketing team and maintained regular communication between the Bank and the corporations to consolidate the cooperation. We also organized the third conference for high-end customers in County Areas, introducing them to listings in order to cater for their diversified financial needs.

At the end of 2012, loans for corporate customers (excluding discounted bills) in County Areas were RMB1.40 trillion, representing an increase of RMB210,130 million over the end of last year. The balance of corporate deposits for County Areas was 1.41 trillion, representing an increase of RMB125,556 million over the end of last year.

County Area Retail Banking Business

In 2012, we supported the Chinese government's policies for strengthening and benefiting the agricultural industry, rural areas and rural households. According to the overall service deployment for the County Areas and the retail banking business, we continued to improve the value creativity and risk control for County Area Retail Banking Business through business transformation and streamlined management in order to realize sustainable development of the County Area Retail Business. At the end of 2012, the balance of deposits and loans for our County Area Retail Banking Business amounted to RMB3,034,422 million and RMB626,577 million, representing an increase of RMB397,958 million and RMB90,157 million compared to the end of the previous year, respectively.

We formulated and carried out the "Huinongtong" project plan and expanded the coverage of basic financial services provided in rural areas through Huinong Cards, service stations, electronic channels and mobile services. As of the end of 2012, 0.579 million service stations and 1.126 million electronic devices were established according to the "Huinongtong" project. The coverage ratio of electronic devices amounted to 63.9% of villages in China. Our "Huinongtong" project was awarded the Golden Tripod Prize in the 2012 Beijing International Finance Exhibition.

Huinong Cards and loans to rural households business continued to develop steadily. As of the end of 2012, we issued a total of 128 million Huinong Cards, representing an increase of 30 million cards compared to the end of the previous year. The balance of loans to rural households through Huinong Cards amounted to RMB132.77 billion, representing an increase of RMB2.05 billion compared to the end of the previous year.

Agriculture-related fund agency business maintained smooth development. As of the end of 2012, 1,532 sub-branches in County Areas secured the agency business of new rural insurance and new rural cooperative medical insurance, with a coverage of 53.8% of areas at county level with rural population. We secured an additional 182 other agency items during the year, including direct subsidies for grain farmers, rural home appliances subsidies, basic living allowances for rural areas and collection of utility fees, and the total number of agency items reached 492. In the National Social Security Award Ceremony for New Rural and Urban Residents, nine institutions and 8 staff of the Bank received awards from the State Council in recognition of their outstanding contribution, and the Bank was the financial institution with the most institutional and individual awards.

Seize Market Opportunities Arising from Urbanization

Urbanization has been a historical mission for the modernization of China. It is the major driving force of future economic growth and holds the greatest potential for boosting domestic demand in China. Urbanization has been given a more prominent strategic position by the PRC government as one of the four new major components of advancement, namely industrialization, informatizaion, urbanization and agricultural modernization, and as the strategic focus for economic and social restructuring. Meanwhile, the PRC government has put more emphasis on enhancing the quality of urbanization. The PRC government is expected to implement structural reforms, which include household registration system, land management system, fundamental public utility services and social welfare, so as to carry forward the migration of the agricultural population to urban areas and the equal access to fundamental public utility services, and to realize a series of significant transformations from rural areas into urban areas in respect of industrial structure, living environments, social security and lifestyle, etc.

The County Areas are the primary regions for urbanization in China. The development of urbanization highly coincides with our differentiated market positioning and development strategies for capitalizing the synergistic advantages between Urban Areas and County Areas and establishing an integrated operating platform for Urban Areas and County Areas. Urbanization will boost the demand for investments in production projects, infrastructure, public utilities and residential construction in County Areas, and result in the expansion of consumer groups, improvement of consumption structure and enhancement of consumption levels. We believe that the progress of urbanization will bring enormous market opportunities to the Bank and our County Area Banking Business. As a large-scale commercial bank with a significant market share in both Urban Areas and County Areas, we are well-positioned to capitalize on the market opportunities arising from urbanization by providing superior financial products and services to the urbanization market players through an integrated system of channels and products that covers both Urban Areas and County Areas.

We will grasp the major market opportunities arising out of urbanization. Capitalizing on our leading position and the competitive and specialized operations of our County Area Banking Business, we will endeavor to provide a package of comprehensive financial services specific to urbanization and construct a new financial service model specializing in urbanization .

— **Specifying the major financial service aspects of urbanization.** In order to seize the new trend of the urbanization of rural residential areas, industrial parks and agricultural population, we focus on supporting various projects in respect of six key aspects, including industrial support for urbanization, urban infrastructure construction, new community construction, land development and consolidation, public service and livelihood, and upgrading the standard of production, operation and consumption of urban settlers.

— **Refining and integrating financing channel systems to support urbanization.** We will moderately expand the coverage of our branch outlets in emerging urban areas and shift the development focus of branch outlets in County Areas towards center districts, industrial parks and towns with strong economic growth. We will strengthen the application of electronic channels in County Area Banking Business. We will also explore the development of mobile financial service model, such as mobile payment in County Areas, and integrate all channel systems of County Areas.

— **Adopting innovative urbanization credit management policies.** We will expedite the implementation of credit policies that suit the features of urbanization in County Areas. Innovative methods of granting credit to urbanization customers will be adopted and reasonable credit approval restrictions will be formulated. We will also explore ways to streamline administration process of loans in connection with urbanization and expand security and guarantee initiatives.

— **Developing products and services for urbanization according to market needs.** A product portfolio and financial brand for urbanization will be established. We will create regional loan products for urbanization and formulate specific financial service plans. We will also enhance innovation of non-financial products, including underwriting local government bonds, wealth management products for urban residents and an urban electronic banking business.

— **Establishing a comprehensive risk control system for the urbanization banking business.** We will enhance process management to standardize business operations, improve risk-based pricing capability and strengthen research into the risks of key industries. We will also set up a risk control system for the urbanization banking business in the County Areas, covering risk policies, internal mechanisms, management instruments and technical support.

— **Strengthening the support for the urbanization business.** More resources will be allocated to the urbanization banking business, including credit plans, fixed asset investment, salary cost and ancillary initiatives of customer service managers. We will establish incentive and restrictive mechanisms and enhance the professional capacity of the urbanization financial business teams in order to support the healthy development of urbanization credit business.

Financial Position

Assets and Liabilities

At 31 December 2012, the total assets of the County Area Banking Business reached RMB4,979,344 million, representing an increase of 13.3% over the end of previous year. Net loans and advances to customers reached RMB1,941,845 million, representing an increase of 16.4% over the end of previous year, which was 2.7 percentage points higher than the growth rate of our overall loans. Total deposits from customers reached RMB4,557,316 million, representing an increase of 13.5% over the end of previous year.

The table below sets out the major items of assets and liabilities of the County Area Banking Business as of the dates indicated.

In millions of RMB, except for percentages

	31 December 2012		31 December 2011	
Item	**Amount**	**Percentage (%)**	**Amount**	**Percentage (%)**
Total loans and advances to customers	2,049,217	—	1,751,535	—
Allowance for impairment losses on loans	(107,372)	—	(83,198)	—
Loans and advances to customers, net	1,941,845	39.0	1,668,337	38.0
Intra-bank balance[1]	2,686,346	53.9	2,423,092	55.1
Other assets	351,153	7.1	303,091	6.9
Total assets	**4,979,344**	**100.0**	**4,394,520**	**100.0**
Deposits from customers	4,557,316	96.3	4,014,015	96.6
Other liabilities	175,489	3.7	143,389	3.4
Total liabilities	**4,732,805**	**100.0**	**4,157,404**	**100.0**

Notes: 1. Intra-bank balance refers to funds provided by our County Area Banking Business to other businesses within the Bank through internal funds transfers.

Profit

In 2012, the profit before tax of our County Area Banking Business increased by 14.4% compared to 2011 to RMB63,716 million, primarily due to the expansion of the business in the county areas, the optimization of the asset and liability structures, the fall in credit cost and the effective control of the operation cost.

The table below sets out the major income items of the County Area Banking Business for the years indicated.

In millions of RMB, except for percentages

	2012	2011	Change	Growth Rate (%)
External interest income	131,796	105,835	25,961	24.5
Less: External interest expense	77,192	56,656	20,536	36.2
Interest income from intra-bank balance[1]	83,695	70,899	12,796	18.0
Net interest income	**138,299**	**120,078**	**18,221**	**15.2**
Net fee and commission income	26,734	25,020	1,714	6.9
Other non-interest income	2,286	1,453	833	57.3
Operating income	**167,319**	**146,551**	**20,768**	**14.2**
Less: Operating expenses	77,516	67,815	9,701	14.3
Provisions for impairment losses	26,087	23,018	3,069	13.3
Total profit before tax	**63,716**	**55,718**	**7,998**	**14.4**

Note: 1. Interest income from intra-bank balance represents interest income earned on funds provided to our other business at internal funds transfer pricing, which is determined based on market interest rate.

Key Financial Indicators

At 31 December 2012, the key financial indicators of the County Area Banking Business continued to improve. Return on average total assets was 1.05%, representing an increase of 1 basis point over the previous year. The interest spread between deposits and loans was 5.11%, which was 54 basis points higher than those of the whole bank. Asset quality kept improving with the non-performing loan ratio at 1.66%, and the gap between the asset quality of the County Area Banking Business and that of our overall business was further reduced. The allowance to non-performing loans was 315.99% and the allowance to total loans was 5.24%. Risk resistance was further strengthened.

The tables below set out the key financial indicators of our County Area Banking Business at the dates or for the years indicated.

Unit: %

Item	2012	2011
Return on average total assets	1.05	1.04
Average yield of loans	6.87	6.41
Average cost of deposits	1.76	1.47
Net fee and commission income to operating income	15.98	17.07
Cost-to-income ratio	41.50	41.83

Item	31 December 2012	31 December 2011
Loan-to-deposit ratio	44.97	43.64
Non-performing loan ratio	1.66	1.96
Allowance to non-performing loans	315.99	241.78
Allowance to total loans	5.24	4.75

Risk Management

Comprehensive Risk Management System

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

In 2012, we further refined the framework of our comprehensive risk management system, optimized the organizational structure for risk management at our branch outlets and promoted the implementation of the *Regulation Governing Capital of Commercial Banks (Provisional)*. During the reporting period, we applied to, and was reviewed by, the CBRC regarding the implementation of the non-retail exposures foundation internal rating-based (IRB) approach for credit risk, retail exposures IRB approach and standardized approach for operational risk. We also coordinated with the evaluation team of the CBRC to carry out on-site evaluations. In 2009, the Board considered and approved the *Outline of Comprehensive Risk Management System of Agricultural Bank of China*, which set forth the major targets and tasks of comprehensive risk management systems for the following three years. As of the end of 2012, we had completed the major tasks and achieved the targets in accordance with this outline. The framework for comprehensive risk management was set up and operated smoothly and effectively.

Risk Appetite

Risk appetite is a term that refers to the types and levels of risks acceptable to the Bank as determined by the Board of Directors, which depends on the expectations and constraints of our major stakeholders, external operating environment and the conditions of the Bank, in order to achieve strategic targets and effective risk management. In 2011, the Board of Directors reviewed and approved the risk appetite statement and the administrative measures for risk appetite. The risk appetite statement describes the types and levels of risks which were accepted by the Bank during the course of operations, interprets our prudent risk appetite with qualitative and quantitative methods, establishes the limitation of risk and stipulates the basic principles for formulating various risk management policies. The administrative measures in relation to risk appetite mainly addresses the implementation of risk appetite and establishes the general principles for its formulation and adjustment, management duties and implementation of risk appetite.

We maintain a prudent risk appetite. We are devoted to positioning ourselves as a first-class modern commercial bank, maintaining our prudent risk appetite, operating in compliance with regulatory and legal requirements, and constantly implementing the New Basel Capital Accord and the new regulatory standards. At the same time, we seek to achieve moderate returns with reasonable levels of risk by maintaining security, profitability and liquidity and insisting on having a balance between capital, risk and revenue. We maintain sufficient risk allowance and capital adequacy, aim to improve our overall risk management capability for business development and innovation and create value through risk management, so as to effectively support the realization of our strategic targets.

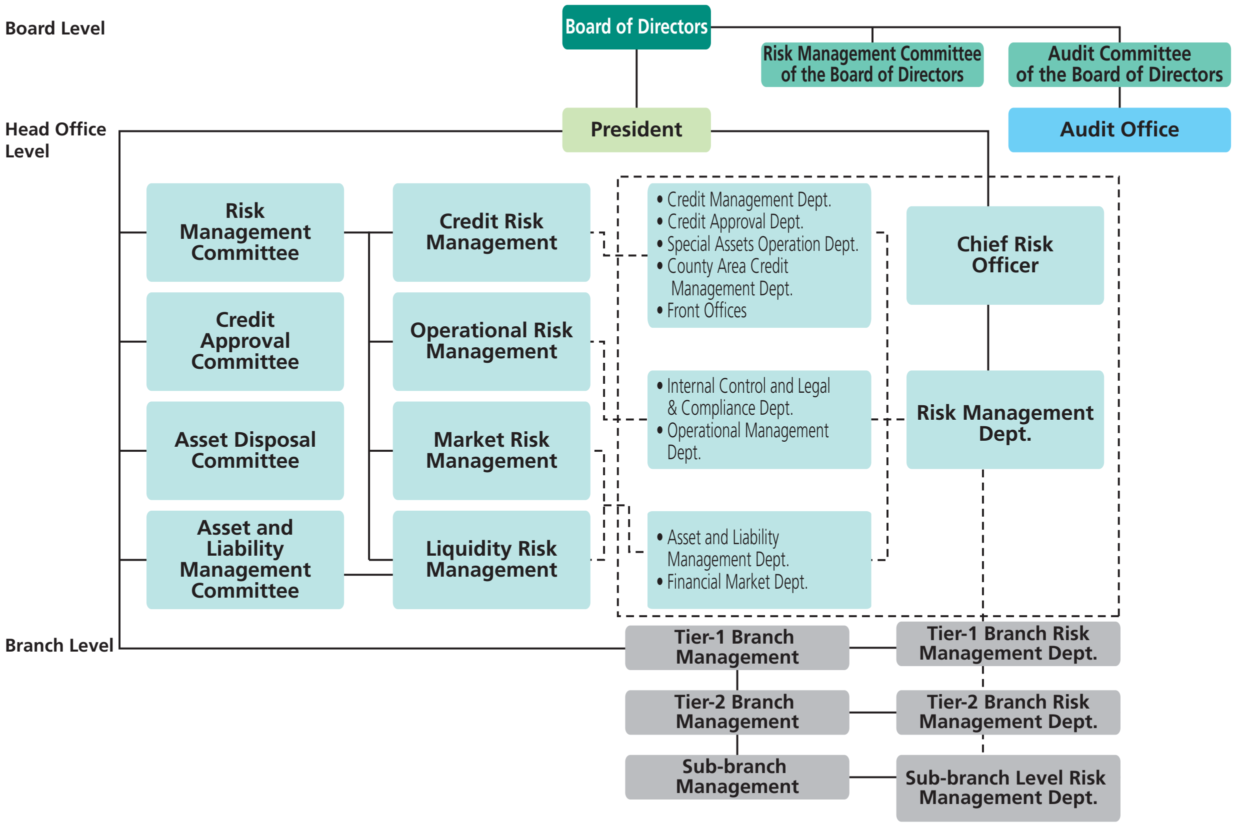
In 2012, the Bank adopted prudent risk appetite as our basis, and applied such risk appetite to all business development plans and operation plans based on our capital and risk management level, so as to control risk within our capital tolerance range. In addition, the Bank persisted in innovating and enhanced the capability of risk management. The Bank aimed at achieving maximum profit under the identified risk tolerance range and made risk management effectiveness our core competitiveness.

Risk Management Organizational Structure

The Board of Directors assumes the ultimate responsibility for risk management. The Risk Management Committee and the Audit Committee under the Board of Directors perform the risk management functions, review the key risk management issues and supervise the operation of risk management system and the risk condition of the Bank.

Senior Management is the organizer and executor of risk management of the Bank. Under the Senior Management, we have various risk management committees with different functions, including Risk Management Committee (with three sub-committees, namely credit risk committee, market risk committee and operational risk committee), Credit Approval Committee, Asset and Liability Management Committee and Asset Disposal Committee. Risk Management Committee is mainly responsible for analyzing and evaluating the overall risk condition of the Bank, reviewing annual risk exposure limit and managing the implementation of plans, reviewing policies and measures related to risk management, and reviewing, supervising and coordinating the risk management of all departments of the Head Office and branches.

In 2012, in order to expand the coverage of risk management to the frontline and enhanced the risk management of branch outlets, we adjusted and refined the risk management organization structure of our tier-2 branches and sub-branches. At tier-2 branch level, the Bank established risk management departments consisting of the same members with the credit management departments. A credit approval center and a retail loan approval center were established thereunder to perform duties including risk management, credit management and credit approval. At tier-1 sub-branch level, we integrated duties including risk management, credit management, credit approval and internal control management and established risk management departments, so as to carry out centralized management of all risks for the purpose of comprehensive risk management. During the reporting period, we consistently strengthened business training to enhance the ability of our risk manager team.



Risk Management Structure

Risk Management System

In 2012, we continued to refine our risk management policy system and enhanced the establishment of the specific management policies for various types of risk, and we also formulated working rules for the implementation of the New Basel Capital Accord and promoted the implementation of the New Basel Capital Accord and the *Regulation Governing Capital of Commercial Banks (Provisional)*. In respect of credit risk, we formulated or revised policies and measures for, among others, the management of internal rating, the supervision and appraisal of internal rating, credit scoring and rating of retail loans, credit rating of non-retail customers, credit rating of retail loans of County Areas, management of internal rating of non-retail customers of foreign institutional, impairment test of credit assets, risk classification of non-credit assets and the management of suspension and resumption of credit products of County Areas. In respect of market risk, we formulated or revised policies and measures for, among others, the classification of trading book and banking book, impairment test of financial assets, market risk limit, capital transaction and investment business risk management, capital transaction and investment business valuation management. For operational risk, we formulated or revised policies and measures for, among others, the operational risk evaluation management, operational risk regulatory capital measurement and business continuity management.

Focusing on the Implementation of Advanced Measurement Approach (AMA) for Capital to Enhance Overall Risk Management Standard

In 2012, the IRB approach for credit risk of the Bank under the first pillar was rolled out smoothly and the phased establishment of Internal Models Approach (IMA) for market risk and AMA for operational risk was on target. The projects under the second pillar such as Internal Capital Adequacy Assessment Process (ICAAP) advanced progressively. We also completed the preparatory work for the formulation of measures and operational rules and report templates of information disclosure under the third pillar. During the reporting period, the Bank has enhanced its risk management capability through complying with international and domestic regulatory reforms, optimizing its risk governance mechanism, enhancing risk measurement and expanding the depth and breadth of the application of risk parameters. The Bank has applied to the CBRC for the adoption of capital AMA, including IRB approach for credit risk and standardized approach for operational risk. In the next phase, the Bank will further push forward the application of advanced measurement and management techniques to the real business practice so as to enhance risk measurement and management capabilities and well prepare for leading the launch of capital AMA.

The IRB approach for credit risk was further refined. The Bank established a rating governance mechanism which comprises a reciprocal check and balance system between model development, examination and internal audit and an inter-independent system between rating recognition, credit approval and rating supervision. We also improved the policies of the IRB approach, facilitated assessment of rating management and regulated the rating process so as to enhance the reliability and sensitivity of rating results. We specified the data standards, quantified the definition of "default", improved the relevant IT systems and enhanced collateral management. Rating results were further applied to credit approval, quota approval, loan pricing, post-loan management, risk reporting and Economic capital measurement. The verification and internal audit of the internal rating system and RWA measurement system were completed.

The establishment of IMA for market risk gained great achievements. We proactively promoted the establishment of IMA for market risk and developed the system of standardized approach for market risk and the data warehouse. We also localized and implemented the IMA calculation engine to fulfil the regulatory requirements in relation to the application of IMA for measuring market risk capital. Pre-and-post production tests were conducted for IMA calculation engine on measurement models and market data.

We pushed forward the implementation of the AMA for operational risk. We further organized and replenished data of internal loss and refined the key risk indicator system. We also carried out an evaluation on operational risk and consolidated the base of data for measurement. We explored a suitable AMA for operational risk of our business and developed a calculation engine covering various models, including a loss distribution approach and scenario analysis approach.

We established framework for Internal Capital Adequacy Assessment Process (ICAAP). We completed the planning of ICAAP and technology solutions of all modules and continuously refined such solutions, so as to gradually push forward the localized implementation of ICAAP solutions.

The preparatory work for information disclosure under the third pillar was completed. We formulated administrative measures on information disclosure of capital adequacy ratio and annual report template for information disclosure of capital adequacy ratio. We will disclose the information concerning the capital adequacy ratio and continuously refine the contents of information disclosure in compliance with *the Regulation Governing Capital of Commercial Banks (Provisional)* from 2013.

Risk Analysis and Reporting

In 2012, we continued to keep track of the changes in international and domestic economic and financial environment as well as the adjustments of industrial policies of the PRC and further enhanced risk analysis and reporting. We also analyzed and assessed the risk conditions of the Bank and our branches, and timely submitted risk reports to the Board of Directors, Board of Supervisors and Senior Management. We developed and commenced the operation of Phase I of our risk monitoring and reporting system smoothly, which enriched the risk monitoring tool, refined the reporting system and streamlined reporting procedures. Through utilizing the management tools, such as IRB system, risk exposure limit, value at risk (VaR) and Economic capital, the timeliness, comprehensiveness, focus and effectiveness of our risk reporting was further improved.

Credit Risk

Credit risk is the risk of loss from the default by an obligor or a counterparty when payments fall due. We are exposed to credit risk primarily from our loan portfolio, investment portfolio, guarantee business and various other on- and off-balance sheet credit risk exposures.

Credit Risk Management

In 2012, we proactively responded to changes in macro-economic and financial environment and complied with the government's macro-economic control policies, pursuant to which we focused on "foundation consolidation, restructuring and risk control", and continued to refine the policies and system of credit risk management. We strengthened the risk control in key areas, closely monitored capital flows of the enterprises and strictly terminated loans to customers with potential risk. In addition, we improved industry-specific risk exposure limit management as well as customer list-based management. We also strengthened the collection and disposal of non-performing loans and refined loan structure to control and mitigate credit risk.

Credit Risk Management Structure

The credit risk management system mainly comprises the Board of Directors and its Risk Management Committee, the Senior Management and its Risk Management Committee, Credit Approval Committee, Asset Disposal Approval Committee, Risk Management Department, Credit Management Department, Credit Approval Department and front offices, forming a credit risk management structure characterized with centralized management and multi-level authorization.

Risk Management of Corporate Banking

We further improved our credit policy system and optimized authorization management and business processes. We formulated the credit policy guidelines for 2012, facilitated the formulation of industrial and regional credit policies and strengthened customer list-based management. We applied the use of risk exposure limits to more areas, modified the mode of risk exposure limit management and imposed stringent control over the risk exposure for certain specific industries. We increased efforts in terminating loans to customers with potential risk to refine our loan portfolio.

We strengthened the management of the credit drawdown, which linked up with examination. We actively conducted post-evaluations on approved business, reviewed the accuracy and feasibility of the credit scheme, credit disbursement conditions and management requirements, and improved the review and approval procedures.

We further strengthened the management of Economic capital, leading the Economic capital to play its fundamental role in guiding and adjusting business development. With the implementation of the New Basel Capital Accord and the application of results from the IRB approach, we refined the exposure in relation to Economic capital measurement, upgraded the Economic capital measurement system and improved the risk sensitivity for Economic capital to promote the transformation to a capital intensive operating mode.

We enhanced risk control on key businesses. We mitigated potential risks through strengthening the research and policy guidance on cyclical industries and export-dependent industries which were vulnerable to economic downturn. The management of loans to government financing vehicles was also enhanced. According to the regulatory requirements, we strictly controlled the total amount of loans to the financing vehicles, conducted review on the termination of loans to government financing vehicles, and identified the source of loan repayment. We also reinforced the management of real estate loans by adopting a series of measures, such as restricting the entry threshold for customers, withdrawing approval authorization, accelerating repayment of loans and conducting risk inspections, so as to control the total amount and the risk of real estate loans. We strengthened the management of loans to Industries with high energy consumption, high pollution or overcapacity and timely adjusted relevant industrial credit policies in response to the changes in the industrial policy of the government. In order to effectively control the scale and growth of loans to Industries with high energy consumption, high pollution or overcapacity, we strictly implemented limits on industry-specific risk exposure and tightly controlled the entry threshold.

Risk Management of Retail Loans

We implemented the retail IRB system bankwide and enhanced the application of rating results in credit approval, post-disbursement management and loan pricing. We further refined the retail credit policies comprising three levels including the basic policy, administrative measures and rules for individual products. We pushed forward the centralized operation reform for retail loans and achieved a coverage rate of 99% of the retail loan centralized operation center, and we also promoted the professional, standardized, streamlined and integrated operation of the middle and back offices. By implementing the risk monitoring system for retail loan business to achieve intelligent credit risk monitoring and early warnings, we enhanced the capability of risk identification and control. We continued to carry out the suspension and resumption management and kept improving the structure of retail loan products. We planned to establish a loan collection management model comprising centralized external calling by the customer service center of the Head Office, integrated management by our retail loan center and local loan collection by our operating branches. The system for retail loans centralized collection by telephone was launched to improve collection efficiency.

Risk Management of Credit Card Service

We improved the risk management policies of credit card service and formulated various measures in relation to credit card risk managements, outsourcing and post-disbursement risk control. We also refined standardized operation manuals for fraudulent transaction monitoring and centralized collection. We established a centralized inspection and approval center so as to withdraw approval authority and enhance customer entry management. We set up an anti-fraud investigation center and strengthened the sharing of inter-bank risk information, which effectively prevented fraudulent applications and transactions using fake credit cards. We strengthened the entry threshold and day-to-day management of card-acceptance merchants. We launched regular training and inspections, carried out unscheduled risk investigations and optimized the risk monitoring system in respect of card-acceptance merchants to achieve real-time termination of transactions with risk and control the risk of card acceptance.

Risk Management of Treasury Operations

We formulated annual credit risk management policies in relation to treasury transactions in order to define the risk control boundaries among relevant businesses. We improved the credit evaluation system for bonds, and the results of which were further applied in business approval and subsequent evaluation. We can detect risks in a timely manner through enhancing daily monitoring and risk research and analysis on industries and credit subjects. We also enhanced credit risk management in relation to counterparties and regulated the transactions with domestic and foreign brokerage companies. We conducted the classification of non-credit investment assets and charged impairment losses in a prudent manner. We actively promoted the establishment of a centralized global credit line control and management platform which covered the credit granting and drawdown management of treasury operations in domestic and foreign branches.

Risk Management of the County Area Banking Business

Please refer to "County Area Banking Business — Mechanism Reform — Risk Management" of this annual report.

Loan Risk Classification

We formulated and kept refining relevant regulations on loan risk classification in accordance with the "Guidelines of Loan Credit Risk Classification" issued by the CBRC. We assessed the recoverability of loans and classified the loans by taking account of principle factors, including the borrower's repayment ability, repayment record, willingness to repay the loan, profitability of the loan project, and the reliability of the secondary repayment source.

We adopted two classification systems: namely the five-category classification system and the 12-category classification system. Corporate loans were mainly managed with 12-category classification. Comprehensive evaluations of customer default risk and debt transaction risk objectively reflected the risk level of loans and improved the foreseeability and sensitivity of risk identification. Retail loans and certain corporate loans in counties which satisfied the small business standards required by the CBRC were managed with the five-category classification system. The credit management system automatically classified the loans based on the length of period by which payments of principal or interest are overdue and the collateral type and allows for a more objective risk assessment. In addition, the classification was regularly adjusted based on the information collected in the credit management to reveal all risks objectively.

During the reporting period, we constantly strengthened the management of risk classification and refined the related policies of risk classification on credit assets. We also improved the risk classification management system in relation to credit assets and enhanced the standardization and effectiveness of classification management through organizing specific training and inspections.

Credit Risk Analysis

Maximum exposures to credit risk (before taking into account any collateral and other credit enhancement) were set out as follows:

In millions of RMB

Item	31 December 2012	31 December 2011
Balances with central banks	2,520,015	2,407,271
Deposits with banks and other financial institutions	262,233	131,874
Placements with banks and other financial institutions	223,380	212,683
Financial assets at fair value through profit or loss	177,771	68,052
Derivative financial assets	4,825	8,524
Financial assets held under resale agreements	814,620	529,440
Loans and advances to customers	6,153,411	5,410,086
Available-for-sale financial assets	752,158	650,013
Held-to-maturity investments	1,308,796	1,178,888
Debt securities classified as receivables	608,594	729,914
Other financial assets	72,624	54,128
Balance sheet items	12,898,427	11,380,873
Credit commitments	1,489,391	1,687,844
Total	**14,387,818**	**13,068,717**

Distribution of Loans by Collateral

In millions of RMB, except for percentages

Item	31 December 2012		31 December 2011	
	Amount	Percentage of total loans (%)	Amount	Percentage of total loans (%)
Loans secured by mortgages	2,998,659	46.6	2,568,412	45.5
Loans secured by pledges	750,381	11.7	608,164	10.8
Guaranteed loans	1,291,752	20.1	1,262,403	22.4
Unsecured loans	1,392,607	21.6	1,200,949	21.3
Total	**6,433,399**	**100.0**	**5,639,928**	**100.0**

Distribution of Overdue Loans by Period Overdue

In millions of RMB, except for percentages

Item	31 December 2012		31 December 2011	
	Amount	Percentage of total loans (%)	Amount	Percentage of total loans (%)
Overdue for less than 90 days (including 90 days)	30,693	0.5	25,776	0.5
Overdue for 91 to 360 days	19,292	0.3	7,762	0.1
Overdue for 361 days to 3 years	13,955	0.2	16,338	0.3
Overdue for more than 3 years	23,965	0.4	23,587	0.4
Total	**87,905**	**1.4**	**73,463**	**1.3**

Restructured Loans and Advances

In millions of RMB, except for percentages

	31 December 2012		31 December 2011	
	Amount	Percentage of total loans (%)	Amount	Percentage of total loans (%)
Restructured loans and advances	**11,592**	**0.2**	9,934	0.2

Loan Concentration

In millions of RMB, except for percentages

Top 10 borrowers	Industry	Amount	Percentage of total loans (%)
Borrower A	Transportation, logistics and postal services	32,676	0.50
Borrower B	Production and supply of power, thermal power, gas and water	16,631	0.26
Borrower C	Public administration, social security and social organizations	13,400	0.21
Borrower D	Leasing and commercial services	12,571	0.20
Borrower E	Construction	12,464	0.19
Borrower F	Production and supply of power, thermal power, gas and water	12,386	0.19
Borrower G	Real estate	11,544	0.18
Borrower H	Manufacturing	11,263	0.18
Borrower I	Information transmission, software and IT services	10,395	0.16
Borrower J	Manufacturing	10,080	0.16
Total		**143,410**	**2.23**

At the end of 2012, the total loans granted to the largest single borrower and top ten borrowers accounted for 3.59% and 15.76% of our regulatory capital, respectively, both of which were in compliance with regulatory requirements.

Distribution of Loans by Five-category Classification

In millions of RMB, except for percentages

	31 December 2012		31 December 2011	
Item	**Amount**	**Percentage (%)**	**Amount**	**Percentage (%)**
Normal	6,052,100	94.08	5,237,913	92.87
Special mention	295,451	4.59	314,657	5.58
Non-performing loans	85,848	1.33	87,358	1.55
Substandard	29,489	0.46	31,115	0.55
Doubtful	46,996	0.72	47,082	0.84
Loss	9,363	0.15	9,161	0.16
Total	**6,433,399**	**100.00**	**5,639,928**	**100.00**

At the end of 2012, the balance of non-performing loans was RMB85,848 million, representing a decrease of RMB1,510 million compared to the end of last year. Non-performing loan ratio dropped by 0.22 percentage point to 1.33%. The balance of special mention loans was RMB295,451 million, representing a decrease of RMB19,206 million compared to the end of last year. Special mention loans accounted for 4.59% of total loans, representing a decrease of 0.99 percentage point. Despite the sluggish macro-economic climate and increased pressure on asset quality of the banking industry, the quality of loans of the Bank remained stable, which was mainly because the Bank (1) established a complete and effective prevention and control system of loan risks based on the principles of comprehensive risk management, which covered procedures such as credit admission, investigation, credit granting and drawdown, post-disbursement management and recovery of non-performing loans; (2) adjusted the credit policies timely according to the macro-economic trend and changes in regulatory requirements, implemented risk exposure limit management, customer list-based management and suspension and resumption management, and innovated and applied new techniques and tools for risk management, and thus the capabilities of risk identification and control were further enhanced; and (3) continued to put efforts on post-disbursement management and the recovery and disposal of non-performing loans, and identified and resolved risks in a timely manner.

Distribution of Non-Performing Loans by Product Type

In millions of RMB, except for percentages

	31 December 2012			31 December 2011		
Item	Amount	Percentage (%)	Non-performing loan ratio (%)	Amount	Percentage (%)	Non-performing loan ratio (%)
Corporate loans	72,664	84.7	1.64	75,931	86.9	1.90
Of which: Short-term corporate loans	40,914	47.7	1.99	32,990	37.8	1.94
Medium- and long-term corporate loans	31,750	37.0	1.34	42,941	49.1	1.87
Discounted bills	12	—	0.01	31	—	0.03
Retail loans	12,962	15.1	0.76	11,176	12.8	0.78
Residential mortgage loans	3,804	4.5	0.36	4,058	4.6	0.46
Credit card balances	1,533	1.8	1.03	848	1.0	0.85
Personal consumption loans	1,062	1.2	0.62	628	0.7	0.44
Loans to private business	2,389	2.8	1.19	2,285	2.6	1.45
Loans to rural households	3,805	4.4	2.83	2,674	3.1	1.99
Others	369	0.4	19.02	683	0.8	26.49
Overseas and others	210	0.2	0.11	220	0.3	0.19
Total	**85,848**	**100.0**	**1.33**	**87,358**	**100.0**	**1.55**

At the end of 2012, the balance of corporate non-performing loans was RMB72,664 million, representing a decrease of RMB3,267 million over the end of last year, with the non-performing loan ratio dropped by 0.26 percentage point to 1.64%. The balance of retail non-performing loans increased by RMB1,786 million to RMB12,962 million over the end of last year, and the non-performing loan ratio decreased by 0.02 percentage point to 0.76%. The non-performing loans of discounted bills decreased by RMB19 million to RMB12 million over the end of last year, and the non-performing loan ratio decreased by 0.02 percentage point to 0.01%.

Distribution of Non-performing Loans by Geographic Region

In millions of RMB, except for percentages

Item	31 December 2012			31 December 2011		
	Amount	Percentage (%)	Non-performing loan ratio (%)	Amount	Percentage (%)	Non-performing loan ratio (%)
Head Office	2	—	—	2	—	—
Yangtze River Delta	19,734	23.0	1.19	14,880	17.0	0.98
Pearl River Delta	11,645	13.6	1.28	11,860	13.6	1.47
Bohai Rim	14,397	16.8	1.27	14,808	17.0	1.49
Central China	11,865	13.8	1.51	13,109	15.0	1.93
Northeastern China	4,564	5.3	1.87	4,195	4.8	2.04
Western China	23,431	27.3	1.67	28,284	32.3	2.30
Overseas and others	210	0.2	0.11	220	0.3	0.19
Total	**85,848**	**100.0**	**1.33**	**87,358**	**100.0**	**1.55**

In 2012, except for Yangtze River Delta and Northeastern China, balances of non-performing loans and non-performing loan ratio of other regions decreased. The balance of non-performing loans decreased more significantly in Western and Central China by RMB4,853 million and RMB1,244 million, respectively. The influence of macroeconomic fluctuation was more obvious in Eastern China than in the Central and Western China. The balance of non-performing loans in the Yangtze River Delta and Northeastern China increased by RMB4,854 million and RMB369 million, respectively, compared to the end of last year.

Distribution of Corporate Non-Performing Loans by Industry

In millions of RMB, except for percentages

Item	31 December 2012			31 December 2011		
	Amount	Percentage (%)	Non-performing loan ratio (%)	Amount	Percentage (%)	Non-performing loan ratio (%)
Manufacturing	32,206	44.3	2.39	26,790	35.4	2.23
Production and supply of power, thermal power, gas and water	7,904	10.9	1.65	10,704	14.1	2.37
Real estate	4,731	6.5	1.03	6,161	8.1	1.24
Transportation, logistics and postal services	6,182	8.5	1.20	7,485	9.9	1.63
Wholesale and retail	11,698	16.1	2.45	9,112	12.0	2.34
Water, environment and public utilities	1,514	2.1	0.76	2,693	3.5	1.48
Construction	740	1.0	0.36	1,466	1.9	0.87
Mining	345	0.5	0.18	617	0.8	0.42
Leasing and commercial services	1,476	2.0	0.51	2,684	3.5	1.04
Information transmission, software and computer service	247	0.4	1.19	175	0.2	1.20
Others	5,621	7.7	2.30	8,044	10.6	3.71
Total	**72,664**	**100.0**	**1.64**	**75,931**	**100.0**	**1.90**

At the end of 2012, the balance of non-performing loans decreased most significantly in three industries, namely (1) production and supply of power, thermal power, gas and water; (2) real estate; and (3) transportation, logistics and postal services by RMB2,800 million, RMB1,430 million and RMB1,303 million over the end of last year, respectively. The non-performing loans of the following industries: (1) manufacturing; (2) wholesale and retail; and (3) information transmission, software and computer service industries were rebounded, to certain extent, with an increase of RMB5,416 million, RMB2,586 million and RMB72 million over the end of last year, respectively.

Changes to the Allowance for Impairment Losses

In millions of RMB

Item	Individually assessed	Collectively assessed	Total
At 1 January 2012	54,024	175,818	229,842
Charge for the year	2,044	52,584	54,628
— Addition	16,618	76,215	92,833
— Reversal	(14,574)	(23,631)	(38,205)
Write-offs	(3,482)	(527)	(4,009)
Transfer-in/out			
— Recoveries of loans written-off in previous years	80	20	100
— Unwinding of discount on allowance	(423)	(134)	(557)
— Exchange difference	(1)	(15)	(16)
At 31 December 2012	**52,242**	**227,746**	**279,988**

At 31 December 2012, allowance for impairment losses on loans was RMB279,988 million, representing an increase of RMB50,146 million over the end of last year. Specifically, the balance of allowance for impairment losses assessed on a collective basis was RMB227,746 million, increased by RMB51,928 million over the end of last year. The balance of allowance for impairment losses assessed on an individual basis was RMB52,242 million, decreased by RMB1,782 million over the end of last year. The ratio of allowance to non-performing loans increased by 63.04 percentage points over the end of last year to 326.14%, and the ratio of allowance to total loans increased by 0.27 percentage point over the end of last year to 4.35%. All of the above ratios complied with the regulatory requirements, representing an enhancement of risk resistance.

Market risk

Market risk refers to the risk of losses in the on- and off-balance sheet businesses of banks as a result of an adverse change in market prices. Market risk comprises interest rate risk, exchange rate risk, stock price risk and commodity price risk. The Bank is exposed to market risk, mainly including interest rate risk and exchange rate risk. The risk management organizational structure of the Bank comprises the Board of Directors and its risk management committee, Senior Management and its risk management committee, Risk Management Department, Asset and Liability Management Department and the business departments and institutions bearing market risk.

In 2012, we consistently refined our market risk management policy system by formulating policies regarding annual treasury transaction and investment business and market risk management, and administrative measures on the valuation of treasury transaction and investment business, and administrative measures on the impairment test on financial assets, and amending administrative measures such as exposure limit management, book classification, market risk monitoring and reporting and risk classification in wealth management business. The IT system using standardized approach for market risk commenced operation. We speeded up the establishment of IMA project for market risk and established the methodology system of IMA project. We also introduced advanced risk calculation engine and the results of IMA project calculation were applied to daily operation. As such, the capability and level of market risk management were strengthened effectively.

Separation of Trading Book and Banking Book

To enhance the effectiveness of the market risk management and the accuracy of the measurement of regulatory capital for market risk, the Bank classified all of the on- and off-balance-sheet assets and liabilities into trading book and banking book. Trading book covers the financial instruments and commodities positions held for trading or hedging purposes. Any other positions are classified in the banking book.

Market Risk Management for Trading Book

The Bank managed the market risk of the trading book by methodologies such as Value at Risk (VaR), exposure limit management, sensitivity analysis, duration, exposure analysis and stress testing.

In 2012, we formulated annual policies for treasury transaction and investment, as well as market risk management based on the movement in external market and the operation of the Bank. We also formulated more specific policies for bonds and derivatives and set the risk control requirements for exposure and term. We established limit indication system based on VaR, and measured and monitored market risk for trading book by the application of market risk management system.

The Bank adopted historical simulation method with a confidence level of 99% based on holding period of 1 day and historical data for 250 days to measure the VaR for trading book of the Head Office, domestic branches and two overseas branches of the Bank. Based on the differences between domestic and overseas markets, the Bank selected applicable parameter for model and risk factors in order to reflect the actual market risk level. We verified the accuracy and credibility for the risk measurement model by data analysis, parallel modelling and back-testing of the market risk measurement model.

VaR Analysis for Trading Book

In millions of RMB

Item	January–December 2012			
	At the end of the period	Average	Maximum	Minimum
Interest rate risk	19	16	20	10
Exchange rate risk	46	42	103	13
Commodity risk	51	44	81	11
Overall VaR	47	50	116	27

Notes: 1. The Bank has calculated the overall VaR for trading book (excluding trading position for foreign exchange settlement business) since 2012;
2. VaR related to gold was recognized in the exchange rate risk.

We carried out stress testing for trading book quarterly and took key treasury business, including bonds, interest rate derivatives, foreign exchange derivates and precious metals transaction as testing objects, designed the stress scenarios related to interest rate risk, exchange rate risk and the price risk of precious metals, under which we estimated the profit or loss of such objects.

Market Risk Management for Banking Book

The Bank managed the market risk of banking book by comprehensively utilizing measures such as exposure limit management, stress testing, scenario analysis and gap analysis.

Interest Rate Risk Management

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

In 2012, we paid close attention to the macro-economic situation and the monetary policies of PBOC and adjusted our pricing strategy regarding all businesses flexibly. The interest rate risk management module for banking book of Decision Making Supporting System commenced operation, which improved the calculation, supervision and analysis of risks related to interest rate.

During the reporting period, we regularly measured and analysed the interest rate risk by carrying out gap analysis, sensitivity analysis, scenario analysis and stress testing to control the exposure of interest rate risk within an acceptable scope.

Exchange Rate Risk Management

Exchange rate risk refers to risk due to mismatches in the currency denominated assets and liabilities. Exchange rate risk mainly consists of the trading exchange rate risk that could be hedged, and the exchange rate risk caused by structural assets and liabilities (the "structural exchange rate risk"), which are difficult to be mitigated in operations.

In 2012, we carried out monitoring and sensitivity analysis of exchange rate risk exposure regularly and speeded up the establishment of Exchange Rate Risk Measurement and Monitoring System. We also kept our exposure of the exchange rate risk within a reasonable range through coordination of foreign exchange asset and liability business, timely settlement of foreign exchange for profit and other measures.

Market Risk Exposure Limit Management

Our market risk exposure limit is classified into directive limit and indicative limit based on its effects, and includes exposure limit, stop-loss limit, VaR limit and stress testing limit.

In 2012, we further enhanced market risk exposure limit management. We set exposure limit according to our risk appetite and tolerance. We also refined the categorization of market risk exposure limit and continued to monitor, report, make adjustment to and take follow-up actions for, the implementation of risk exposure limit. During the reporting period, the risk exposure limit was well implemented and no such limit was exceeded.

Interest Rate Risk Analysis

At the end of 2012, the negative accumulative gap sensitive to interest rate due within one year was RMB117,597 million, representing a decrease of RMB142,229 million in absolute value compared to the end of last year.

Interest Rate Risk Gap

In millions of RMB

	Within 1 month	1–3 months	3–12 months	1 year and below, sub-total	1–5 years	Over 5 years	Non-interest earning
31 December 2012	(2,205,360)	642,233	1,445,530	(117,597)	(204,422)	993,987	(69,049)
31 December 2011	(2,112,076)	556,224	1,296,026	(259,826)	(192,349)	997,038	(21,778)

Note: Please refer to "Note 52 to the Financial Statements: Financial Risk Management — Market Risk" for details.

Interest Rate Sensitivity Analysis

In millions of RMB

Movements in basis points	31 December 2012		31 December 2011	
	Movements in net interest income	Movements in other comprehensive income	Movements in net interest income	Movements in other comprehensive income
Increased by 100 basis points	(10,362)	(13,305)	(10,745)	(14,471)
Decreased by 100 basis points	10,362	13,966	10,745	15,391

The above interest rate sensitivity analysis indicates the movements in net interest income and other comprehensive income under different interest rates, assuming that there is a parallel shift in the yield curve, and without taking into account any risk management measures adopted by the management to reduce interest rate risk.

Based on our assets and liabilities positions as of 31 December 2012, net interest income would decrease (or increase) by RMB10,362 million if interest rates instantaneously increase (or decrease) by 100 basis points. Other comprehensive income will decrease by RMB13,305 million, if interest rates instantaneously increase by 100 basis points, or increase by RMB13,966 million if interest rates instantaneously decreased by 100 basis points.

Exchange Rate Risk Analysis

Our exchange rate risk is mainly the exposure risk arising from the exchange rate of USD against RMB. In 2012, the average exchange rate of RMB appreciated against USD accumulatively by 154 basis points or 0.25%. At the end of 2012, our net foreign exchange exposure of financial assets/liabilities was USD2,054 million, representing a decrease of USD2,340 million compared to the end of last year.

Foreign Exchange Exposure

In millions of RMB (USD)

	31 December 2012		31 December 2011	
	RMB	USD equivalent	RMB	USD equivalent
Net foreign exchange exposure of domestic financial assets/liabilities	6,986	1,111	1,056	168
Net foreign exchange exposure of overseas financial assets/liabilities	5,925	943	26,632	4,226
Net foreign exchange exposure of domestic and overseas financial assets/liabilities	12,911	2,054	27,688	4,394

Note: Please refer to "Note 52 to the Financial Statements: Financial Risk Management — Market Risk" for details.

Exchange Rate Sensitivity Analysis

In millions of RMB

Currency	Increase/decrease in exchange rate of foreign currency against RMB	Impact on profit before tax	
		31 December 2012	31 December 2011
USD	+1%	(247)	76
	-1%	247	(76)
HKD	+1%	281	(11)
	-1%	(281)	11

Foreign currency assets and liabilities of the Bank were mainly denominated in USD and HKD. Based on the exchange rate exposure at the end of the reporting period, the profit before tax would decrease (or increase) by RMB247 million if USD appreciates (or depreciates) against RMB by 1%.

Liquidity Risk

Liquidity risk refers to the risk of being unable to liquidate a position in a timely manner to acquire sufficient funds or failing to acquire sufficient funds at a reasonable cost in response to the growth of asset or to fulfill payment obligations. Our liquidity risk mainly derives from concentrated cash withdrawals, massive deferred payments by borrowers, serious mismatches of assets and liabilities and the difficulties in liquidating large-value assets.

The objective of liquidity risk management is to identify, measure, monitor and report the liquidity risk effectively by establishing a sound liquidity risk management mechanism in order to ensure that the liquidity requirement and the obligation to pay can be satisfied in different situations and to balance the profitability and security of our funds.

Liquidity Risk Management

In 2012, the PBOC flexibly controlled the total volume of liquidity in the market by adjusting the statutory deposit reserve ratio and conducting open market operations. We closely kept an eye on the changes of monetary policies and market, promptly analysed the macro-economic situation and risk condition, accurately estimated fund supply and demand and carried out regular stress testing in order to manage the liquidity risk of the Bank. We refined the liquidity management functions of the new generation of Asset and Liability Management System of the Bank, and further enhanced our liquidity risk management level. In addition, we put efforts to take in deposits, and ensured a smooth channel for market financing and maintained high proportion of quality liquidity reserves to fulfill the payment demand of customers.

Liquidity Risk Analysis

In 2012, as the macro-economic environment was complicated, the PBOC continued its prudent monetary policies and exerted its effort in fine-tuning the policies in advance. As PBOC decreased the statutory deposit reserve ratio twice and reduced the interest rate twice, the liquidity of the inter-bank market became looser as compared with the previous year, and the short-term interest rate in money market experienced fluctuations. As of the end of 2012, the interest rates in money market experienced a decrease as compared with the previous year.

We continuously monitored the changes in monetary policies, the development of the asset and liability businesses and the liquidity position of the Bank. We promoted the initiatives, flexibility and perspectiveness of the liquidity management strategies, which enabled dynamic adjustment of the liquidity management strategies and capital operation, to establish liquidity reserve of multi-levels so as to enhance the ability to cope with high liquidity risk. In response to the change of liquidity, we moderately reduced the standing funds and rationalized cash flow for due payment of investment and financing. We also placed great efforts in improving capital efficiency while securing the overall liquidity of the Bank. As a result, the liquidity and profitability of fund were both achieved and the liquidity position was secured and controllable during the year.

Liquidity Gap Analysis

The table below sets out our net position of liquidity as of the dates indicated.

In millions of RMB

	Past due/ undated	On demand	Within 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
31 December 2012	2,241,772	(6,597,099)	419,200	(47,620)	713,144	1,053,047	2,820,475	602,919
31 December 2011	2,115,981	(6,071,724)	101,585	(118,808)	812,393	1,085,901	2,597,757	523,085

Note: *Please refer to "Note 52 to the Financial Statements: Financial Risk Management — Liquidity Risk" for details.*

We assessed liquidity risk through liquidity gap analysis. At the end of 2012, the negative gap of liquidity repayable on demand continued to increase primarily due to a rapid growth of the demand liability. To maintain sufficient short-term liquidity, we properly increased some assets of financial assets held under resale agreements and short-term loans. The absolute value of negative gap within 1-3 months decreased by RMB71,188 million and the positive gap within 1 month increased by RMB317,615 million compared to the end of the previous year.

Operational Risk Management and Anti-Money Laundering

Operational Risk Management

Operational risk refers to the risk or loss resulting from inadequate or problematic internal control procedures, from human or information system related factors, or from external affairs, including legal risk, but not including strategy risk or reputation risk. In 2012, we pushed forward the implementation of the AMA for operational risk and carried out self-assessment of operational risk in all business lines of the Bank. We continued to monitor key risk indicators and promoted the establishment of modern operating system so as to further enhance operational risk management of the Bank.

In 2012, we further improved the operational risk measurement data base by cleansing, regulating and replenishing the loss data for operational risk. We established the framework of a general calculation engine which covered loss distribution approach, scenario analysis approach, mixed approach and internal measurement approach and preliminarily developed a AMA model for operational risk. We formulated administrative measures on operational risk evaluation, launched trainings and provided guidance for risk evaluation, promoted the conduct of self-assessment of the headquarter and branches as well as all business lines, and established a regular operational risk self-assessment system for business departments. We further refined the system of key risk indicators by setting multi-levels for early-warning limits, strengthened the application of key risk indicators in the Economic capital measurement, expanded the range of indicators and enhanced the sensitivity of the results of measurement towards the changes of key risk indicators. Centralized authorization, centralized operation and centralized monitoring of back offices were extensively promoted. We reformed the traditional mode of operation and monitoring, and strengthened risk management of key business procedures handled by counters including enhancing the management of the use of seal, developing a centralized banknote replenishment and allocation management system for self-service machines, enhancing the quality of reconciliation management, improving the operation and maintenance of the electronic seal verification system and promoting the use of payment password. As such, the operational risk prevention and control capability of the branch outlets was enhanced effectively. Moreover, we reinforced the risk prevention of bank cards and electronic channels and extensively promoted IC cards through upgrading ATMs with IC card ports. We further improved the function of USBKEY of Internet banking to enhance the security. We strengthened staff conduct management, carried out ongoing staff conduct assessment and widely promoted education of our corporate culture and professional ethics. We formulated Administrative Measures on Business Continuity, defining framework and basic workflow and stipulating standards for business continuity management, which enhanced the capability to manage disaster risk.

Legal Risk Management

Legal risk refers to any risk of the Bank suffering from adverse consequences including legal liabilities, loss of rights and reputational damage due to the breach of laws, administrative rules and regulations, or terms of contracts of its business operations and legal failure to duly regulate and exercise rights or external legal factors. Legal risk includes risk directly resulted from legal factors, as well as the risk associated with other forms of risks.

In 2012, the Bank promoted the use of legal risk manuals and the study of typical legal risk cases and carried out law popularization lectures and training activities for different business lines and administrative levels in order to improve the legal risk control consciousness of all staff. We optimized the litigation management procedures to effectively enhance the management of litigation cases against the Bank, mitigated legal risk effectively by litigation proceedings and achieved favourable results in major litigations and disputes. We strengthened contract management by forming a whole-process contract management structure and improving the system for formulating contracts and documents to facilitate healthy and sound development of our businesses. In addition, we achieved significant success in the protection of intellectual property rights and the awareness of intellectual rights protection among staff was raised significantly. We also regulated the monitoring and reporting system for legal risks, refined the legal risk indicator assessment system and continuously enhanced the level of the Bank's compliance operation.

Anti-Money Laundering

In 2012, we further improved the Anti-Money Laundering (AML) management system, strengthened the AML compliance management and promoted the standard of AML management. We aimed to establish AML risk monitoring and analysis mechanism and implemented the customer risk grading system for AML, which improved the capability of customer identification and risk control. We strengthened the technical support of AML and optimized the system process in order to enhance the quality and efficiency in AML reporting. We stepped up the education, training and promotion of AML to further enhance the risk prevention awareness and skills of staff in respect of AML. We fulfilled our AML duties globally, assisted the competent authorities in AML investigations and played an active role in combating illegal activities including money laundering and terrorism financing within and outside China.

Consolidated Management

In 2012, we further strengthened the consolidated management of the Group by refining relevant policies and optimizing risk control working mechanism for consolidated management. As a result, our consolidated management capability improved continuously.

We refined the consolidated management policies and clarified the working mechanism and management scope of risk management for subsidiaries at group level. We formulated and issued the Internal Transaction Administrative Measures which focused on the separate management for different business units, staff and business lines according to relevant systems and corporate governance structure so as to prevent risks of a single unit from spreading to the whole Group. We formulated Large Credit Risk Exposure Consolidated Management Rules to carry out consolidated management for large credit risk exposure at group level. We also improved liquidity emergency management and established liquidity monitoring, early-warning, reporting and contingency events handling mechanism at group level. We refined relevant management systems to promote the improvements on risk management policies and management tools at rural banks.

We launched risk assessments, monitoring and reporting in subsidiaries and branches. During the reporting period, we conducted risk assessments on certain subsidiaries and branches and enhanced the technical guidance on risk management of subsidiaries and branches. We regularly collected risk information of subsidiaries and branches so as to strengthen risk monitoring and reporting.

The establishment of the information system for consolidated management was further promoted. We integrated data from the statements of subsidiaries and branches and commenced research and development of a consolidated risk reporting module to enhance the computerized data collection and reporting functions of the information system in subsidiaries and branches.

Reputation Risk Management

Reputation risk refers to the risk resulting from negative feedback from related stakeholders due to the operation, management or other acts of the Bank or external events.

We have placed reputation risk management under the corporate governance and comprehensive risk management system. We continuously refined the reputation risk management mechanism, measures and policies, and actively and effectively prevented reputation risk and addressed reputation risk events to minimize the losses and negative effects arising from the events that might be harmful to our reputation.

In 2012, we conducted regular examinations to identify and prevent reputation risk in advance. Measures addressing potential material reputation risk were established and the allocation of duties was clarified. We strengthened the daily management of reputation risk events by setting up a mechanism under which the reputation risk management department can interactively cooperate with the security, supervision, legal, risk and auditing departments. In order to optimize the supervision and reporting system for reputation risk management, we increased the frequency of monitoring and reporting of reputation events, and improved the technical level and extended the scope of monitoring. We summarized the experience from the previous classic cases of reputation risk, which provided directions to address reputation risk events and enhanced the reputation risk management in the Bank. We carried out research on reputation risk under the ICAAP and formulated specified identification procedures and measurement standards for reputation risk in order to promote the measurement and standardized management of reputation risk. We devoted more in risk management trainings and cultivated the culture of reputation risk management to raise the awareness of preventing reputation risk among the staff of the Bank.

Capital Management

During the reporting period, we implemented the basic principles of capital management and the objectives of capital adequacy ratio management in accordance with the capital planning for 2010–2012, timely monitored the capital adequacy and prudently managed and controlled our capital application. During the reporting period, the CBRC officially issued the Regulation Governing Capital of Commercial Banks (Provisional). We conducted thorough evaluation on its effects and actively carried out preparations for its implementation. Plans on capital for the next three years and capital adequacy during the transition period were formed. During the reporting period, our capital adequacy ratio maintained within the planned range and complied with the regulatory requirements.

Financing Management

Upon the approval of the CBRC and the PBOC, we issued Subordinated Bonds of a total nominal value of RMB50 billion in the inter-bank bond market on 20 December 2012. Such Subordinated Bonds are fixed rate bonds for a term of 15 years. The coupon rate is 4.99% per annum. We have a conditional right to redeem the Subordinated Bonds on the end of tenth anniversary from the issuance. The proceeds from the issuance of such Subordinated Bonds have been allocated as a supplementary capital of the Bank in accordance with relevant laws and approvals from the regulatory authorities.

Economic Capital Management

We were dedicated to setting up a capital-saving development model with achieving higher return on capital and maximizing the return of our capital resources to realize the growth of our shareholders' value. During the reporting period, we formulated the Economic Capital Allocation Policy for 2012, which established a value-oriented allocation mechanism of Economic capital. We aimed at reinforcing capital constraint and increasing return on capital, utilized advanced measurement methods of Economic capital, further reinforced the linkage between capital allocation and return, and pushed forward the transformation of the business growth mode. In addition, we promoted the ICAAP and developed an application platform for optimizing Economic capital allocation. We were exploring the way of optimizing our return on Economic capital and maximizing economic value added through refining our business and products portfolio continuously based on Economic capital management.

Capital Adequacy Ratio

We followed the Measures for the Management of Capital Adequacy Ratio of Commercial Banks promulgated by the CBRC and related regulatory requirements on calculation and disclosure of the capital adequacy ratio. At the end of 2012, our capital adequacy ratio and core capital adequacy ratio were 12.61% and 9.67%, respectively, increased by 0.67 and 0.17 percentage point, respectively, compared to the end of the previous year.

Capital Adequacy Ratio

In millions of RMB

Item	31 December 2012	31 December 2011
Core capital:		
Share capital	324,794	324,794
Reserves[1]	374,960	282,508
Minority interests	1,539	187
Total core capital	701,293	607,489
Supplementary capital:		
General allowance of impairment loans	64,334	56,287
Long-term subordinated bonds	150,000	100,000
Others	—	725
Total supplementary capital	214,334	157,012
Total capital base before deductions	915,627	764,501
Deductions:		
Goodwill	1,381	—
Equity investments which are not consolidated	768	1,359
Other deductible items[2]	3,430	132
Total capital base after deductions	910,048	763,010
Risk-weighted assets and market risk capital adjustment	7,216,178	6,388,375
Core capital adequacy ratio	**9.67%**	**9.50%**
Capital adequacy ratio	**12.61%**	**11.94%**

Notes: 1. Cash dividends estimated to be paid were deducted from reserves.

2. Investments in real properties not used by the owners were deducted in accordance with the Measures for the Management of Capital Adequacy Ratio of Commercial Banks.

Leverage Ratio

We referred the relevant regulatory requirements on calculation and disclosure of the leverage ratio. Our leverage ratio was 4.74% at the end of 2012.

In millions of RMB

Item	31 December 2012
Core capital	701,293
Deductible items from core capital	3,480
On-balance sheet assets, adjusted[1]	13,248,283
Off-balance sheet items, adjusted (exclusive of derivatives)[2]	1,489,391
On-and off-balance sheet assets, adjusted[3]	14,734,194
Leverage ratio	**4.74%**

Notes: 1. On-balance sheet assets after adjustment include derivative using the current risk exposure approach and other on-balance sheet assets calculated.

2. Off-balance sheet items after adjustment include unconditionally cancellable commitments with a conversion factor of 10% and other off-balance sheet items.

3. On-and off-balance sheet assets after adjustment = On-balance sheet assets after adjustment + Off-balance sheet items after adjustment – Deductions from core capital

Changes in Share Capital

Details of changes in share capital

Unit: Share

	31 December 2011		Increase/decrease during the reporting period(+/-)			31 December 2012	
	Number of shares	Percentage (%)	New shares issued	Others[3]	Subtotal	Number of shares	Percentage (%)[4]
1) Shares subject to restrictions on sales[1]	**273,598,823,404**	**84.2**	**—**	**-5,114,117,500**	**-5,114,117,500**	**268,484,705,904**	**82.7**
1. State-owned shares[2]	268,484,705,904	82.7	—	—	—	268,484,705,904	82.7
2. Shares held by other domestic investors[2]	5,114,117,500	1.5	—	-5,114,117,500	-5,114,117,500	—	—
3. Shares held by foreign investors[2]	—	—	—	—	—	—	—
2) Shares not subject to restrictions on sales	**51,195,293,596**	**15.8**	**—**	**5,114,117,500**	**5,114,117,500**	**56,309,411,096**	**17.3**
1. RMB-denominated ordinary shares	20,456,470,500	6.3	—	5,114,117,500	5,114,117,500	25,570,588,000	7.9
2. Foreign-invested shares listed overseas[2]	30,738,823,096	9.5	—	—	—	30,738,823,096	9.4
3) Total number of shares	**324,794,117,000**	**100.0**	**—**	**—**	**—**	**324,794,117,000**	**100.0**

Notes: 1. "Shares subject to restrictions on sales" refers to the shares held by shareholders who are subject to restrictions on sales in accordance with laws, regulations and rules or undertakings.

2. "State-owned shares" refers to the shares held by the MOF, Huijin, the SSF and the SSF-Account III for state-owned shares transfer managed by the SSF. "Shares held by other domestic investors" refers to the shares held by strategic investors of A shares and the allottees of A shares under off-line placement. "Shares held by foreign investors" refers to the shares held by foreign cornerstone investors. "Foreign-invested shares listed overseas" refers to the H shares as defined in "No. 5 Standards on the Content and Format of Information Disclosure of Companies with Public Offerings — Content and Format of the Report of Change in Corporate Shareholding" (Revision 2007) of the CSRC.

3. "Others" refers to the shares held by strategic investors of A shares and cornerstone investors of H shares, which were released from restrictions on sales due to the expiry of the lock-up period relating to such shares. Positive numbers represent increases whereas negative numbers represent decreases.

4. Figures in the "Percentage" column of the table above are rounded to the nearest decimal number.

Details of changes in shares subject to restrictions on sales

Unit: Share

Name of shareholders	Number of shares subject to restrictions on sales as at the beginning of the period	Number of shares released/ decreased from restrictions on sales during the period	Increase in the number of shares subject to restrictions on sales during the period	Number of shares subject to restrictions on sales as at the end of the period	Reason for restrictions on sales	Date of release of restrictions on sales
MOF	127,361,764,737	—	—	127,361,764,737	Restrictions upon issuance	15 July 2013
Huijin	130,000,000,000	—	—	130,000,000,000	Restrictions upon issuance	15 July 2013
SSF[1]	11,122,941,167	—	—	11,122,941,167	Restrictions upon issuance	15 July 2013 15 May 2015
Strategic investors of A shares[2]	5,114,117,500	5,114,117,500	—	—	Restrictions upon issuance	—
Total	**273,598,823,404**	**5,114,117,500**	**—**	**268,484,705,904**	**—**	**—**

Notes:1. Refers to the shares held by the SSF and the shares held by the SSF-Account III for state-owned shares transfer managed by the SSF pursuant to the requirements of state-owned shares transfer.

2. The lock-up period of 50% of shares held by strategic investors of A shares was 12 months from the listing date of A shares, while the lock-up period of the remaining 50% of shares was 18 months from the listing date of A shares. All shares subject to restrictions on sales in connection with strategic investors of A shares were released from restrictions on sales on 15 January 2012.

The trading date of shares subject to restrictions on sales

Unit: Share

Date	Number of new shares for trading upon the expiry of the restrictions on sales	The remaining number of shares subject to the restrictions on sales	The remaining number of shares not subject to the restrictions on sales	Description
15 January 2012	5,114,117,500	268,484,705,904	56,309,411,096	Strategic investors of A shares
15 July 2013	258,592,941,197	9,891,764,707	314,902,352,293	A shares held by the MOF and Huijin, and A shares transferred to the SSF from the MOF[1]
15 May 2015	9,891,764,707	—	324,794,117,000	A shares held by the SSF, and A shares transferred to the SSF by itself

Note: 1. A shares held by the MOF and Huijin are not subject to the above lock-up period of 36 months after the approval of conversion to H shares by the relevant authority.

The shareholdings of the shareholders subject to restrictions on sales and the terms of restrictions on sales

Unit: Share

No.	Shareholders subject to restrictions on sales	Number of shares subject to restrictions on sales held	Date of trading	Numbers of new shares for trading	Restrictions on sales
1	Huijin	130,000,000,000	15 July 2013	130,000,000,000	36 months
2	MOF	127,361,764,737	15 July 2013	127,361,764,737	36 months
3	SSF[1]	11,122,941,167	15 July 2013	1,231,176,460	36 months
			15 May 2015	9,891,764,707	58 months

Note: 1. It represents the shares held by the SSF and the shares held by the SSF-Account III for state-owned shares transfer managed by the SSF pursuant to the requirements of state-owned shares transfer.

Details of Issuance and Listing of Securities

Issuance of Securities

On 21 April 2010, the SSF entered into the Share Subscription Agreement of Agricultural Bank of China Limited with the MOF, Huijin and the Bank, pursuant to which the SSF subscribed for 10,000,000,000 shares newly issued by the Bank for a total consideration of RMB15.52 billion.

On 15 and 16 July 2010, the shares of the Bank were listed on the Shanghai Stock Exchange and the Hong Kong Stock Exchange, respectively. The total number of A shares and H shares offered in the initial public offerings was approximately 54,790 million shares, representing 16.87% of the Bank's total share capital after the initial public offerings. Among them, there were approximately 25,570 million A shares and approximately 29,220 million H shares, representing 7.87% and 9.00% of the Bank's total share capital after the initial public offerings, respectively. The over-allotment options of A shares and H shares were exercised in full. The offer prices of A shares and H shares were RMB2.68 and HKD3.20 per share, respectively. The total proceeds from the initial public offerings of A shares and H shares were approximately USD22.1 billion, of which approximately RMB68.5 billion was proceeds from the issuance of A shares. After deducting the expenses of the issuance, all the proceeds were used to strengthen the capital base of the Bank. The Bank had a total of 324,794,117,000 shares in the share capital, comprising 294,055,293,904 A shares and 30,738,823,096 H shares, upon the completion of the initial public offerings of A shares and H shares.

For details of the issuance of Subordinated Bonds and the RMB bonds issued in Hong Kong, please refer to "Note 39 to the Financial Statements: Debt Securities Issued".

Employee shares

The Bank had no employee shares.

Particulars of Shareholders

Number of shareholders and particulars of shareholding

At the end of the reporting period, the Bank had a total of 300,294 shareholders, including 29,953 H share shareholders and 270,341 A share shareholders. As of the close of business on 20 March 2013 (the fifth trading day immediately preceding the date of the Bank's A share annual report), the Bank had a total of 299,189 shareholders, including 29,211 H share shareholders and 269,978 A share shareholders.

Particulars of shareholding of the top 10 shareholders (the shareholding of H share shareholders is based on the data set out in the register of members of the Bank maintained in the H shares registrar)

Unit: Share

Total number of shareholders	300,294 (as set out in the registers of A shares and H shares as of 31 December 2012)						
Particulars of shareholding of the top 10 shareholders (the data below are based on the registers of shareholders as of 31 December 2012)							
Name of shareholders	**Nature of shareholders**	**Type of shares**	**Increase/ decrease during the reporting period**	**Shareholding percentage (%)**	**Total number of shares held**	**Number of shares subject to restrictions on sales held**	**Number of pledged or locked-up shares**
Huijin	State-owned	A shares	302,532,467	40.21	130,612,164,964	130,000,000,000	None
MOF	State-owned	A shares	—	39.21	127,361,764,737	127,361,764,737	None
HKSCC Nominees Limited	Overseas legal entity	H shares	(3,773,261)	8.99	29,190,416,430	—	Unknown
SSF	State-owned	A shares	—	3.02	9,797,058,826	9,797,058,826	None
Ping An Life Insurance Company of China, Ltd. — Traditional — Ordinary Insurance Products	Other	A shares	1,346,223,121	1.38	4,489,829,320	—	None
China Life Insurance Company Limited — Dividend distribution — Individual dividend — 005L — FH002 Hu	Other	A shares	21,949,436	0.42	1,362,193,958	—	None
SSF-Account III for state-owned shares transfer	State-owned	A shares	—	0.41	1,325,882,341	1,325,882,341	None
Standard Chartered Bank	Overseas legal entity	H shares	—	0.37	1,217,281,000	—	Unknown
Hwabao Trust Co., Ltd. — Single Unit Trust Fund R2008ZX013	Other	A shares	(18,000,000)	0.33	1,087,576,095	—	None
State Grid Yingda International Holdings Group Limited	Other	A shares	—	0.23	746,268,000	—	None
China Shuangwei Investment Corporation	Other	A shares	—	0.23	746,268,000	—	None

Note: All the shares held by the HKSCC Nominees Limited represent the total number of H shares held by it as an agent on behalf of all institutional and individual investors registered with it as of 31 December 2012.

Apart from the SSF-Account III for state-owned shares transfer which is managed by the SSF, the Bank is not aware of any connections between the above shareholders or whether they are parties acting in concert.

Particulars of shareholding of the top 10 shareholders not subject to the restrictions on sales (the data below are based on the registers of shareholders as of 31 December 2012)		
Name of shareholders	**Number of shares not subject to restrictions on sales**	**Type of shares**
HKSCC Nominees Limited	29,190,416,430	H shares
Ping An Life Insurance Company of China, Ltd. — Traditional — Ordinary Insurance Products	4,489,829,320	A shares
China Life Insurance Company Limited — Dividend distribution — Individual dividend— 005L — FH002 Hu	1,362,193,958	A shares
Standard Chartered Bank	1,217,281,000	H shares
Hwabao Trust Co., Ltd. — Single Unit Trust Fund R2008ZX013	1,087,576,095	A shares
China Shuangwei Investment Corporation	746,268,000	A shares
State Grid Yingda International Holdings Group Limited	746,268,000	A shares
China Railway Construction Investment Company	742,974,000	A shares
Ping An Life Insurance Company of China, Ltd. — Traditional — Insurance Policy with High Interest Rate	656,936,059	A shares
Huijin	612,164,964	A shares

Apart from Ping An Life Insurance Company of China, Ltd. — Traditional — Ordinary Insurance Products and Ping An Life Insurance Company of China, Ltd. — Traditional — Insurance Policy with High Interest Rate which are managed by Ping An Life Insurance Company of China, Ltd., the Bank is not aware of any connections between the above shareholders or whether they are parties acting in concert.

Shareholdings of substantial shareholders

During the reporting period, the Bank's substantial shareholders and controlling shareholders remained unchanged. The Bank had no de facto controller.

MOF

The MOF, established in October 1949, is a ministry under the State Council, and is empowered to perform its duties in respect of state finance and taxation.

As of 31 December 2012, the MOF held 127,361,764,737 shares of the Bank, accounting for 39.21% of the total share capital of the Bank.

Huijin

Huijin was established through state investment in accordance with the Company Law of the PRC on 16 December 2003 as a wholly state-owned company with a registered capital of RMB828,209 million. The organizational code of Huijin is 71093296-1 and its legal representative is Mr. LOU Jiwei. The State Council has authorized Huijin to make equity investments in major state-owned financial enterprises to preserve and appreciate the value of these invested ventures. Huijin, to the extent of its capital contribution, can exercise rights and assume obligations as an investor on behalf of the state. Huijin does not engage in other commercial activities nor intervene in the normal operations of major state-owned financial enterprises which are controlled by Huijin.

As Huijin cannot provide its audited financial statements for 2012 until the completion of the audits of the financial statements of its investees, the following financial data are the audited data for 2011. At 31 December 2011, the total assets of Huijin amounted to RMB2,020,950,210.8 thousand, total liabilities was RMB148,784,181.0 thousand and the owners' equity was RMB1,872,166,029.8 thousand in total. The net profit for 2011 was RMB337,478,750.8 thousand. The net cash flows generated from operating activities, investing activities and financing activities for 2011 amounted to RMB–37,693,774.5 thousand.

As of 31 December 2012, the shareholdings of Huijin in its investees, which are listed companies in the PRC and overseas, were as follows:

No.	Name of Institution	Shareholding of Huijin
1	Industrial and Commercial Bank of China Limited(1)(2)	35.46%
2	Agricultural Bank of China Limited(1)(2)	40.21%
3	Bank of China Limited(1)(2)	67.72%
4	China Construction Bank Corporation(1)(2)	57.21%
5	China Everbright Bank Company Limited(1)	48.37%
6	New China Life Insurance Company Limited(1)(2)	31.23%

Note: (1) A-share listed companies
(2) H-share listed companies

Huijin increased its shareholding of the Bank's A shares through acquiring shares via the trading system of the Shanghai Stock Exchange on 10 October 2011. From 10 October 2011 to 9 October 2012, Huijin had cumulatively increased its shareholding of the Bank's A shares by 421,087,402, accounting for approximately 0.13% of the total share capital of the Bank. On 10 October 2012, Huijing further increased its shareholding of the Bank's A shares through acquiring shares via the trading system of the Shanghai Stock Exchange, and planned to further increase its shareholding in the Bank in the secondary market for its own account during the six months starting from 10 October 2012. From 10 October 2012 to the end of the reporting period, Huijin had cumulatively increased its shareholding of the Bank's A shares by 191,077,562, accounting for approximately 0.06% of the issued shares of the Bank. As of the end of the reporting period, Huijin held 130,612,164,964 shares of the Bank, accounting for 40.21% of the total share capital of the Bank.

Except for MOF and Huijin, as of 31 December 2012, there was no other corporate shareholder who held more than 10% equity interest in the Bank.

Interests and short positions in shares and underlying shares held by substantial shareholders and other persons

As of 31 December 2012, the Bank received notifications from the following persons regarding their interests or short positions in shares and underlying shares of the Bank. Such interests or short positions were recorded in the register required to be kept pursuant to Section 336 of the Securities and Futures Ordinance of Hong Kong, details of which are set out below:

Unit: Share

Name	Capacity	Interests and short positions	Nature	Percentage of issued class shares (%)	Percentage of total issued shares (%)
MOF	Beneficial owner/ nominee[1]	138,682,352,926 (A shares)[2]	Long position	47.16	42.70
Huijin	Beneficial owner	130,000,000,000 (A shares)[3]	Long position	44.21	40.03
Qatar Investment Authority	Interests of controlled entity[4]	6,816,775,000 (H shares)	Long position	22.18	2.10
Qatar Holding LLC	Beneficial owner	6,816,775,000 (H shares)	Long position	22.18	2.10
Capital Research and Management Company	Investment manager	3,701,373,000 (H shares)	Long position	12.04	1.14
The Capital Group Companies, Inc.	Investment manager	3,650,551,000 (H shares)	Long position	11.88	1.12
Citigroup Inc.	Investment manager	2,325,867,492 (H shares)	Long position	7.57	0.72
		325,065,166 (H shares)	Short position	1.06	0.10
		1,980,470,236 (H shares)	Lending pool	6.44	0.61
Blackrock, Inc.	Investment manager	2,059,284,506 (H shares)	Long position	6.70	0.63
		202,784,272 (H shares)	Short position	0.66	0.06
JPMorgan Chase & Co.	Investment manager	1,540,491,847 (H shares)	Long position	5.01	0.47
		30,870,000 (H shares)	Short position	0.10	0.01
		579,144,244 (H shares)	Lending pool	1.88	0.18

Notes:

1. *10,976,470,582 A shares are held by the SSF but the voting rights of these shares were transferred to the MOF according to the share subscription agreement dated 21 April 2010 and the Approval on the Proposed Transfer of State-owned Shares of the Agricultural Bank of China Limited issued by the MOF on 5 May 2010.*
2. *According to the register of shareholders of the Bank as of 31 December 2012, the MOF held 127,361,764,737 A shares of the Bank, accounting for 43.31% and 39.21% of the issued A shares and the total issued shares of the Bank, respectively.*
3. *According to the register of shareholders of the Bank as of 31 December 2012, Huijin held 130,612,164,964 A shares of the Bank, accounting for 44.42% and 40.21% of the issued A shares and the total issued shares of the Bank, respectively.*
4. *Qatar Investment Authority is deemed to be interested in 6,816,775,000 H shares of the Bank held by Qatar Holding LLC, a wholly owned subsidiary of Qatar Investment Authority.*

Basic Information

Name	Position	Gender	Age	Tenure
Incumbent Directors				
JIANG Chaoliang	Chairman, Executive Director	Male	55	2012.01–2015.01
ZHANG Yun	Vice Chairman, Executive Director, President	Male	53	2012.01–2015.01
GUO Haoda	Executive Director, Executive Vice President	Male	55	2012.12–2015.12
LOU Wenlong	Executive Director, Executive Vice President	Male	55	2012.12–2015.12
SHEN Bingxi	Non-executive Director	Male	61	2012.01–2015.01
LIN Damao	Non-executive Director	Male	58	2012.01–2015.01
CHENG Fengchao	Non-executive Director	Male	53	2012.01–2015.01
LI Yelin	Non-executive Director	Male	59	2011.07–2014.07
XIAO Shusheng	Non-executive Director	Male	57	2012.02–2015.02
ZHAO Chao	Non-executive Director	Male	54	2012.02–2015.02
Anthony WU Ting-yuk	Independent Non-executive Director	Male	58	2012.01–2015.01
QIU Dong	Independent Non-executive Director	Male	55	2012.01–2015.01
Frederick MA Si-hang	Independent Non-executive Director	Male	61	2011.04–2014.04
WEN Tiejun	Independent Non-executive Director	Male	61	2011.05–2014.05
Francis YUEN Tin-fan	Independent Non-executive Director	Male	60	2013.03–2016.03
Incumbent Supervisors				
CHE Yingxin	Chairman of the Board of Supervisors	Male	58	2012.01–2015.01
LIU Hong	Supervisor Representing Shareholders	Male	44	2012.01–2015.01
JIA Xiangsen	Supervisor Representing Employees	Male	57	2009.04–2012.04
WANG Yurui	Supervisor Representing Employees	Male	57	2009.04–2012.04
YAN Chongwen	Supervisor Representing Employees	Male	60	2011.07–2014.07
ZHENG Xin	Supervisor Representing Employees	Male	54	2011.07–2014.07
DAI Genyou	External Supervisor	Male	63	2012.10–2015.10

Name	Position	Gender	Age	Tenure
Incumbent Senior Management				
ZHANG Yun	Vice Chairman, Executive Director, President	Male	53	2009.01–
GUO Haoda	Executive Director, Executive Vice President	Male	55	2009.01–
CAI Huaxiang	Executive Vice President	Male	53	2010.02–
GONG Chao	Executive Vice President, Secretary of the Party Discipline Committee	Male	53	2012.03–
LOU Wenlong	Executive Director, Executive Vice President	Male	55	2012.09–
WANG Wei	Member of Senior Management	Male	50	2011.12–
LI Zhenjiang	Secretary to the Board of Directors	Male	42	2009.01–
Former Directors, Supervisors and Senior Management				
PAN Gongsheng	Former Executive Director, Executive Vice President	Male	49	2010.04–2012.06
YANG Kun	Former Executive Director, Executive Vice President	Male	54	2012.01–2012.07
ZHANG Guoming	Former Non-executive Director	Male	57	2009.01–2012.01
XIN Baorong	Former Non-executive Director	Female	61	2009.01–2012.01
PAN Xiaojiang	Former Supervisor Representing Shareholders	Male	60	2009.01–2012.01
ZHU Hongbo	Former Executive Vice President, Secretary of the Party Discipline Committee	Male	50	2010.02–2012.01

Note: 1. Please refer to "Change in Directors, Supervisors and Senior Management" in this section on the information relating to the changes in Directors, Supervisors and Senior Management.

2. The Bank is in the process of qualification review and election of supervisors representing employees. As of the date of this annual report, Mr. JIA Xiangsen and Mr. WANG Yurui are still performing their duties as supervisors representing employees of the Bank.

Biography of Directors, Supervisors and Senior Management

Biography of Directors

JIANG Chaoliang Chairman, Executive Director

Mr. JIANG Chaoliang received a Master's degree in economics from Southwestern University of Finance and Economics and is a Senior Economist. He has served as Chairman of the Board of Directors and Executive Director of the Bank since January 2012. Mr. Jiang previously served as director of the General Planning Department and general manager of the International Business Department of Agricultural Bank of China and vice director of the Banking Department of the PBOC. He used to serve concurrently as president of Shenzhen branch of the PBOC and governor of Shenzhen branch of State Administration of Foreign Exchange (the "SAFE"), and president of Guangzhou branch of the PBOC and governor of Guangdong branch of the SAFE. He was appointed as executive assistant president, director of the General Office and director of Labour Union Working Committee of the PBOC in June 2000, deputy governor of Hubei Province in September 2002, chairman of the board of directors of Bank of Communications in June 2004, and vice chairman of the board of directors and president of China Development Bank in September 2008. He used to serve concurrently as chairman of China Banking Association and member of Monetary Policy Committee of the PBOC, and now serves concurrently as chairman of China Payment and Settlement Association and a member of the board of directors of the Institute of International Finance.

Mr. Jiang is an alternate member of the 18th Central Committee of the Communist Party of China and a member of the 11th National Committee of the Chinese People's Political Consultative Conference (CPPCC).

ZHANG Yun Vice Chairman, Executive Director, President

Mr. ZHANG Yun received a PhD in economics from Wuhan University and is a Senior Economist. He has served as Vice Chairman, Executive Director and President of the Bank since January 2009. Mr. Zhang previously served successively as deputy president of Shenzhen branch, deputy president of Guangdong branch, and president of Guangxi Autonomous Region branch of Agricultural Bank of China. Mr. Zhang was appointed as executive assistant president and general manager of Personnel Department of Agricultural Bank of China in March 2001, and executive vice president of Agricultural Bank of China in December 2001. Mr. Zhang serves concurrently as president of the County Area Banking Division, chairman of the County Area Banking Division Management Committee of the Bank, and chairman of the 7th Committee of China Institute of Rural Finance.

GUO Haoda Executive Director, Executive Vice President

Mr. GUO Haoda holds a Bachelor's degree and is a Senior Economist. He is an expert entitled to Government Special Allowance by the State Council. Mr. Guo has served as the Executive Vice President of the Bank and President of the Beijing Branch since January 2009. He served as Executive Vice President of the Bank since March 2010 and then Executive Director and Executive Vice President of the Bank since December 2012. Mr Guo previously served in several positions in Agricultural Bank of China, including vice president and then president of Suzhou Branch in Jiangsu Province, president of Shenzhen Branch and president of Jiangsu Branch. He was appointed as executive vice president of Agricultural Bank of China and president of its Beijing Branch in April 2008. Mr. Guo received the National May 1st Labour Medal in 2003. He now serves concurrently as vice chairman of All-China Environment Federation, vice chairman of China Payment and Settlement Association and a member of the State Council's Joint Conference on Combating Currency Counterfeit.

LOU Wenlong Executive Director, Executive Vice President

Mr. LOU Wenlong holds a Bachelor's degree and is a Senior Economist. He has served as a member of Senior Management of the Bank since August 2012. He has served as Executive Vice President of the Bank since September 2012 and became Executive Director and Executive Vice President of the Bank since December 2012. Mr. Lou previously served as secretary of the Youth League Committee, head of Students' Affairs Division and chief of the Teaching and Researching Office of Urban Finance of Zhejiang Banking College. Mr. Lou later served in several positions in the PBOC, including secretary of Youth League Committee of the Head Office of Zhejiang Branch, vice division chief and division chief of Zhejiang Branch, director and assistant commissioner of Banking Inspection Division, Hangzhou Financial Supervision Office of Shanghai Branch, and deputy head of the supervisory team for China Construction Bank of Banking Supervision Department I. He was then appointed to several positions successively in the CBRC, including deputy director and then director of Banking Supervision Department II in September 2005, and director-general of Beijing Office in February 2009. He is now serving as a guest professor with Capital University of Economics and Business, and the vice chairman of the 7th session of the Committee of the China Institute of Rural Finance.

SHEN Bingxi Non-executive Director

Mr. SHEN Bingxi received a PhD in economics from Renmin University of China and is a Research Fellow. He now works with Central Huijin Investment Ltd. and has served as Non-executive Director of the Bank since January 2009. Mr. Shen previously served successively as deputy director of Financial Market Division, Financial System Reform Department of the PBOC; director of System Reform Division and Currency Policy Research Division, Policy Research Office of the PBOC; director of Currency Policy Research Division, Research Department of the PBOC; and chief representative of Tokyo Representative Office of the PBOC. Mr. Shen was appointed as deputy chief of Financial Market Division of the PBOC and counsel of Financial Market Division of the PBOC. Mr. Shen was a guest research fellow at University of Tokyo, and is now an adjunct professor of Zhejiang University, University of International Business and Economics and East China University of Science and Technology.

LIN Damao Non-executive Director

Mr. LIN Damao received a Bachelor's degree and is an Accountant. He now works with Central Huijin Investment Ltd. and has served as Non-executive Director of the Bank since January 2009. Mr. Lin previously served successively in several positions in the MOF, including deputy director of Foreign Economy Division, Foreign Currency and Foreign Affairs Department; deputy director of Foreign Economic Cooperation Division, Foreign Currency and Foreign Affairs Department; director of Foreign Economic Cooperation Division, Foreign Currency and Foreign Affairs Department; director of Foreign Economy Division, Foreign Affairs Department; and director of Foreign Affairs Division, Department of Policies and Legislation. Mr. Lin was appointed as vice counsel of the MOF Department of Policies and Legislation in May 2001.

CHENG Fengchao Non-executive Director

Mr. CHENG Fengchao received a PhD in management from Hunan University and is a Senior Accountant, a China Certified Public Accountant and a China Certified Asset Appraiser. He now works with Central Huijin Investment Ltd. and has served as Non-executive Director of the Bank since January 2009. Mr. Cheng previously served successively as vice director general, Financial Bureau of Pingquan County, Hebei Province; vice director, Administrative Office of Financial Department of Hebei Province; head of Hebei Accounting Firm; vice president and secretary-general, Hebei Institute of Certified Public Accountants; and deputy general manager, Shijiazhuang Office of China Great Wall Asset Management Corporation. Mr. Cheng was appointed as general manager, Valuation Management Department, China Great Wall Asset Management Corporation in January 2001; general manager, Tianjin Office of China Great Wall Asset Management Corporation in January 2006; and general manager, Development Research Department, China Great Wall Asset Management Corporation in August 2008. Mr. Cheng is now also serving as a guest professor of Peking University HSBC Business School, PhD supervisor of Hunan University, Master supervisor of Graduate School of the Chinese Academy of Social Sciences, Central University of Finance and Economics and Capital University of Economics and Business, and is a member of the Expert Advisory Committee for Mergers, Acquisitions and Restructurings of the CSRC.

LI Yelin Non-executive Director

Mr. LI Yelin graduated from the Party School of the Central Committee of the Communist Party of China as an on-the-job graduate in economic management. He is a Senior Auditor and a non-practicing Certified Accountant. He is the executive director of China Audit Society. He now works with Central Huijin Investment Ltd. and has served as Non-executive Director of the Bank since July 2011. He served as the deputy division director and division director of the Special Commissioner's Office for Shenyang under the National Audit Office (the "NAO"). He was appointed the vice commissioner of the Special Commissioner's Office for Shenyang under the NAO in April 1993 and the vice commissioner (in charge) of the Special Commissioner's Office for Lanzhou under the NAO since December 1999. He was also appointed head (commissioner level) of the organizing team of the Special Commissioner's Office for Changchun under the NAO in April 2001 and commissioner of the Special Commissioner's Office for Shenyang under the NAO in January 2002. He had been the director of the Finance and Audit Department of the NAO since September 2006.

XIAO Shusheng Non-executive Director

Mr. XIAO Shusheng holds a Bachelor's degree and is a Senior Accountant. He now works with Central Huijin Investment Ltd. and has served as Non-executive Director of the Bank since February 2012. Mr. Xiao started working with the MOF in 1982, and served successively as vice director and director in the MOF Department of Accounting; director of Registration Department, Chinese Institute of Certified Public Accountants, vice secretary-general of Chinese Institute of Certified Public Accountants and vice director and director of the MOF Accountants Qualification Appraisal Center.

ZHAO Chao Non-executive Director

Mr. ZHAO Chao holds a Bachelor's degree and is a Statistician. He currently works with Central Huijin Investment Ltd. and has served as Non-executive Director of the Bank since February 2012. Mr. Zhao started working with the Bureau of Statistics of Shanxi Province in 1982, and served successively as vice director of Finance and Trade Division, Bureau of Statistics of Shanxi Province; director of Business and Trade Division and Legislation Division, State-owned Assets Supervision and Administration Bureau of Shanxi Province; director of Supervision and Inspection Division, Policies and Legislation Department of National State-owned Assets Supervision and Administration Bureau, director of Property Rights Legal Affairs Division, the MOF State-owned Capital Basic Management Department; counsel of Lottery Management Division, the MOF Department of Policy Planning; secretary general of the MOF General Department, vice director of the MOF Investment Appraisal and Censoring Center, and vice counsel of the MOF Department of Treaty and Law.

Anthony WU Ting-yuk Independent Non-executive Director

Mr. Anthony WU Ting-yuk is a member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants, and member of standing committee of the 12th CPPCC National Committee. He has served as Independent Non-executive Director of the Bank since January 2009. Mr. Wu previously served successively as chairman of Far East and China, Ernst & Young PLLC, chairman of the Hong Kong General Chamber of Commerce and chairman of Bauhinia Foundation Research Center. He has served as chairman of the Hong Kong Hospital Authority since October 2004. Mr. Wu is currently serving as a director of the Hong Kong General Chamber of Commerce, a director of Bauhinia Foundation Research Center; a member of board of directors of United Nations Association of the PRC, chief advisor of the Bank of Tokyo-Mitsubishi UFJ, Ltd., an independent non-executive director of Fidelity Funds, an independent non-executive director of Guangdong Investment Limited, advisor of Ministry of Health, PRC, International Collaboration Principal Advisor to the State Administration of Traditional Chinese Medicine of the People's Republic of China, member of Hong Kong Health and Medical Development Advisory Committee; member of Committee for Pearl River Delta Project; a member of China Society for People's Friendship Studies, a trustee of Foundation of Oxford University and an Honorary Fellow of the Hong Kong College of Community Medicine. Mr. Wu was appointed as Justice of the Peace in 2004 and awarded Gold Bauhinia Star in 2008 by the Government of Hong Kong.

QIU Dong Independent Non-executive Director

Mr. QIU Dong received a PhD in economics and is a PhD supervisor, an expert entitled to Government Special Allowance by the State Council and a distinguished guest professor of Changjiang Scholars Program. He has served as Independent Non-executive Director of the Bank since January 2009. He served as principal of Dongbei University of Finance and Economics and a representative of the Tenth National People's Congress. He is now chairman of the academic committee of the National Accounting Research Institute of Beijing Normal University. Mr. Qiu is currently serving as member of the Appraisal Group of Philosophy, Social Science and Planning, member of the Disciplines Evaluation Panel of the Academic Degrees Committee of the State Council (Applied Economics), member of the Economics Teaching Steering Committee for Universities and Colleges, Ministry of Education; member of the Advisory Committee of the National Bureau of Statistics of the PRC; vice president of the National Accounting Society of China, vice president of the Statistical Education Society of China, vice president of the China Association of Market Information and Research; vice chairman of the National Statistical Teaching Material Editing and Censoring Committee, member of Selection Committee for Science and Technology Progress Award on Statistics of China; an adjunct PhD supervisor of Tianjin University of Finance and Economics, an adjunct professor of Zhejiang Gongshang University, Jinan University, Zhongnan University of Economics and Law, Shanxi University of Finance and Economics, Zhejiang University of Finance and Economics, Southwest University of Finance and Economics, and member of Editorial Board of Statistical Research.

Frederick MA Si-hang Independent Non-executive Director

Mr. Frederick MA Si-hang received a Bachelor's degree in arts from the University of Hong Kong. He has served as Independent Non-executive Director of the Bank since April 2011. Mr. Ma was previously the Secretary for Financial Services and the Treasury of the Government of the Hong Kong Special Administrative Region from 2002, and Secretary for Commerce and Economic Development of the Government of the Hong Kong Special Administrative Region from 2007 until he resigned in July 2008. Mr. Ma served as managing director in the London Office of RBC Dominion Securities, managing director and Asia chief of Global Private Bank of Chase Manhattan Bank and Asia-Pacific chief executive of JP Morgan Private Bank. Mr. Ma also served as deputy chairman and managing director of Kumagai Gumi (HK) Limited, chief financial officer and executive director of PCCW Limited as well as non-executive director of MTR Corporation Limited. Mr. Ma is currently a member of the International Advisory Council of China Investment Corporation, senior consultant of China Strategic Holdings Limited, independent non-executive director of China Resources Land Limited, director of Husky Energy Inc. and independent director of China Oil and Foodstuffs Corporation. Mr. Ma is an honorary professor of the School of Economics and Finance at University of Hong Kong, an honorary advisor to the School of Accountancy of Central University of Finance and Economics, professor of the Institute of Advanced Executive Education of The Hong Kong Polytechnic University and a member of the global advisory committee of the Bank of America group. Mr. Ma was awarded Gold Bauhinia Star in 2009 and appointed as Non-official Justice of the Peace in 2010, respectively, by the Government of Hong Kong.

WEN Tiejun Independent Non-executive Director

Mr. WEN Tiejun received a PhD in management from China Agricultural University. Mr. Wen is currently the executive president of the Institute of Advanced Study of Sustainable Development of Renmin University of China, the dean of School of Agricultural Economics and Rural Development of Renmin University of China, a second-grade professor and an expert entitled to Government Special Allowance by the State Council, and has served as Independent Non-executive Director of the Bank since May 2011. He has served in several positions, including director of Rural Reconstruction Center of Renmin University of China, director of China Rural Economy and Finance Research Institute, the executive dean of School of Chinese Rural Construction of Southwest University and a member of the National Environment Advisory Committee. He has also served as ministerial adviser and advisory expert of the Ministry of Commerce, the State Forestry Administration of the PRC, Beijing and Fujian Province. Mr. Wen has served as vice president of the Chinese Association of Agricultural Economics since 2007 and a member of the Agriculture and Forestry team of the Sixth Session Disciplinary Assessment Team under the Academic Degree Commission of the State Council of the PRC since 2008. Mr. Wen was previously deputy secretary-general of the China Society of Economic Reform, a researcher of the Scientific Research Division in the Research Center for Rural Economy and a deputy director of the Office of Pilot Area of Rural Reform under the Ministry of Agriculture of the PRC.

Francis YUEN Tin-fan Independent Non-executive Director

Mr. Francis YUEN Tin-fan received a Bachelor's degree in economics from University of Chicago and is a member of the Shanghai Municipal Committee of Chinese People's Political Consultative Conference. He is now non-executive vice chairman of Pacific Century Regional Developments Limited, and has served as Independent Non-executive Director of the Bank since March 2013. Mr. Yuen previously served as chief executive of the Hong Kong Stock Exchange, vice chairman and executive director of Pacific Century Group, chairman and board representative of Pacific Century Group Japan Co., Ltd., vice chairman and executive director of PCCW Limited, vice chairman of Pacific Century Premium Developments Limited, executive chairman of Pacific Century Insurance Holdings Limited, vice chairman and executive director of Pacific Century Regional Developments Limited and a non-executive director of Kee Shing (Holdings) Limited (currently known as Gemini Property Investments Limited). Mr. Yuen is currently serving as an independent non-executive director of China Foods Limited, China Pacific Insurance (Group) Co., Ltd. and China Chengxin International Credit Rating Co., Ltd. He is also chairman of the board of trustees of the Hong Kong Centre for Economic Research, chairman of the advisory committee of Ortus Capital Management Limited, and a member of the board of trustees of the University of Chicago and Fudan University.

Biography of Supervisors

CHE Yingxin Chairman of the Board of Supervisors

Mr. CHE Yingxin holds a Bachelor's degree. He has served as the chairman of the Board of Supervisors of the Bank since January 2009. Mr. Che previously served successively as president of Lushi sub-branch of the PBOC, vice president of Luoyang branch of the PBOC and deputy governor of Luoyang branch of the SAFE; president of Sanmenxia branch of the PBOC and governor of Sanmenxia branch of the SAFE; president of Xinyang branch of the PBOC and governor of Xinyang branch of the SAFE; vice president of Henan branch of the PBOC and deputy governor of Henan branch of the SAFE; deputy director of the Inspection Bureau of the PBOC; deputy secretary of the Commission for Discipline Inspection and director of the Inspection Bureau of the PBOC; deputy secretary of Communist Party of China Central Commission for Financial Discipline Inspection; director of Financial Inspection Bureau of Ministry of Supervision; and director of Banking Supervision Department I of the CBRC. Mr. Che was appointed as assistant to chairman of the CBRC in February 2005, and chairman of the board of supervisors of Key State-owned Financial Institutions in December 2005. He currently serves in several positions, including vice chairman of the 7th session of the Committee of the China Institute of Rural Finance, director of the Dalian Committee of China Business Executives Academy, director of the 6th Committee of the Chinese Financial Education Development Foundation, and director of the Committee of the Training School for Senior Management of the Oriental Banking Industry (being established) by the China Banking Association.

Mr. Che is also a member of the 12th CPPCC National Committee.

LIU Hong Supervisor Representing Shareholders

Mr. LIU Hong holds a Bachelor's degree and is a Senior Economist. He has served as a supervisor representing shareholders of the Bank since January 2012. Mr. Liu previously served in several positions in the Bank, including deputy director of Labour and Wages Division and director of Wages and Benefits Division of Personnel Department, deputy president of Qingdao branch in April 2005, deputy general manager of the Personnel Department in November 2006, deputy director of the Executive Office and president and editor-in-chief of China Urban-Rural Financial News (secondary department level) in May 2010, and director of the Office of the Board of Supervisors of the Bank in July 2011.

JIA Xiangsen Supervisor Representing Employees

Mr. JIA Xiangsen graduated from a Master program in money and banking at the Chinese Academy of Social Sciences and is a Senior Economist. He has served as a supervisor representing employees of the Bank since April 2009. Mr. Jia previously served as officer and deputy section chief of the PBOC Beijing branch, and deputy director of the PBOC Fengtai District Office. Mr. Jia has served in several positions in the Bank, including vice president of Beijing Fengtai sub-branch, deputy chief of the Education Division of Beijing branch, deputy director of the Credit Cooperation Management Department of Beijing branch and deputy chief of the Science and Technology Division of Beijing branch. Mr. Jia also once served as president of Beijing Dongcheng sub-branch and assistant to president of Beijing branch. Mr. Jia was appointed as vice president of Beijing branch of the Bank in November 1994, general manager of the Corporate Banking Department of the Bank in December 2000, president of Guangdong branch of the Bank in November 2003, principal of the Audit Office of the Bank in April 2008, and chief auditor and principal of the Audit Office of the Bank in March 2010. He is concurrently serving as the deputy director-general of China Association for Promoting Technology and Finance.

WANG Yurui Supervisor Representing Employees

Mr. WANG Yurui holds a Bachelor's degree and is an Engineer. He was appointed as a supervisor representing shareholders of the Bank in January 2009 and has served as a supervisor representing employees of the Bank since April 2009. Mr. Wang previously served successively as deputy director of the Construction and Finance Division of the Science and Education Department, the PBOC; deputy director of the Plan and Finance Division of the Education Department, the PBOC; deputy governor of the PBOC Weihai branch; and deputy director of the Integrated Services Division of the Accounting and Treasury Department, the PBOC. Mr. Wang was appointed as deputy director of the board of supervisors of China Galaxy Securities Company in July 2000; full-time supervisor (at the director level) of the board of supervisors of Bank of Communications in August 2003; full-time supervisor (at the director level) of the Board of Supervisors of the Bank in August 2004; and full-time supervisor (at the deputy bureau level) of the Board of Supervisors of the Bank in April 2008. Mr. Wang was a member of the seventh and the eighth All-China Youth Federation and a member of the tenth CPPCC Standing Committee of Xicheng District of Beijing.

YAN Chongwen Supervisor Representing Employees

Mr. YAN Chongwen graduated with a junior college diploma and is a Senior Economist. Mr. Yan has served as a supervisor representing employees of the Bank since July 2011. He used to serve as deputy director and director of Section Two of the Political Department of the Ministry of Geology and Mineral Resources. He became assistant chief and then deputy chief of Geology and Mineral Resources Bureau of Jiangsu Province in February 1992 and July 1993, respectively. Mr. Yan was appointed as supervisor of the Supervision and Security Department of the Bank in July 1995, deputy general manager of the Personnel and Education Department of the Bank in December 1996 and deputy general manager of the Human Resources Department of the Bank in April 1998. Mr. Yan has served as general manager of the Inspection and Supervision Department of the Bank since April 2000.

ZHENG Xin Supervisor Representing Employees

Mr. ZHENG Xin graduated with a junior college diploma and is a Senior Accountant. Mr. ZHENG has served as a supervisor representing employees of the Bank since July 2011. He previously served as the deputy director of the Personnel Department in the Shanghai branch of the Bank, deputy director and director of the Finance and Accounting Department and president of Xuhui Sub-branch. Mr. ZHENG became vice president of Shanghai branch of the Bank in December 1996, president of Anhui branch of the Bank in December 2003 and president of Shanghai branch of the Bank in January 2007. He was appointed as general manager of the Internal Control and Compliance Department of the Bank in July 2009. He has served as general manager of the Internal Control and Legal & Compliance Department of the Bank since July 2011.

DAI Genyou External Supervisor

Mr. DAI Genyou holds a Bachelor's degree and is a Senior Economist. He is an expert entitled to Government Special Allowance by the State Council. Mr. Dai is currently the independent director of Haitong Securities Co., Ltd. and Shanghai Zhangjiang Hi-Tech Park Development Co., Ltd. He previously served in several positions in the People's Bank of China, including vice president of Anqing Branch, director of Division I of Statistics and Research Department, director of Economic Analysis Division of Statistics and Analysis Department, deputy chief of Statistics and Analysis Department, counsel of Statistics and Analysis Department (bureau level, during the term of which he concurrently served as deputy head of the Finance and Trade Team, Central Leading Group on Finance and Economic Affairs of Central Committee of the Communist Party of China), chief of Monetary Policy Department and secretary-general of Monetary Policy Committee, director of Credit Information System Bureau and Credit Reference Centre, and director of Credit Reference Centre. He retired from the PBOC in March 2010.

Biography of Senior Management

For detailed biographies of Mr. ZHANG Yun, Mr. GUO Haoda, Mr. LOU Wenlong, please see the section headed "Biography of Directors". The biographies of other Senior Management members are as follows:

CAI Huaxiang Executive Vice President

Mr. CAI Huaxiang received a Master's degree in engineering from China University of Geosciences and is a Senior Economist. He has served as executive vice president of the Bank since February 2010. Mr. Cai previously served successively as deputy director of the Personnel Bureau of China Development Bank; president of Nanchang branch and Jiangxi branch of China Development Bank; general manager of Operation Department of China Development Bank and president of Beijing branch of China Development Bank. Mr. Cai was appointed as vice president of China Development Bank Corporation in September 2008.

GONG Chao Executive Vice President and Secretary of the Party Discipline Committee

Mr. GONG Chao received a Master's degree in Economics from Xi'an Jiaotong University and is a Senior Economist. He has served as Secretary of the Party Discipline Committee of the Bank since December 2011 and as Executive Vice President and secretary of the Party Discipline Committee of the Bank since March 2012. Mr. Gong previously served as the deputy director of the human resources department of Agricultural Development Bank of China, deputy director of the Administrative Affairs Department and the Executive General Office of the SSF, and vice president of the Beijing branch of Agricultural Development Bank of China. Mr. Gong was appointed as general manager of the human resources department of Agricultural Development Bank of China in September 2006.

WANG Wei Member of Senior Management

Mr. WANG Wei received a Master's degree in economics from Nanjing Agricultural University and is a Senior Economist. He has served as a member of Senior Management of the Bank since December 2011. Mr. Wang previously served as deputy president of Ningxia branch, deputy president of Gansu branch, president of Gansu branch, president of Xinjiang branch and president of Xinjiang Production and Construction Corps branch, director of the General Office of the Bank and president of Hebei branch, general manager of the Internal Control and Compliance Department and the general manager of the Human Resources Department. He was appointed as chief officer of the county area business and general manager of the Human Resources Department of the Bank in April 2011.

LI Zhenjiang Secretary to the Board of Directors

Mr. LI Zhenjiang received a PhD in economics from Nankai University and is a Senior Economist and an expert entitled to Government Special Allowance by the State Council. He has served as secretary to the Board of Directors and managing director of the Office of Board of Directors of the Bank since January 2009. Mr. Li previously served successively as chief of Policy Research Division of the PBOC General Administration Department and vice director of the Integrated Management Department of the PBOC Shanghai Head Office. Mr. Li was appointed as deputy director of Restructuring Office of the Bank in August 2007, director of Research Office of the Bank in January 2008, and general manager of Strategic Management Department of the Bank in October 2008.

Changes in Directors, Supervisors and Senior Management

Changes in Directors

On 16 January 2012, Mr. JIANG Chaoliang was elected as Executive Director of the Bank at the first Extraordinary General Meeting for 2012 and was elected as Chairman of the Board of Directors at the second meeting of the Board of Directors for 2012. The qualification of Mr. JIANG was approved by the CBRC on the same day.

On 16 January 2012, Mr. ZHANG Yun was re-elected as Executive Director of the Bank at the first Extraordinary General Meeting for 2012 and was re-elected as Vice Chairman of the Board of Directors at the second meeting of the Board of Directors for 2012.

On 16 January 2012, Mr. YANG Kun was re-elected as Executive Director of the Bank, Mr. LIN Damao, Mr. SHEN Bingxi and Mr. CHENG Fengchao were re-elected as Non-executive Directors of the Bank, and Mr. Anthony WU Ting-yuk and Mr. QIU Dong were re-elected as Independent Non-executive Directors of the Bank at the first Extraordinary General Meeting for 2012 with their terms of office effective from the same day.

On 16 January 2012, Mr. ZHAO Chao and Mr. XIAO Shusheng were elected as Non-executive Directors of the Bank at the first Extraordinary General Meeting for 2012. The qualifications of Mr. XIAO and Mr. ZHAO were approved by the CBRC on 29 February 2012.

On 16 January 2012, Mr. ZHANG Guoming and Ms. XIN Baorong ceased to act as Non-executive Directors of the Bank due to the expiry of their terms.

On 8 June 2012, Mr. PAN Gongsheng resigned as Executive Director of the Bank due to the need of state financial work.

On 13 July 2012, Mr. YANG Kun resigned as Executive Director of the Bank due to his incapability of performing duties as a result of personal reasons.

On 29 October 2012, Mr. GUO Haoda and Mr. LOU Wenlong were elected as Executive Directors of the Bank at the second Extraordinary General Meeting for 2012. The qualifications of Mr. GUO Haoda and Mr. LOU Wenlong were approved by the CBRC on 14 December 2012 and 10 December 2012 respectively.

On 29 October 2012, Mr. Francis YUEN Tin-fan was elected as Independent Non-executive Directors of the Bank at the second Extraordinary General Meeting for 2012. The qualification of Mr. Francis YUEN Tin-fan was approved by the CBRC on 8 March 2013.

Changes in Supervisors

On 16 January 2012, Mr. CHE Yingxin was re-elected as Supervisor Representing Shareholders at the first Extraordinary General Meeting of the Bank for 2012 and re-elected as Chairman of the Board of Supervisors of the Bank at the second meeting of the Board of Supervisors for 2012.

On 16 January 2012, Mr. LIU Hong was elected as Supervisor Representing Shareholders at the first Extraordinary General Meeting of the Bank for 2012.

On 16 January 2012, Mr. PAN Xiaojiang ceased to act as Supervisor Representing Shareholders due the expiration of his term of office.

On 29 October 2012, Mr. DAI Genyou was elected as an External Supervisor of the Bank at the second Extraordinary General Meeting of the Bank for 2012.

Changes in Senior Management

On 11 January 2012, Mr. ZHU Hongbo ceased to act as Executive Vice President of the Bank due to the change in work arrangement.

On 16 January 2012, Mr. GONG Chao was appointed as Executive Vice President of the Bank at the second meeting of the Board for 2012. The qualification of Mr. GONG was approved by the CBRC on 16 March 2012.

On 8 June 2012, Mr. PAN Gongsheng ceased to act as Executive Vice President of the Bank.

On 13 July 2012, Mr. YANG Kun ceased to act as Executive Vice President of the Bank.

On 29 August 2012, Mr. LOU Wenlong was engaged as Executive Vice President of the Bank at the eighth meeting of the Board of Directors for 2012. The qualification of Mr. LOU Wenlong was approved by the CBRC on 17 September 2012.

Annual Remuneration

The Bank has formulated specific remuneration policies and continued to refine the performance assessment system and incentive management mechanism for Directors, Supervisors and Senior Management. The remuneration of Directors, Supervisors and Senior Management during 2012 is set out in the table below.

Unit: RMB Ten Thousand

Name	Position	Remuneration paid (before tax) (1)	Contribution to all kinds of social insurance, housing fund, etc. (2)	Salary of part-time positions (3)	Total remuneration before tax (4)=(1)+(2)+(3)	Remuneration received from equity holder
JIANG Chaoliang	Chairman, Executive Director	86.55	26.35	—	112.90	—
ZHANG Yun	Vice Chairman, Executive Director, President	81.32	25.55	—	106.87	—
GUO Haoda	Executive Director, Vice President	67.86	24.60	—	92.46	—
LOU Wenlong	Executive Director, Vice President	22.52	8.20	—	30.72	—
SHEN Bingxi	Non-executive Director	—	—	—	—	77.9
LIN Damao	Non-executive Director	—	—	—	—	77.9
CHENG Fengchao	Non-executive Director	—	—	—	—	77.9
LI Yelin	Non-executive Director	—	—	—	—	75.0
XIAO Shusheng	Non-executive Director	—	—	—	—	56.3
ZHAO Chao	Non-executive Director	—	—	—	—	56.3
Anthony WU Ting-yuk	Independent Non-executive Director	—	—	41.11	41.11	—
QIU Dong	Independent Non-executive Director	—	—	44.12	44.12	—
Frederick MA Si-hang	Independent Non-executive Director	—	—	35.10	35.10	—
WEN Tiejun	Independent Non-executive Director	—	—	36.10	36.10	—
Francis YUEN Tin-fan	Independent Non-executive Director	—	—	—	—	—
CHE Yingxin	Chairman of the Board of Supervisors	75.31	25.12	—	100.43	—
LIU Hong	Supervisor Representing Shareholders	—	—	—	—	—
JIA Xiangsen	Supervisor Representing Employees	—	—	1	1	—
WANG Yurui	Supervisor Representing Employees	—	—	1	1	—
YAN Chongwen	Supervisor Representing Employees	—	—	3	3	—
ZHENG Xin	Supervisor Representing Employees	—	—	3	3	—
DAI Genyou	External Supervisor	—	—	4.34	4.34	—
CAI Huaxiang	Executive Vice President	67.86	24.60	—	92.46	—
GONG Chao	Executive Vice President, Secretary of the Party Discipline Committee	67.86	24.60	—	92.46	—
WANG Wei	Member of Senior Management	67.86	24.60	—	92.46	—
LI Zhenjiang	Secretary to the Board of Directors	60.97	24.02	—	84.99	—

Notes:
1. *The Directors, Supervisors and Senior Management members of the Bank who are also our employees are entitled to receive emoluments from the Bank. The emoluments include salary, bonus and contributions to all kinds of social insurance and housing fund, etc. from the Bank. The Independent Non-executive Directors of the Bank are entitled to receive salaries and allowances. The External Supervisors of the Bank are entitled to receive allowances. The Chairman, Executive Directors and Senior Management members did not receive any remuneration from any subsidiaries of the Bank.*
2. *The remuneration of Mr. LOU Wenlong for holding the positions of Executive Director and Vice President of the Bank in 2012 was based on his actual terms of office.*
3. *Mr. SHEN Bingxi, Mr. LIN Damao, Mr. CHENG Fengchao, Mr. LI Yelin, Mr. XIAO Shusheng, Mr. ZHAO Chao, Mr. ZHANG Guoming and Ms. XIN Baorong, our Non-executive Directors, were not entitled to any remuneration from the Bank. "Remuneration received from equity holder" refers to remuneration received from Huijin by performing duties as Directors of the Bank during the reporting period.*
4. *Mr. Francis YUEN Tin-fan was not entitled to any salary as Independent Non-executive Director from the Bank in 2012.*
5. *The remuneration of Mr. DAI Genyou for holding the position of External Supervisor of the Bank in 2012 was based on his actual terms of office.*
6. *Mr. LIU Hong was not entitled to any salary of part-time position as Supervisor Representing Shareholders from the Bank in 2012.*
7. *The remunerations of Mr. JIA Xiangsen and Mr. WANG Yurui for holding the positions of Supervisors Representing Employees of the Bank in 2012 were based on their actual terms of office.*
8. *Mr. PAN Gongsheng received a total remuneration (before tax) of RMB462,300 for his terms of office in 2012.*
9. *Mr. YANG Kun received a total remuneration (before tax) of RMB539,400 for his terms of office in 2012.*
10. *The total remuneration paid to the Directors, Supervisors and Senior Management (including those who have resigned) by the Bank in 2012 was RMB10.7469 million.*

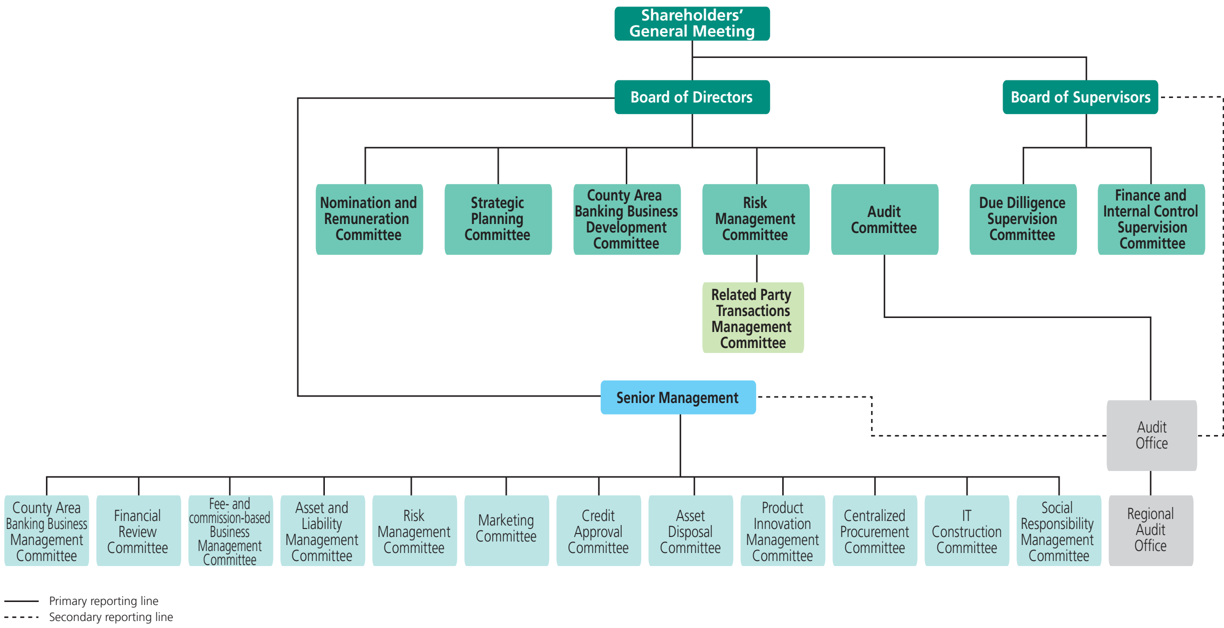
According to requirements of the relevant government authorities, the final remuneration payable to the Chairman of the Board of Directors, the President, the Chairman of the Board of Supervisors, Executive Directors and other senior management members for the year 2012 is still subject to confirmation. A separate announcement will be published to disclose the details of remuneration.

As of 31 December 2012, except Mr. ZHENG Xin, our Supervisor, who held 500,000 A shares of the Bank, none of the other Directors, Supervisors and senior management members held any shares of the Bank. During the reporting period, none of the Directors, Supervisors and senior management members of the Bank held share options or were granted restricted shares of the Bank.

Corporate Governance

Corporate governance is regarded as a cornerstone of risk resistance, returns enhancement and sustainable development of the Bank. We have persistently sticked to the strategic aim of developing ourselves into a first-class commercial bank, fully followed the corporate governance concept of modern commercial banks, continuously enhanced our corporate governance mechanism and further improved the standardization and effectiveness of our corporate governance practices.

During the reporting period, we strictly complied with laws and regulations of the places of business and regulatory requirements of the places of listing. We amended the Articles of Association, adjusted the composition of the Board of Directors and the special committees thereof, appointed an external supervisor and conducted the performance evaluation of the Board of Directors, Senior Management and their respective members. We further promoted the information disclosure and improved management of inside information and insiders. We also conducted evaluation of external rating agencies, regulated investor relationship management, and thus continuously improved the transparency and corporate governance of the Bank.



Corporate Governance Structure Chart of the Bank

Code on Corporate Governance Practices and Corporate Governance Code

The new Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules came into force on 1 April 2012 following an extensive review of the old Code on Corporate Governance Practices by the Hong Kong Stock Exchange at the end of 2011.

During the period between 1 January 2012 and 31 March 2012, we complied with all the principles and code provisions stipulated in the old *Code on Corporate Governance Practices*. During the period between 1 April 2012 and 31 December 2012, we complied with all the principles and code provisions stipulated in the new Corporate Governance Code, with the exceptions addressed below:

According to Rule 3.10(A) of the Hong Kong Listing Rules, the Bank shall appoint Independent Non-executive Directors representing at least one-third of the Board of Directors by 31 December 2012. As of 31 December 2012, the Board of Directors comprised 14 Directors, of which four are Independent Non-executive Directors, and thus fell below such requirement. In order to comply with such requirement, the Bank has appointed Mr. YUEN Tin-fan as our Independent Non-executive Director, whose qualification to hold office was approved by the CBRC on 8 March 2012. After that, the Bank has five Independent Non-executive Directors representing one-third of the Board of Directors and has complied with Rule 3.10(A) of the Hong Kong Listing Rules.

According to Rule A.6.7 of the Corporate Governance Code, all of our Independent Non-executive Directors shall attend our shareholders' general meetings. However, some of the Independent Non-executive Directors were not able to attend the 2011 annual general meeting held on 8 June 2012 due to unexpected business arrangement. Please refer to "Meetings of the Board of Directors" in this annual report for details.

The Board of Directors has actively performed its corporate governance duties. It is responsible for formulating the amendments to the Articles of Association, Rules of Procedures of Shareholders' General Meeting and Rules of Procedures of Board of Directors, establishing the relevant corporate governance system and evaluating and improving the corporate governance of the Bank continuously. The Board of Directors has established several special committees which perform their functions strictly in accordance with the applicable requirements of corporate governance.

Board of Directors and Special Committees

Composition of the Board of Directors

At the end of the reporting period, the Board of Directors comprised 14 members, including four Executive Directors, namely Mr. JIANG Chaoliang, Mr. ZHANG Yun, Mr. GUO Haoda and Mr. LOU Wenlong; six Non-executive Directors, namely Mr. SHEN Bingxi, Mr. LIN Damao, Mr. CHENG Fengchao, Mr. LI Yelin, Mr. XIAO Shusheng and Mr. ZHAO Chao; and four Independent Non-executive Directors, namely Mr. Anthony WU Ting-yuk, Mr. QIU Dong, Mr. Frederick MA Si-hang and Mr. WEN Tiejun. Details of the Directors are set out in the section headed "Directors, Supervisors and Senior Management" in this annual report.

Functions of the Board of Directors

The primary functions of the Board of Directors include, but are not limited to, the followings:

- convening of the shareholders' general meetings and reporting to the Shareholders' General Meetings;
- implementation of the resolutions of the shareholders' general meetings;
- decision on development strategy (including development strategy of the County Area Banking Business);
- decision on business plan and investment plan;
- formulation of proposal of annual financial budgets and final accounts;
- formulation of profit distribution and loss appropriation plans;
- formulation of plan of increase or reduction of registered capital;
- formulation of plan of issuance of corporate bonds or other securities and listing plan;
- formulation of plan of merger, division, dissolution and changes in the corporate form of the Bank;
- formulation of plan of share repurchase;
- formulation of general management systems and policies, and supervision of the implementation of the general management systems and policies;
- formulation and improvement of a general management system of risk management and internal control of the Bank; review and approval of general risk management report and plan on allocation of risk-based capital of the Bank, and evaluation of effectiveness and improvement of risk management;
- formulation of amendments to the Articles of Association, Rules of Procedures of Shareholders' General Meetings and Rules of Procedures of Board of Directors and establishment of the relevant corporate governance system;
- assessment and improvement of the corporate governance of the Bank; and
- other functions authorized by the Shareholders' General Meetings or the Articles of Association.

Meetings of the Board of Directors

During the reporting period, the Bank convened a total of 12 meetings of the Board of Directors, at which 47 proposals, including amendments to the Articles of Association, appointment of external auditors for 2013, 2011 annual report, 2011 corporate social responsibility report, nomination of Directors and appointment of Executive Vice President, were considered and approved.

The attendance of Directors at shareholders' general meetings, meetings of the Board of Directors and committees of the Board of Directors during the reporting period is listed below:

Number of attendance in person/attendance by proxy/meetings requiring attendance

					Meetings of Special Committees of the Board of Directors					
Directors	Shareholders' General Meetings	Attendance rate at Shareholders' General Meetings	Meetings of the Board of Directors	Attendance rate at Meetings of the Board of Directors	Strategic Planning Committee	County Area Banking Business Development Committee	Nomination and Remuneration Committee	Audit Committee	Risk Management Committee	Related Party Transactions Management Committee
Executive Directors										
JIANG Chaoliang	2/0/2	100%	10/1/11	91%	5/1/6					
ZHANG Yun	3/0/3	100%	12/0/12	100%	7/0/7	5/0/5	2/1/3			
GUO Haoda	0/0/0	—	0/1/1	—	0/1/1	0/1/1				
LOU Wenlong	0/0/0	—	1/0/1	100%	1/0/1				0/0/0	
Non-executive Directors										
SHEN Bingxi	3/0/3	100%	12/0/12	100%	7/0/7	1/0/1	3/0/3		4/0/4	
LIN Damao	3/0/3	100%	12/0/12	100%			3/0/3	7/0/7	5/0/5	
CHENG Fengchao	3/0/3	100%	12/0/12	100%	7/0/7	4/0/4		6/0/6	1/0/1	
LI Yelin	3/0/3	100%	12/0/12	100%	7/0/7				5/0/5	1/0/1
XIAO Shusheng	2/0/2	100%	12/0/12	100%	6/0/6	4/0/4			4/0/4	
ZHAO Chao	2/0/2	100%	12/0/12	100%	6/0/6	4/0/4				
Independent Non-executive Directors										
Anthony WU Ting-yuk	1/0/3	33%	10/2/12	83%	6/1/7		2/1/3		5/0/5	1/0/1
QIU Dong	2/0/3	67%	11/1/12	92%		4/1/5	3/0/3	7/0/7	4/1/5	1/0/1
Frederick MA Si-hang	3/0/3	100%	11/1/12	92%			3/0/3	7/0/7		
WEN Tiejun	2/0/3	67%	11/1/12	92%		4/1/5	3/0/3	5/2/7		
Resigned Directors										
PAN Gongsheng	2/0/2	100%	6/0/6	100%	4/0/4					
YANG Kun	1/0/2	50%	6/0/7	86%	4/0/5	1/0/2			3/0/3	
ZHANG Guoming	1/0/1	100%	1/0/1	100%	1/0/1	1/0/1			1/0/1	
XIN Baorong	1/0/1	100%	1/0/1	100%	1/0/1	1/0/1		1/0/1		

Note: 1. Changes in the Directors are set out in the section headed "Change in Directors, Supervisors and Senior Management".

2. Attendance in person includes on-site attendance and attendance by way of electronic communication, such as telephone and video conference.

3. Attendance of shareholders' general meetings and meetings of the Board of Directors refers to the percentage of the number of attendance in person to the total number of meetings requiring attendance.

Independence of and Performance of Duties by Independent Non-executive Directors

Independent Non-executive Directors are not involved in any business or financial interests of the Bank or our subsidiaries and do not take any managerial position in the Bank. We have received annual independence confirmations from all Independent Non-executive Directors and confirmed their independence.

During the reporting period, Independent Non-executive Directors strengthened the communication with the Senior Management, specific departments and external auditors and thoroughly studied the operation and management of the Bank by attending significant work meetings, carrying out special research investigations, listening to special reports and attending seminars with external auditors. They duly attended the meetings of the Board of Directors and the special committees and played an active role in the formulation, consideration and determination of resolutions. They provided independent and objective advice on various major decisions at the meetings of the Board of Directors and related special committees by taking advantage of their professional capabilities and industrial experiences. They diligently fulfilled their obligations and performed their duties, complied with the *Work Measures for Independent Directors*, provided strong support to the Board of Directors to make rational decisions and protected the interests of the Bank and its shareholders as a whole.

During the reporting period, no objection was made to the resolutions of the Board of Directors or special committees by Independent Non-executive Directors.

Special Committees of Board of Directors

During the reporting period, the Board of Directors made the following adjustments to the composition of the special committees of Board of Directors:

Mr. JIANG Chaoliang was appointed as Chairman of the Strategic Planning Committee;

Mr. GUO Haoda was appointed as a member of the Strategic Planning Committee and the County Area Banking Business Development Committee;

Mr. LOU Wenlong was appointed as a member of the Strategic Planning Committee and the Risk Management Committee;

Mr. SHEN Bingxi was appointed as a member of the Risk Management Committee, and ceased to act as a member of the County Area Banking Business Development Committee;

Mr. CHENG Fengchao was appointed as a member of the County Area Banking Business Development Committee and the Audit Committee, and ceased to act as a member of the Risk Management Committee;

Mr. XIAO Shusheng was appointed as a member of the Strategic Planning Committee, the County Area Banking Business Development Committee and the Risk Management Committee;

Mr. ZHAO Chao was appointed as a member of the Strategic Planning Committee and the County Area Banking Business Development Committee;

Mr. PAN Gongsheng resigned as a member of the Strategic Planning Committee;

Mr. YANG Kun resigned as a member of the Strategic Planning Committee, the County Area Banking Business Development Committee and the Risk Management Committee;

Mr. ZHANG Guoming ceased to act as a member of the Strategic Planning Committee, the County Area Banking Business Development Committee and the Risk Management Committee upon the expiry of his term of appointment;

Ms. XIN Baorong ceased to act as a member of the Strategic Planning Committee, the County Area Banking Business Development Committee and the Audit Committee upon the expiry of her term of appointment.

The special committees of the Board of Directors comprised the Strategic Planning Committee, the County Area Banking Business Development Committee, the Nomination and Remuneration Committee, the Audit Committee, and the Risk Management Committee. The Related Party Transactions Management Committee was established under the Risk Management Committee.

Strategic Planning Committee

At the end of the reporting period, the Strategic Planning Committee of the Board of Directors comprised ten Directors, including Mr. JIANG Chaoliang, the Chairman, Mr. ZHANG Yun, the Vice Chairman, Mr. GUO Haoda and Mr. LOU Wenlong (all are Executive Directors), Mr. SHEN Bingxi, Mr. CHENG Fengchao, Mr. LI Yelin, Mr. XIAO Shusheng and Mr. ZHAO Chao (all are Non-executive Directors) and Mr. Anthony WU Ting-yuk (Independent Non-executive Director). Mr. JIANG Chaoliang, the Chairman, has been appointed as Chairman of the Strategy Planning Committee. The primary duties of the Strategic Planning Committee are to review the overall development strategy and specific strategic development plans, major investment and financing plans, mergers and acquisitions plans and other material matters critical to the development of the Bank and make suggestions to our Board of Directors.

During the reporting period, the Strategic Planning Committee convened seven meetings and considered 14 proposals including operating plan for 2012, financial final account of 2011, profit distribution plan of 2011 and the issuance of Subordinated Bonds.

County Area Banking Business Development Committee

At the end of the reporting period, the County Area Banking Business Development Committee of the Board of Directors comprised seven Directors, including Mr. ZHANG Yun, the Vice Chairman, Mr. GUO Haoda (Executive Director), Mr. CHENG Fengchao, Mr. XIAO Shusheng, Mr. ZHAO Chao (all are Non-executive Directors), Mr. QIU Dong and Mr. WEN Tiejun (both are Independent Non-executive Directors). Mr. ZHANG Yun, the Vice Chairman, is Chairman of the County Area Banking Business Development Committee. The primary duties of the County Area Banking Business Development Committee are to review the strategic development plan, policies, basic management rules and the risk strategic plan of the County Area Banking Business and other major matters critical to the development of the County Area Banking Business. It is also responsible for monitoring the implementation of our County Area Banking Business strategic plan, policies and basic management rules, evaluating the services for customers of County Area Banking Business, and making suggestions to the Board of Directors.

During the reporting period, the County Area Banking Business Development Committee convened five meetings and reviewed five reports in relation to the operating forecast of the County Area Banking Division, and business operation of the County Area Banking Division.

Nomination and Remuneration Committee

At the end of the reporting period, the Nomination and Remuneration Committee of the Board of Directors comprised seven Directors, including Mr. ZHANG Yun, the Vice Chairman, Mr. SHEN Bingxi and Mr. LIN Damao (both are Non-executive Directors), Mr. Anthony WU Ting-yuk, Mr. QIU Dong, Mr. Frederick Ma Si-hang and Mr. WEN Tiejun (all are Independent Non-executive Directors). Mr. QIU Dong is Chairman of the Nomination and Remuneration Committee. The primary duties of the Nomination and Remuneration Committee are to formulate standards and procedures for election of directors, chairmen and members of board committees and senior management members and submit the proposed candidates and their qualifications to the Board of Directors for approval, and to formulate the remuneration packages for directors, supervisors and senior management members, and submit the same to the Board of Directors for approval.

Candidates of Directors shall be nominated by the Board of Directors by proposals. Directors shall be elected at shareholders' general meetings of the Bank.

When nominating candidates of Directors, the Nomination and Remuneration Committee mainly takes into account their qualifications, their compliance with laws, administrative regulations, rules and the Articles of Association, their capability of due diligence, their understanding of our operation and management and willingness to accept supervision of their performance by the Board of Supervisors of the Bank. The quorum of the meeting of the Nomination and Remuneration Committee shall be more than half of all its members. A resolution shall be passed by more than half of votes of all its members.

During the reporting period, the Nomination and Remuneration Committee convened three meetings and considered eight proposals including the nomination of candidates of Directors, the adjustment of the composition of the special committees and remuneration policy for Directors, Supervisors and Senior Management of 2011.

Audit Committee

At the end of the reporting period, the Audit Committee of the Board of Directors comprised five Directors, namely Mr. LIN Damao and Mr. CHENG Fengchao (both are Non-executive Directors), Mr. Frederick MA Si-hang, Mr. QIU Dong and Mr. WEN Tiejun (all are Independent Non-executive Directors). Mr. Frederick MA Si-hang is Chairman of the Audit Committee. The primary duties of the Audit Committee are to supervise, inspect and review our internal audit, financial information and internal control, and to make suggestions to the Board of Directors.

Performance of Audit Committee

During the reporting period, the Audit Committee of the Board of Directors convened seven meetings and considered nine proposals including key auditing work of 2012 and the appointment of accounting firms, and reviewed 13 reports including audit report for 2011. The Audit Committee regularly reviewed the financial reports of the Bank and considered and approved the annual report, the first quarterly report, the interim report, and the third quarterly report of the Bank. It is also responsible for monitoring the performance of the external auditor and considering various reports by the external auditors on the audit results, annual auditing plan and management recommendations.

The Audit Committee held a meeting on 10 September 2012 and proposed to appoint PricewaterhouseCoopers Zhong Tian CPAs Company Limited and PricewaterhouseCoopers as external auditors for financial statements of the Bank for 2013 to provide relevant services (including agreed-upon procedures for quarterly financial information, interim review and annual audit) in accordance with Chinese Auditing Standards and International Auditing Standards. The Audit Committee also proposed to appoint PricewaterhouseCoopers Zhong Tian CPAs Company Limited as an external auditor for internal control of the Bank for 2013.

The Audit Committee convened a meeting on 25 March 2013 and considered that the 2012 financial statements of the Bank truthfully and completely reflected our financial position. The Audit Committee reviewed the auditor's reports from Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu.

Formulation and Improvement of Working Rules of Audit Committee

The Board of Directors formulated the Working Rules of Audit Committee to support the Audit Committee to perform its duties of monitoring auditing work and managing the auditing system. The Board of Directors also formulated the *Internal Auditing Charter* and the *Working Guidelines on Annual Report for the Audit Committee* to further identify the obligations of the Audit Committee in internal auditing, financial reports, internal control and information disclosure in annual report.

Risk Management Committee

At the end of the reporting period, the Risk Management Committee of the Board of Directors comprised seven Directors, including Mr. LOU Wenlong (Executive Director), Mr. SHEN Bingxi, Mr. LIN Damao, Mr. LI Yelin and Mr. XIAO Shusheng (all are Non-executive Directors) and Mr. Anthony WU Ting-yuk and Mr. QIU Dong (both are Independent Non-executive Directors). Mr. Anthony WU Ting-yuk is Chairman of the Risk Management Committee. The primary duties of the Risk Management Committee are to review our risk strategy, risk management policies, risk management reports and proposals on deployment of risk-based capital, supervise and assess the performance of relevant senior management members and risk management departments in respect of risk management, and to make suggestions to the Board of Directors.

During the reporting period, the Risk Management Committee convened five meetings and considered two proposals including the working rules for implementing New Basel Accord, and listened to eight reports in relation to the overall risk of the Bank and the implementation and verification policies of IRB system.

Related Party Transactions Management Committee

At the end of the reporting period, the Related Party Transactions Management Committee of the Board of Directors comprised three Directors, including Mr. LI Yelin (Non-executive Director), Mr. Anthony WU Ting-yuk and Mr. QIU Dong (both are Independent Non-executive Directors). Mr. Anthony WU Ting-yuk is Chairman of the Related Party Transactions Management Committee. The primary duties of the Related Party Transactions Management Committee are to identify related parties of the Bank, consider our general management system for related party transactions, review and record the related party transactions, and make suggestions to our Board of Directors.

During the reporting period, the Related Party Transactions Management Committee convened one meeting and reviewed the proposal of list of related parties of the Bank.

Major opinions and suggestions provided by the special committees under the Board of Directors during the reporting period

The Strategic Planning Committee has made suggestions to the Board of Directors on strategic plans and overseas development plans of the Bank. The County Area Banking Business Development Committee has made suggestions on the operation and risk management of County Area Banking Business Department of the Bank. The Audit Committee has made suggestions on the periodic reports, the engagement of auditors and arrangement of auditing work. The Risk Management Committee has made suggestions on the implementation of New Basel Capital Accord, the establishment of internal rating system and the risk control in key sectors. The Related Party Transactions Management Committee has made suggestions on the list of related parties and management of related party transactions.

Specific Statement and Independent Opinions of Independent Non-executive Directors on the Guarantee Business of the Bank

Specific Statement and Independent Opinions of Independent Non-executive Directors on the Guarantee Business of the Bank

Pursuant to the relevant provisions set forth in the "Notice Regarding Certain Issues of Regulating Fund Transfers Between Listing Companies and Their Related Parties and the Guarantee Business of Listing Companies" (Zheng Jian Fa [2003] No.56) issued by the CSRC and the requirements of the Shanghai Stock Exchange, as the Independent Non-executive Directors of Agricultural Bank of China Limited, we reviewed the guarantee business of the Bank based on the principles of justice, fairness and objectivity, and issued our specific statements and opinions as follows:

According to our review, the guarantee business of the Bank is mainly to issue letters of guarantee, which has been approved by the PBOC and the CBRC as one of the ordinary businesses of the Bank. As of 31 December 2012, the balance of the guarantee business of the Bank (including letters of guarantee issued and guarantees by the Bank) amounted to RMB181,872 million.

The Bank has attached great importance to the risk management of the guarantee business and formulated strict requirements in respect of the credit position of guaranteed parties and the operational procedure and approval process of the guarantee business. We believe that the Bank's controls on the guarantee business are effective.

Independent Non-executive Directors of Agricultural Bank of China Limited
Anthony WU Ting-yuk, QIU Dong, Frederick MA Si-hang,
WEN Tiejun and Francis YUEN Tin-fan

Responsibilities of Directors on Financial Statements

The Directors are responsible for supervising the preparation of financial statements of each accounting period so that it can give a true and fair view of the financial position, operating results and cash flows of the Group. In preparation for the financial statements for the year ended 31 December 2012, the Directors have adopted and applied appropriate accounting policies consistently, and made judgment and estimation prudently and reasonably.

During the reporting period, the Bank complied with relevant laws and regulations and the requirements of the listing rules of places of listing, and published the annual report of 2011, and the first quarterly report, the interim report and the third quarterly report of 2012.

Training of Directors and Company Secretary

Training of Directors

In February 2012, Mr. JIANG Chaoliang, the Chairman, and Mr. XIAO Shusheng and Mr. ZHAO Chao, the Non-Executive Directors of the Bank, attended the specific training on the regulatory laws and regulations and the duties and obligations of directors organized by the domestic and Hong Kong legal advisors of the Bank. In January 2013, Mr. GUO Haoda and Mr. LOU Wenlong, Executive Directors of the Bank, attended the specific training on the regulatory laws and regulations and the duties and obligations of directors organized by the domestic and Hong Kong legal advisors of the Bank;

In June 2012, Mr. SHEN Bingxi, Mr. LIN Damao, Mr. CHENG Fengchao, Mr. LI Yelin, Mr. XIAO Shusheng and Mr. ZHAO Chao, the Non-Executive Directors of the Bank, attended the second session of the training program for directors and supervisors of listed companies in 2012 organized by Beijing office of the CSRC, which involved the analysis of duties, obligations and rights of the directors, supervisors and senior management members of listed companies, refinancing of listed companies, and issues in relation to share-based incentives and major asset restructuring.

During the reporting period, all members of the Board of Directors had kept abreast of various regulatory information and latest regulatory requirements during daily performance, including the *Notice on Further Enhancement of the Management of Investor Relations of Listed Companies* issued by the Shanghai Stock Exchange and the *Guidelines on Disclosure of Inside Information* of the Hong Kong Securities and Futures Commission, as well as relevant judiciary documents regarding the fighting against illegal securities and futures transactions issued by the Supreme People's Court and the Supreme People's Procuratorate. The Bank facilitates the members of the Board of Directors to persevere with learning during their performance and strengthen their capability in respect of their daily performance by providing them various legal documents and regulatory information.

Training of the Company Secretary

In August 2012, Mr. LI Zhenjiang, the Company Secretary, attended the training for secretary to the board of directors organized by the Shanghai Stock Exchange, which involved case study regarding insider tradings and false information disclosure, explanation of the new delisting policy, selection and application of financing facilities, communication with media and crisis management. The training lasted for 2 days.

Report of the Board of Supervisors

Composition of the Board of Supervisors

At the end of the reporting period, the Board of Supervisors comprised seven Supervisors, including two supervisors representing shareholders, namely Mr. CHE Yingxin and Mr. LIU Hong, four supervisors representing employees, namely Mr. JIA Xiangsen, Mr. WANG Yurui, Mr. YAN Chongwen and Mr. ZHENG Xin, and one external supervisor, namely Mr. DAI Genyou. The Chairman of the Board of Supervisors is Mr. CHE Yingxin. Details of the incumbent Supervisors are set out in the section headed "Directors, Supervisors and Senior Management" in this annual report.

Functions and Authorities and Operation of the Board of Supervisors

Main functions and authorities of the Board of Supervisors shall include without limitation, to the following:

- supervising the performance of the Board of Directors and senior management, supervising and enquiring the due diligence of Directors and senior management members, and urging Directors and senior management members to rectify their behaviors detrimental to the interest of the Bank;
- proposing to dismiss or initiate litigation against Directors and senior management members who violate laws, administrative regulations and the Articles of Association or the resolutions of the shareholders' general meetings;
- carrying out departure audit of Directors and senior management members when necessary;
- supervising the financial activities, business decisions, risk management and internal control of the Bank, and providing guidance to the work of internal auditing department;
- checking financial information including the financial reports, business reports and profit distribution plans prepared by the Board of Directors for submission to the shareholders' general meetings, and appointing registered accountants or certified public auditors to review such information on behalf of the Bank if any problem is detected;
- supervising the implementation of strategic plans, policies and general management system for the development of the County Area Banking Business;
- submitting proposals to the shareholders' general meetings;
- nominating the supervisors representing shareholders, external supervisors and independent directors;
- formulating the amendments to the Rules of Procedures of the Board of Supervisors; and
- other functions as conferred by laws, administrative regulations, departmental rules and the Articles of Association or as authorized by the shareholders' general meetings.

Discussions by the Board of Supervisors take the form of the meetings of the Board of Supervisors. The meetings of the Board of Supervisors consist of regular meetings and extraordinary meetings. Regular meetings of the Board of Supervisors shall be convened at least four times each year.

The Office under the Board of Supervisors is the division for carrying out regular tasks of the Board of Supervisors. It is responsible for arranging meetings of the Board of Supervisors and special committees thereof and preparing documents and minutes of those meetings.

The Bank has established the Due Diligence Supervision Committee and the Finance and Internal Control Supervision Committee under the Board of Supervisors.

Due Diligence Supervision Committee

At the end of the reporting period, the Due Diligence Supervision Committee comprised four Supervisors, namely Mr. CHE Yingxin, Mr. LIU Hong, Mr. YAN Chongwen and Mr. DAI Genyou. The Chairman of the Due Diligence Supervision Committee was Mr. CHE Yingxin.

The Due Diligence Supervision Committee shall operate under the authorization of the Board of Supervisors and report to the Board of Supervisors.

The main responsibilities of the Due Diligence Supervision Committee are as follows:

- developing working plans and implementation plans regarding the supervision on the due diligence of the Board of Directors, the Senior Management, directors and senior management members, and implementing thereof after approved by the Board of Supervisors;

- commenting on supervising the due diligence of the Board of Directors, the Senior Management, directors and senior management members, and making suggestions to the Board of Supervisors;

- developing plans for departure audit of directors and senior management members when necessary, and organizing the implementation thereof after approved by the Board of Supervisors;

- making recommendations to the Board of Supervisors on the candidates for supervisor representing shareholders, external supervisors, independent directors and members of the special committees under the Board of Supervisors;

- drafting evaluation methods for supervisors, organizing performance assessment of supervisors and making suggestions to the Board of Supervisors;

- studying and handling issues or documents reported or provided by the Board of Directors, the Senior Management, directors and senior management members; and

- other matters authorized by the Board of Supervisors.

Finance and Internal Control Supervision Committee

At the end of the reporting period, the Finance and Internal Control Supervision Committee comprised four supervisors, namely, Mr. CHE Yingxin, Mr. JIA Xiangsen, Mr. WANG Yurui and Mr. ZHENG Xin. The Chairman of the Finance and Internal Control Supervision Committee was Mr. CHE Yingxin.

The Finance and Internal Control Supervision Committee shall operate under the authorization of the Board of Supervisors and report to the Board of Supervisors.

The main responsibilities of the Finance and Internal Control Supervision Committee are as follows:

- developing working plans and implementation plans regarding the supervision on the finance and internal control of the Board of Supervisors, and organizing the implementation thereof after approved by the Board of Supervisors;

- supervising the implementation of development, policies and general management systems for the County Area Banking Business strategic plans, assessing the implementation results, and making suggestions to the Board of Supervisors;

- checking the financial reports and business reports of the Bank and the profit distribution plan formulated by the Board of Directors, and making suggestions to the Board of Supervisors;

- drafting plans for supervising and inspecting financial activities, operating decisions, risk management and internal control of the Bank by the Board of Supervisors, organizing the implementation thereof after approved by the Board of Supervisors, and proposing to the Board of Supervisors on engaging external auditors for auditing the Bank's financial position if necessary;

- guiding the work of internal auditing department of the Bank;

- studying and handling issues or documents reported or provided by the Board of Directors, the Senior Management, directors and senior management members; and

- other matters authorized by the Board of Supervisors.

Meetings of the Board of Supervisors and its Special Committees

During the reporting period, the Board of Supervisors held 12 meetings and considered and approved 20 resolutions, including the 2011 annual report and its highlights and the due diligence performance appraisal reports of the Board of Directors, Board of Supervisors and the senior management as their respective members for 2011, and listened to 18 specific work reports.

The Finance and Internal Control Supervision Committee held seven meetings to consider and approve 10 resolutions, including the 2011 annual report and its highlights.

The Due Diligence Supervision Committee held four meetings to consider and approve 11 resolutions, including the 2011 due diligence performance appraisal reports of the Chairman of the Board of Directors, the President and the Chairman of the Board of Supervisors.

The attendance of Supervisors at meetings of the Board of Supervisors and its special committees during the reporting period is listed below:

Number of attendance in person/attendance by proxy/meeting requiring attendance

Supervisors	Meeting of the Board of Supervisors	Meeting of Special Committees under the Board of Supervisors: Finance and Internal Control Supervision Committee	Meeting of Special Committees under the Board of Supervisors: Due Diligence Supervision Committee
CHE Yingxin	12/0/12	4/0/4	7/0/7
LIU Hong	12/0/12	4/0/4	
JIA Xiangsen	11/1/12		7/0/7
WANG Yurui	11/1/12		7/0/7
YAN Chongwen	10/2/12	4/0/4	
ZHENG Xin	11/1/12		6/1/7
DAI Genyou	1/0/1	0/0/0	

Notes: 1. For details of changes in Supervisors, please refer to "Change in Directors, Supervisors and Senior Management".
2. Attendance in person includes on-site attendance and attendance by way of electronic communication, such as telephone and video conference.

Work of the Board of Supervisors

During the reporting period, the Board of Supervisors performed its duties earnestly in accordance with the laws, regulations and the Articles of Association of the Bank. It supervised the due diligence performance, financial activities, risk management and internal control of the Bank strictly, contributing positively to improve and perfect the corporate governance system of the Bank.

Established new due diligence supervision mechanism to strengthen the development of the Board of Supervisors. To improve the performance of Supervisors and strengthen the due diligence supervision, we established the meeting attendance policy for Supervisors to ensure they have sufficient access to information. We explored and built up different channels to communicate with and make suggestions to the Board of Directors and Senior Management. Seminars were held to strengthen the communication and contact with directors representing shareholders for the improvement of our corporate governance. Supervisors were appointed to refine the composition of the Board of Supervisors and enhance the performance and capability of Supervisors. Work guidelines of the Board of Supervisors at subsidiary level were formulated to further develop the corporate governance of subsidiaries by maintaining efficient communication with and strengthening supervision capability of subsidiaries.

Conducted due diligence supervision in accordance with laws and improved the corporate governance of the Bank. The Board of Supervisors conducted annual performance appraisals according to the appraisal system consisting of collective and individual appraisals of the Board of Directors, Board of Supervisors and Senior Management. Periodic due diligence performance appraisal reports were prepared, which focused on conducting supervision and providing suggestions during the performance of duties, in order to evaluate the duty performance of the Board of Directors, Senior Management and the Board of Supervisors in a timely manner. Due diligence performance appraisal reports of the Board of Directors, Board of Supervisors and Senior

Management were prepared on a quarterly basis to provide suggestions on their performance. The Board of Supervisors also conducted self-assessment on business regulation according to the requirements of the regulatory authorities to strengthen the regulated operation of the Banks. The Board of Supervisors carried out departure audits on Directors and senior management members pursuant to the Articles of Association during the year.

Strengthened supervision of financial activities and internal control to enhance internal management of the Bank. We continued to refine the supervision of financial activities. In addition to the collection and analysis of daily financial data, we strengthened the communication with the financial and accounting departments as well as the auditors of the Bank to fully understand and analyse the financial and operation data of the Bank and provide objective and independent opinions. We carried out supervision on the County Area Banking Business by establishing and improving the annual evaluation system of County Area Banking Business to facilitate its sustainable development. Coordination of internal supervision between various departments was reinforced by conducting joint meetings on supervision of the Board of Supervisors to explore the prevention of the risk of cases, so as to improve the internal control and risk management of the Bank.

Focused on the supervision of key issues and supervised the implementation of supervisory opinions. During the reporting period, the Board of Supervisors carried out specific supervision and provided supervisory opinions for the post-disbursement management, fixed assets management, Economic capital management, overseas branches management, credit approval management, performance appraisal, staff management, basics of management, information technology and customer management. The Board of Supervisors supervised the effective implementation of these supervisory opinions to enhance the operation management of the Bank.

Independent Opinions of the Board of Supervisors

During the reporting period, the Board of Supervisors had no objection to the matters under supervision of the Bank.

By Order of the Board of Supervisors

CHE Yingxin
Chairman of the Board of Supervisors
26 March 2013

Senior Management

The Senior Management is the executive body of the Bank, which shall be accountable to the Board of Directors and is supervised by the Board of Supervisors. The division of powers between the Senior Management and the Board of Directors are in strict compliance with the Articles of Association of the Bank and other governance regulations.

According to the Articles of Association of the Bank, the President is entitled to exercise the following powers:

- taking charge of the Bank's operations and management, and organizing the implementation of the resolutions of the Board of Directors;

- conducting or authorizing other senior management members and principal officers of internal functional departments to conduct the daily operations and management of the Bank within the scope authorized by the Board of Directors;

- drafting the fundamental management rules and policies and formulating specific rules of the Bank (other than internal auditing rules);

- drafting the Bank's business and investment plans and implementing such plans upon approval by the Board of Directors;

- drafting plans of annual budget and final accounts, risk-based capital allotment, profit distribution and loss appropriation, increase or decrease of registered capital, issuance and listing of bond or other securities and repurchase of shares, and making suggestions to the Board of Directors;

- deciding on the setup of the internal functional departments of the Bank, and the establishment of first-tier branches, branches and other institutions directly under the head office and overseas institutions of the Bank, and making suggestions to the Board of Directors;

- proposing to the Board of Directors the appointment or dismissal of the executive vice presidents and other senior management members (except secretary to the Board of Directors);

- appointing or dismissing the principal officers of internal functional departments of the Bank (except the principal officers of internal auditing department) and the principal officers of branches;

- determining the compensation and performance appraisal of the principal officers of internal departments of the Bank (except the principal officers of internal auditing department) and the principal officers of branch offices, and conducting compensation review and performance evaluation;

- determining the salary, welfare, incentive and penalty of staff of the Bank, and deciding or authorizing the subordinate management members to appoint or dismiss staff of the Bank;

- upon the occurrence of material events in connection with business operations such as a run on the Bank, taking emergency measures, and reporting immediately to the government regulatory authorities of banking industry under the State Council, the Board of Directors and the Board of Supervisors; and

- exercising other powers conferred by the relevant laws, administrative regulations, departmental rules, and the Articles of Association of the Bank and the authorities resolved to be exercised by the President pursuant to the Shareholders' General Meeting and the Board of Directors.

During the reporting period, the Bank reviewed the implementation of the *Scheme of Authorization to the President by the Board of Directors*, and no approval was conducted beyond the President's authority.

Shareholders' General Meeting

During the reporting period, we held two extraordinary general meetings and one annual general meeting, at which 26 resolutions were considered and approved and two reports were listened to. The relevant details are set out:

On 16 January 2012, we held the first Extraordinary General Meeting for 2012, at which 12 resolutions in relation to matters including the elections of Mr. JIANG Chaoliang, Mr. ZHANG Yun and Mr. YANG Kun as Executive Directors, Mr. SHEN Bingxi, Mr. LIN Damao, Mr. CHENG Fengchao, Mr. XIAO Shusheng and Mr. ZHAO Chao as Non-executive Directors, Mr. Anthony WU Ting-yuk and Mr. QIU Dong as Independent Non-executive Directors and Mr. CHE Yingxin and Mr. LIU Hong as Supervisor Representing Shareholders. The announcement on the poll results of this Extraordinary General Meeting was published on the website of the Hong Kong Stock Exchange on 16 January 2012, and on the website of the Shanghai Stock Exchange and in designated press for information disclosure on 17 January 2012.

On 8 June 2012, we held the Annual General Meeting for 2011, at which seven resolutions in relation to matters including the report of the Board of Directors for 2011, the report of the Board of Supervisors for 2011, the final financial accounts for 2011, the profit distribution plan for 2011, the final emoluments plan for Directors and Supervisors for 2011, the fixed assets investment budget for 2012 and the appointments of external auditors for 2012 were considered and approved. In addition, the Work Report of Independent Directors for 2011 and the Report on the Implementation of the Plan on the Authorization of Shareholders' General Meeting to the Board of Directors for 2011 were listened to. The announcement on the poll results of the Annual General Meeting was published on the website of the Hong Kong Stock Exchange on 8 June 2012, and on the website of the Shanghai Stock Exchange and in designated press for information disclosure on 9 June 2012.

On 29 October 2012, we held the second Extraordinary General Meeting for 2012, at which seven resolutions in relation to matters including the elections of Mr. GUO Haoda and Mr. LOU Wenlong as Executive Directors, Mr. Francis YUEN Tin-fan as Independent Non-executive Directors and Mr. DAI Genyou as External Supervisors, the appointment of external auditors for 2013, amendments to the Articles of Association and issuance of Subordinated Bonds. The announcement on the poll results of this Extraordinary General Meeting was published on the website of the Hong Kong Stock Exchange on 29 October 2012, and on the website of the Shanghai Stock Exchange and in designated press for information disclosure on 30 October 2012.

Chairman and President of the Bank

Pursuant to Rule A.2.1 of the Corporate Governance Code in Appendix 14 to the Hong Kong Listing Rules and the Articles of Association, the Chairman and President of the Bank shall be separately appointed. The Chairman shall not be held concurrently by the legal representative or the person-in-charge of the controlling shareholder of the Bank.

Mr. JIANG Chaoliang serves as the Chairman and legal representative of the Bank, and is responsible for material matters such as business strategies and overall development of the Bank.

Mr. ZHANG Yun serves as the Vice Chairman and the President of the Bank and is responsible for the daily management of business operation of the Bank. The President shall be appointed by, and is accountable to, the Board of Directors, and shall perform duties in accordance with the Articles of Association and the authorization of the Board of Directors.

The roles of Chairman and President are separate and independent, with clear division of responsibilities.

Securities Transactions by Directors and Supervisors

The Bank has adopted a code of conduct for securities transactions by Directors and Supervisors with terms no less exacting than those set out in the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Hong Kong Listing Rules. The Directors and Supervisors of the Bank confirm that they have complied with such code of conduct throughout the year ended 31 December 2012.

Terms of Directors

The Bank strictly complies with the requirements of the Hong Kong Listing Rules and its Articles of Association that the directors shall be elected in the shareholders' general meetings with a term of three years commencing from the date of approval by the CBRC. A director may serve consecutive terms if re-elected upon the expiration of his/her term, and the consecutive term shall be commenced from the date of approval by the shareholders' general meetings. The maximum term of office of the Independent Non-executive Directors shall be 6 years.

Appraisal and Incentive Mechanisms for Senior Management

For the details of appraisal and incentive systems for senior management during the reporting period, please refer to "Report of the Board of Directors — Remuneration of Directors, Supervisors and Senior Management."

Auditors' Remuneration

Pursuant to the proposal passed at the Annual General Meeting of the Bank for 2011, the Bank continued to engage Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu as the domestic and international auditors of the Bank for 2012, respectively. The Bank has engaged the above auditors to provide audit services for three consecutive years since its initial public offering.

In 2012, a total fee of RMB135 million was paid to Deloitte and its member firms, of which audit service fee was RMB126 million, internal control audit service fee was RMB8.20 million and non-audit service fee was RMB0.63 million.

Information Disclosure and Investor Relations

Information Disclosure

During the reporting period, the Bank endeavored to improve the transparency of its corporate governance to protect the legitimate interests of its investors. The Bank was committed to fulfill the obligations of information disclosure and disclosed information according to applicable laws and regulations. The Bank has closely monitored any changes in rules and regulations relating to information disclosure and further refined its mechanism of information disclosure. The Bank further refined the preparation, review and disclosure procedures and improved the compliance review of information disclosure, in order to enhance the standard, mechanism and procedures of information disclosure. Through promoting the voluntary disclosure and non-financial information disclosure, the Bank further expanded the coverage and improved the depth of information disclosure and promoted the pertinency and efficiency of information disclosure, so as to fulfill the demand of information from investors and other stakeholders. During the reporting period, the Bank disclosed more than 210 documents on the Shanghai Stock Exchange and the Hong Kong Stock Exchange, including different types of periodic reports, temporary reports and corporate governance documents.

Investor Relations

In 2012, the Bank continued to enhance active and comprehensive communication with investors through various means, such as shareholders' general meetings, results press release, road-shows, interviews, capital markets conferences pursuant to the requirements of the *Investor Relations Management System of Agricultural Bank of China Limited* and *Notice on Further Enhancement of Investor Relations Management of Listed Companies* issued by the Shanghai Stock Exchange. We have adopted effective measures to maintain smooth operation of electronic channels such as our website, investor's hotline and emails, and replied and provided feedbacks to the investors through effective means. We held press releases and roadshows for the 2011 annual results as well as the 2012 interim results, and published the relevant results announcements in the designated newspapers and websites for shareholders' review.

In 2013, the Bank will further strengthen its communication with investors so as to enhance their understanding and endorsement of the Bank. Meanwhile, the Bank hopes to receive more support and attention from investors. For any enquiry, please contact the Board Office of the Bank, details of which are set out in the section headed "Contact of the Board Office".

Shareholders' Rights

Convening of Extraordinary General Meetings

The Bank protects shareholders' rights strictly in compliance with the regulatory requirements and basic corporate governance system. Shareholders who individually or jointly hold more than 10% of the total voting shares of the Bank ("Requesting Shareholders") may propose to the Board of Directors to convene an extraordinary general meeting in writing. If the Board of Supervisors refuses to convene an extraordinary general meeting or fails to give its responses within 10 days upon receipt of the proposal, the Requesting Shareholders may propose to the Board of Supervisors to convene an extraordinary general meeting in writing. If the Board of Supervisors fails to give the notice of such extraordinary general meeting within the prescribed period, it shall be deemed to have failed to convene and preside over such meeting, and shareholders who individually or jointly hold 10% or more of the Bank's shares for not less than 90 days shall be entitled to convene and preside over an extraordinary general meeting.

Enquiries to the Board of Directors

Shareholders of the Bank may put enquiries to the Board of Directors and have the right to obtain the relevant information pursuant to the Articles of Association. Shareholders may inspect copies of the minutes of the shareholders' general meetings free of charge during the business hours of the Bank. If any shareholder requests to obtain from the Bank a copy of the relevant minutes, the Bank shall send such copy within seven days after receiving reasonable fees. Shareholders who request to inspect or obtain the relevant information shall provide the Bank with written documents evidencing the class and number of shares held by them, and the Bank shall provide upon verification of such shareholder.

Proposals to the Shareholders' General Meetings

Shareholders who individually or jointly hold more than 3% of the voting shares of the Bank ("Proposing Shareholders") may submit proposals to the shareholders' general meetings. Proposing Shareholders shall submit proposals in writing 10 days prior to the date of shareholders' general meetings.

Contact of the Board Office

The Office of the Board of Directors is responsible for day to day affairs of the Board of Directors. For any enquiry from investors, or any of the aforementioned request, enquiry or proposal from shareholders, please contact us by:

The Board Office of Agricultural Bank of China Limited
No. 69, Jianguomen Nei Avenue, Dongcheng District, Beijing, China
Telephone: 86-10-85109619
Facsimile: 86-10-85108557
E-mail: ir@abchina.com

Material changes to the Articles of Association during the reporting period

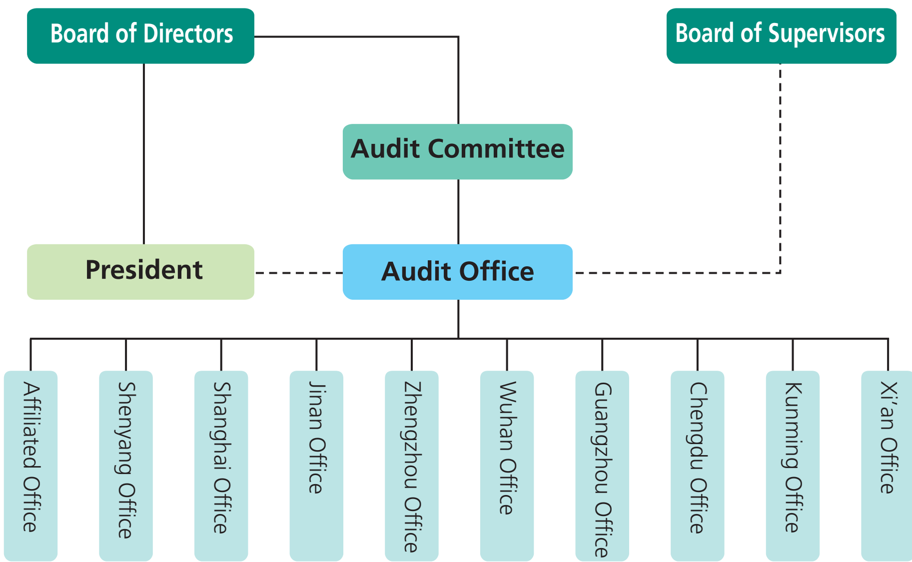
During the reporting period, the Bank amended its Articles of Association. In addition to the modification of expressions, the amendment were mainly about: additional issues requiring approval by shareholders' general meetings and issues requiring approval by special resolutions of shareholders' general meetings; adoption of online voting method for approving any change of profit distribution policy; adoption of minimum working time of Directors at the Bank; additional issues requiring opinions of Independent Non-executive Directors to shareholders' general meetings or the meeting of the Board of Directors; additional duty of the secretary to the Board of Directors relating to the disclosure of changes in shareholding of Directors, Supervisors and senior management members of the Bank; adjustment of major duties of the Strategic Planning Committee, the Audit Committee and the Risk Management Committee; adjustment on the authorization on proposal and approval of the measurement on due diligence performance evaluation for Directors and senior management members; and further clarification of the profit distribution policy.

The amended Articles of Association were approved by the CBRC on 31 December 2012 and published on the websites of the Shanghai Stock Exchange and the Hong Kong Stock Exchange and the website of the Bank.

Internal Audit

We have established an independent and vertical internal audit system. The internal audit department performs audits on operations and management, business activities and operation performance of the Bank and shall be accountable and report to the Board of Directors. The audit shall follow the guidelines of the Board of Supervisors and are subject to the examination, supervision and evaluation by the Audit Committee under the Board of Directors. The internal audit department consists of the Audit Office at the head office and ten regional offices. The Audit Office is responsible for the organization, management and reporting of internal audit works of the Bank. The regional offices under the Audit Office perform internal audit for their respective branches and shall be accountable and report to the Audit Office.

The chart below shows the organizational structure of internal audit system of the Bank:



In 2012, the Bank strived to adopt the risk-oriented audit model, standardized the procedures and practices of audit work and improved its audit quality. We pushed forward the informatization of the internal audit and promoted the application of information system. Training of auditing skills was strengthened to enhance the performance of our internal audit team. We continued to improve and standardize the management of regional audit offices.

During the reporting period, the Bank carried out audit projects in compliance with the regulatory requirements and the strategic decisions of the Board of Directors. In particular, comprehensive risk audit was carried out on certain branches, and major focus was put on the risks associated with businesses including loans to government financing vehicles, real estate loans, fixed assets and financial management. Specific audit projects in connection with IT equipment and resources, fixed assets, consolidated management, outsourcing projects, the New Basel Capital Accord, connected transactions, shadow banking, payment by banks and other financial institutions and wealth management and audit of foreign branches were completed. Due diligence assessment of senior management members was carried out. We also carried out follow-up audit on the key audit projects of last year. Audit work facilitated the effective implementation of strategic decisions of the Bank, the improvement of basics of management and the sound development of all business operations.

Principal Business

The principal business of the Bank and its subsidiaries is banking and related financial services. The Bank's business operation is set out in the section headed "Discussion and Analysis — Business Review" in this annual report.

Profits and Dividends Distribution

The Bank's profits for the year ended 31 December 2012 are set out in the section headed "Discussion and Analysis — Financial Statements Analysis" in this annual report.

On 16 July 2012, upon the approval of the 2011 Annual General Meeting, the Bank distributed cash dividend of RMB1.315 (tax included) per ten shares, amounting to RMB42,710 million (tax included) to shareholders of A shares and H shares on our registers of members at the close of business on 19 June 2012.

The Board of Directors of the Bank proposed the distribution of cash dividend of RMB1.565 per ten shares (tax included) for 2012 for a total of RMB50,830 million (tax included). The dividend distribution plan is subject to the approval of shareholders at the Annual General Meeting for 2012. Upon the approval of the Annual General Meeting for 2012, the dividend will be paid to holders of A shares and H shares with whose names appeared on the registers of members of the Bank at the close of business on 27 June 2013. The H Share Registrar of the Bank will be closed from 22 June 2013 to 27 June 2013 (both days inclusive), and no transfer of H shares will be registered during such period. To qualify for the entitlement to the proposed cash dividend distribution, holders of H shares of the Bank must lodge the transfer documents and the relevant share certificates with the Bank's H Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on 21 June 2013.

The table below sets out the Bank's cash dividend payment for the preceding three years.

In millions of RMB, except percentages

	2011	2010[2]	2009
Cash dividend (tax included)	42,710	49,616	20,000
Cash dividend payment ratio[1] (%)	35.0	52.3	30.8

Notes: 1. Cash dividend (tax included) is divided by the net profits of the reporting period attributable to equity holders of the Bank.
2. Including special dividends and cash dividends declared for the second half of 2010.

Pursuant to the "*Notice on Issues Concerning Individual Income Tax Collection and Management after the Repeal of Guo Shui Fa [1993] No. 045*" (Guo Shui Han [2011] No. 348), the resident individuals outside the PRC who are the shareholders of the shares issued by domestic non-foreign invested enterprises in Hong Kong enjoy preferential tax rate in accordance with the tax conventions between Mainland China and the country where the residents reside, and the tax arrangements between the Mainland China and Hong Kong (Macau). Resident individuals outside the PRC shall personally or through an agent authorised in writing to apply for and fulfil the relevant formalities to enjoy relevant preferential tax treatment. Since the tax rate for such dividend is generally 10% as required by relevant tax regulation and arrangements, and there is a large number of shareholders, to simplify the collection of tax, the individual shareholders will be generally subject to a withholding tax rate of 10% without making any application when domestic non-foreign invested enterprise which issue shares in Hong Kong distribute dividends to their shareholders. For situations where the tax rate for dividend is not 10%, it shall be subject to the following requirements: (1) if an individual who received a dividend is a resident of a country where the tax rate for the dividend is lower than 10%, the withholding agent can apply for relevant preferential treatment according to the "Notice of the State Administration of Taxation in relation to the Administrative Measures on Preferential Treatment Entitled by Non-residents under Tax Treaties (Tentative)" (Guo Shui Fa [2009] No.124), and upon the approval of the competent tax authority, overpaid taxes will be returned; (2) if an individual who received a dividend is a resident of a country where the tax rate for dividend is between 10% and 20%, the withholding agent shall withhold the individual's income tax at the agreed tax rate when distributing dividends, and no application should be submitted; or (3) if an individual who received a dividend is a resident of a country which has not entered into any tax treaty with the PRC or otherwise, the withholding agent shall be subject to a withholding tax rate of 20% which shall be applied when distributing the dividend.

Pursuant to the "Notice of the State Administration of Taxation on the Issues Concerning Withholding the Enterprises Income Tax on the Dividends Paid by Chinese Resident Enterprises to H Share Holders Who Are Overseas Non-resident Enterprises" (Guo Shui Han [2008] No.897) of the State Administration of Taxation, the Bank is obliged to withhold and pay enterprise income tax at the rate of 10% from dividend paid or payable for H shares when distributing dividend to non-resident enterprise shareholders of H shares.

No tax is payable in Hong Kong in respect of dividends paid by the Bank according to the current practice of the Hong Kong Inland Revenue Department.

Shareholders are recommended to consult their tax advisers regarding the PRC, Hong Kong and other tax implications arising from their holding and disposal of H Shares of the Bank.

Implementation of the Cash Dividend Policy

The formulation and implementation of the Bank's cash dividend policy complies with its Articles of Association and the resolutions of the shareholders' general meeting. The relevant decision making procedure and system are complete while the distribution standards and proportion are clearly stated. Independent Non-executive directors have served their obligations and expressed their opinions. As small and medium shareholders have opportunities to fully express their opinions and appeals, their legitimate interests have been fully protected.

The Bank amended the Articles of Association at the second Extraordinary General Meeting for 2012 and such amendments were approved by the CBRC. The amended Articles of Association specified that the Bank shall give priority to profit distribution in cash and the cash dividend distributed each year shall not be less than 10% of net profit attributable to the equity holders of the bank in corresponding accounting year. During the reporting period, save as the amendment mentioned above, the Bank's cash dividend policy remained unchanged.

Reserves

The details of the changes of reserves for the year ended 31 December 2012 are set out in "Consolidated Statement of Changes in Equity" in the Financial Statements.

Financial Summary

The summary of operating results, assets and liabilities for the five years ended 31 December 2012 is set out in the section headed "Financial Highlights" in this annual report.

Donations

During the year ended 31 December 2012, the Bank made external donations (domestically) of RMB31.67 million.

Fixed Assets

The changes in fixed assets for the year ended 31 December 2012 are set out in "Note 13 of VIII to the Financial Statements: Fixed Assets" in this annual report.

Subsidiaries

Particulars of the Bank's principal subsidiaries as of 31 December 2012 are set out in the section headed "Discussion and Analysis — Business Review" in this annual report.

Share Capital and Public Float

As of 31 December 2012, the Bank's share capital amounted to 324,794,117,000 shares, including 294,055,293,904 A shares and 30,738,823,096 H shares. As of the date of this annual report, the Bank maintained sufficient public float in compliance with the minimum requirement of the Hong Kong Listing Rules and the exemption granted by the Hong Kong Stock Exchange upon the Bank's listing.

Purchase, Sale or Redemption of the Bank's Shares

During the year ended 31 December 2012, the Bank and any of its subsidiaries did not purchase, sell or redeem any of its listed shares.

Pre-emptive Rights

There is no mandatory provision in relation to pre-emptive rights in the Articles of Association of the Bank. According to the Articles of Association, the Bank is entitled to increase its registered capital by issuing shares to non-specific or specific investors, allotting new shares to existing shareholders, transferring capital reserve funds to increase share capital and other methods as permitted by laws, administrative regulations and relevant authorities.

Major Customers

For the year ended 31 December 2012, the five largest customers accounted for less than 30% of the interest income and other operating income of the Bank.

Use of Proceeds

The proceeds were used to strengthen the Bank's capital base to support the ongoing growth of its business in accordance with the use of proceeds disclosed in the prospectus.

Major Projects Invested by Non-raised Funds

For the year ended 31 December 2012, the Bank has no significant projects invested by non-raised funds.

Directors' and Supervisors' Interests in Material Contracts

For the year ended 31 December 2012, none of the Bank's directors or supervisors had any material interests, whether directly or indirectly, in any material contracts regarding its business to which the Bank or any of its subsidiaries was a party. None of its directors or supervisors has entered into any service contract with the Bank or any of its subsidiaries, pursuant to which the Bank needs to pay compensation (other than statutory compensation) for terminating the contract within one year.

Directors' Interests in Competing Businesses

None of the directors held any interests in any business that competes or is likely to compete, either directly or indirectly, with the business of the Bank.

Directors' and Supervisors' Rights to Acquire Shares or Debentures

For the year ended 31 December 2012, the Bank did not grant any rights to acquire shares or debentures to any of its directors or supervisors, nor were any of such rights exercised by any of the directors or supervisors. Neither the Bank nor its subsidiaries entered into any agreement or arrangement enabling the directors or supervisors to acquire benefits by means of the acquisition of shares or debentures of the Bank or any other body corporate.

Interests in Shares, Underlying Shares and Debentures Held by Directors and Supervisors

Except for Mr. ZHENG Xin, Supervisor who held 500,000 A Shares of the Bank, none of the Directors or Supervisors of the Bank had any interests or short positions in the shares, underlying shares or debentures of the Bank or any of its associated corporations (as defined in Part XV of the Securities and Futures Ordinance of Hong Kong) which were required to be notified to the Bank and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance of Hong Kong (including interests and short positions in which they are deemed to have under such provisions of the Securities and Futures Ordinance of Hong Kong), or any interests or short positions which were required to be recorded in the register referred to in Section 352 of the Securities and Futures Ordinance of Hong Kong, or any interests or short positions which were required to be notified to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Hong Kong Listing Rules. For the interests and short positions of substantial shareholders of the Bank or other persons, please refer to the section headed "Changes in Share Capital and Shareholdings of Substantial Shareholders" in this annual report.

Related Party Transactions

In 2012, the Bank strengthened the management of related party transactions, formulated and executed the *Implementation Measures on the Management of Related Party Transactions* to establish a comprehensive related party transaction management system. We continued to collect information of related parties, enhanced quality control of the collection of related party information and timely updated information of the related parties. By commencing the optimization of related party transaction management information system and expanding the monitoring scope, the risk prevention and control capabilities of related party transactions were improved. During the reporting period, the related party transactions of the Bank were conducted in accordance with relevant laws and regulations.

Continuing Connected Transactions Defined under the Hong Kong Listing Rules

Deposits placed by Connected Persons with the Bank

The Bank provided commercial banking services and products to customers in the ordinary and usual course of its business. Such services and products include deposit-takings. The Bank's deposit customers include connected persons of the Bank under the Hong Kong Listing Rules. According to the Hong Kong Listing Rules, accepting deposits from connected persons constitutes continuing connected transactions of the Bank. The Bank accepted the deposits by the Bank's connected persons on normal commercial terms in the ordinary and usual course of business of the Bank, and no security has been made over the assets of the Bank, such deposit-takings are regarded as exempted continuing connected transactions for the purpose of Rule 14A.65(4) of the Hong Kong Listing Rules, and are exempted from the reporting, announcement and independent shareholders' approval requirements.

Loans and Credit Facilities Extended by the Bank to Connected Persons

The Bank extends loans and credit facilities (including the provision of long-term loans, short-term loans, consumer loans, credit card overdrafts, mortgages, guarantees, guarantees of third-party loans, comfort letters and bill discounting facilities) to its customers in the ordinary and usual course of its business and on normal commercial terms with reference to prevailing market rates. Customers who utilize the above banking products and services may include connected persons of the Bank under the Hong Kong Listing Rules. Therefore, such loans and credit facilities constitutes continuing connected transactions of the Bank according to the Hong Kong Listing Rules. As the provisions of loans and credit facilities are on normal commercial terms and in the ordinary and usual course of the Bank's business, they are regarded as exempted continuing connected transactions under Rule 14A.65(1) of the Hong Kong Listing Rules and are exempted from the reporting, announcement and independent shareholders' approval requirements under the Hong Kong Listing Rules.

Transactions with Crèdit Agricole Corporate and Investment Bank ("CA-CIB")

Amundi Asset Management is a substantial shareholder of ABC-CA Fund Management Co., Ltd., a non-wholly owned subsidiary of the Bank, and CA-CIB is a subsidiary of Crèdit Agricole S.A., the holding company of Amundi Asset Management. According to the Hong Kong Listing Rules, CA-CIB is an associate of Amundi Asset Management and a connected person of the Bank.

During the reporting period, the Bank has regularly engaged in various transactions (both one-off transactions and continuing transactions) with CA-CIB on normal commercial terms in the ordinary and usual course of the business of the Bank.

The total assets, profits and revenue of ABC-CA Fund in each of the financial years since its establishment on 18 March 2008 account for less than 10% of the total assets, profits and revenue of the Group, respectively. Therefore, the connected transactions between the Bank and CA-CIB will be exempted from the reporting, annual review, announcement and independent shareholders' approval requirements under Rules 14A.31(9) and 14A.33(4) of the Hong Kong Listing Rules.

For the related party transactions defined under the laws and regulations of China, please refer to "Note 49 to the Financial Statements: Related Party Transactions".

Remuneration of Directors, Supervisors and Senior Management

The Bank strictly complies with the relevant regulations including the *Administrative' Measures for Approving Remuneration for Central Financial Enterprises' Responsible Personnel* promulgated by the MOF to assess and determine the remuneration of the senior management members. After the assessment, the remuneration of Senior Management shall be reviewed and approved by the Board of Directors the Bank while that of Directors and Supervisors shall be reviewed and approved by the shareholders' general meeting. For the details of the specific remuneration standards, please refer to "Directors, Supervisors and Senior Management — Annual Remuneration" of this annual report. After the annual assessment, performance-based annual remunerations of Directors, Supervisor and senior management members shall be determined according to the assessment results. 50% of the remunerations will be paid immediately and the remaining 50% will be deferred. In general, deferred payment period shall be three years. The Bank did not formulate any long-term initiative plan for Directors, Supervisors and senior management members.

Financial, Business and Family Relationship among Directors

Directors of the Bank had no relationship with each other, including financial, business, family or other material relationships.

Employee Benefit Plans

For details of employee benefit plans of the Bank, please refer to "Note 40 to the Financial Statements: Other Liabilities — Staff Costs Payable".

Management Contracts

Except the service contracts of its management personnel, the Bank has not entered into any contract with any person, company or legal entity to manage or handle the whole or any material part of its businesses.

Auditors

The 2012 Financial Statements of the Bank prepared in accordance with PRC GAAP and IFRSs were audited by Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu according to China Standards on Auditing and International Standards on Auditing, respectively. Standard and unmodified auditor's reports were issued by them.

Implementation of Management System of Insider Information

During the reporting period, the Bank strictly followed supervisory regulations to strengthen the management of insider information and control the risk of insider dealing. In accordance with the requirements of regulators, the Bank timely amended the Administrative Measures for Insider Information and Insiders, and further regulated the registration and filing of information on insiders and conducted self-assessment for insider dealings.

Corporate Social Responsibility

We have issued Corporate Social Responsibility Report 2012, please refer to the website of the Bank (www.abchina.com) for details.

By Order of the Board of Directors

JIANG Chaoliang
Chairman
26 March 2013

Establishment of Internal Control

Responsibility Statement of Board of Directors in Respect of Internal Control

The Board of Directors of the Bank is responsible for establishing and implementing a comprehensive internal control system in an effective manner. Senior Management is responsible for the daily operation of the Bank's internal control. The Board of Supervisors is responsible for the supervision on the establishment and implementation of internal control by the Board of Directors and the Senior Management. The Board of Directors has established the Audit Committee, the Risk Management Committee and the Related Party Transactions Management Committee to fulfil the duties of internal control management and evaluate the efficiency of internal control. Each of the Head Office, tier-one branches and tier-two branches of the Bank has set up an internal control and compliance department which is responsible for the implementation and daily operations of internal control.

Basis of the Internal Control System for Financial Reports

In 2012, the Bank established a strict internal control system for financial reports based on the requirements set out in the Basic Rules on Enterprise Internal Control and its implementing measures promulgated by five departments, including the MOF, the Guidelines for Internal Control of Commercial Banks promulgated by the CBRC and the Guidelines for the Internal Control of Listed Companies of Shanghai Stock Exchange, with a view to achieving the internal control targets of the Bank.

Establishment of Internal Control System

During the reporting period, the Bank strictly implemented the Basic Rules on Enterprise Internal Control and its implementation measures as well as various regulatory requirements. We focused on building an internal control and compliance system comprising a regulation system, a quality management system and a internal supervision system, as oriented by a compliance culture and supported by information technologies.

Oriented by a compliance culture, the Bank continued to improve the internal control environment. We launched and completed the common law education at tier-1 branches. We also strived to build a long-term mechanism for establishing compliance culture comprising the elements of compliance education, system refinement, compliance implementation, supervision and inspection, modification and rectification, and appraisal and incentives. The Bank was honored as the "Top 10 Model Case of Corporate Culture Establishment in 2012" at the Domestic and Foreign Corporate Culture Summit for its compliance culture establishment.

The Bank further extended the application of internal control and compliance management information system and improved the information sharing system. We established an information platform, an operating platform and a management platform for internal control and compliance management. Relevant work tasks such as supervision and inspection, internal control evaluation, rectification management and related-party transactions were conducted through an online operating platform. Based on the daily monitoring and specialized analysis carried out through its internal control information system, the Bank compiled an annual report in respect of compliance risks. The information sharing system of internal control and compliance management was implemented in the Head Office and certain branches to facilitate the prompt, comprehensive and efficient information sharing. A preliminary information sharing platform was established to enhance the standard of internal control and compliance management efficiently.

The Bank steadily established the internal control and compliance management system to ensure its sustainable development. Firstly, we strengthened the establishment of the regulation system which covers force levels and business segments. The Bank set up standardized procedures for rules establishment, amendment and repeal and established a dynamic modification and optimization system. We optimized the standards, procedures and illustrations of the regulation system to enhance the standardization of regulation system management. Secondly, we continued to improve the quality management system. Focusing on internal evaluation and rectification assessment, the Bank refined internal evaluation approach and carried forward the transformation from result-based evaluation to process-based evaluation. We expanded the coverage of evaluation and organized internal control evaluation at the Head Office and overseas branch offices. Introducing comprehensive quality management concept and approach, the Bank formulated the Administrative Measures on Adjustments and Improvement to refine rectification mechanism. Classification of rectification issues was implemented and rectification was included in the performance appraisal system of the Bank. Thirdly, efforts were made for establishing a well-coordinated internal supervision system. We built an internal supervision system for the Senior Management emphasizing on performance supervision and internal control and compliance management. We amended the administrative measures on internal control and compliance inspection and carried out the "three lines of defence" of internal control. The Bank carried out the whole-processed inspection, which consisted of encouraging self-inspection and self-rectification of functional departments, conducting on-site inspections coordinated by the internal control and compliance department, strengthening the application of off-site supervision measures and enhancing the pertinence and efficiency of on-site inspections.

Internal Control Self-evaluation Report

The Board of Directors of the Bank has considered and approved the 2012 Internal Control Assessment Report of the Agricultural Bank of China Limited. Please visit the website of the Shanghai Stock Exchange (www.sse.com.cn) for details.

Internal Control Audit Report

Deloitte Touche Tohmatsu Certified Public Accountants LLP issued the Internal Control Audit Report based on its audit on the effectiveness of internal control with respect to financial reporting of the Bank. Please visit the website of the Shanghai Stock Exchange (www.sse.com.cn) for details.

Accountabilities for Material Errors in Annual Report

The Bank has formulated and implemented the Administrative Measures on Accountabilities for Material Errors in Annual Report Information Disclosure which specified the accountability system in relation to the material errors occurred in the information disclosed in the annual report, in order to enhance the quality and transparency of information disclosed in the annual report. During the reporting period, no rectification was required for any material accounting errors, no material omission was found and no amendment was required for any estimated results announcement.

Material Legal Proceedings, Arbitration and Media Enquiries

During the reporting period, there were no legal proceedings, arbitration or media enquiries with material impact on the business operation of the Bank.

As of 31 December 2012, unresolved legal proceedings in which the Bank was a defendant, a respondent or a third person involved amounted to approximately RMB2.776 billion. The management of the Bank believes that we have fully accrued allowance for the potential losses arising from the said legal proceedings. Such events will not have any material adverse effect on our financial position or operational results.

Major Asset Acquisition, Disposal and Merger

The subscription of the newly-issued shares of Jiahe Life Insurance Co., Ltd. was completed. Please refer to the announcement of the Bank published on the websites of the Hong Kong Stock Exchange (www.hkexnews.hk) and the Shanghai Stock Exchange (www.sse.com.cn) on 7 January 2013 and 8 January 2013, respectively, for details.

Implementation of Share-Based Incentive Plan

During the reporting period, the Bank did not implement any share-based incentive scheme.

Material Connected Transactions

During the reporting period, the Bank did not enter into any material connected transaction.

Details and Performance of Material Contracts

Material custody, contract and lease

During the reporting period, the Bank did not enter into any material custody, contracting or leasing arrangements of assets of other companies and no other companies entered into any material custody, contracting or leasing arrangements of our assets.

Material guarantees

The provision of guarantees is one of the recurring off-balance-sheet businesses of the Bank. During the reporting period, the Bank did not have any material guarantee that was required to be disclosed, except for the financial guarantee services within the business scope as approved by the PBOC and the CBRC.

Occupation of Fund by Controlling Shareholders and Other Related Parties

None of our controlling shareholders or other related parties occupied any of our funds.

Change of External Auditors

Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu were appointed as our domestic auditor and international auditor for 2012, respectively. According to the applicable requirements of the MOF, any state-owned financial institution shall not engage any accountant firm for a consecutive term of more than five years. The Bank will not re-appoint Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu on the expiry of their term of service as auditors of the Bank. PricewaterhouseCoopers Zhong Tian CPAs Limited Company (now renamed as PricewaterhouseCoopers Zhong Tian LLP) and PricewaterhouseCoopers were appointed as our external auditors for 2013 at the 2012 second extraordinary general meeting.

Penalties Imposed on the Bank and Directors, Supervisors and Senior Management of the Bank

Mr. YANG Kun is assisting relevant PRC authorities in their investigation. He resigned as our Executive Director and Executive Vice President on 13 July 2012.

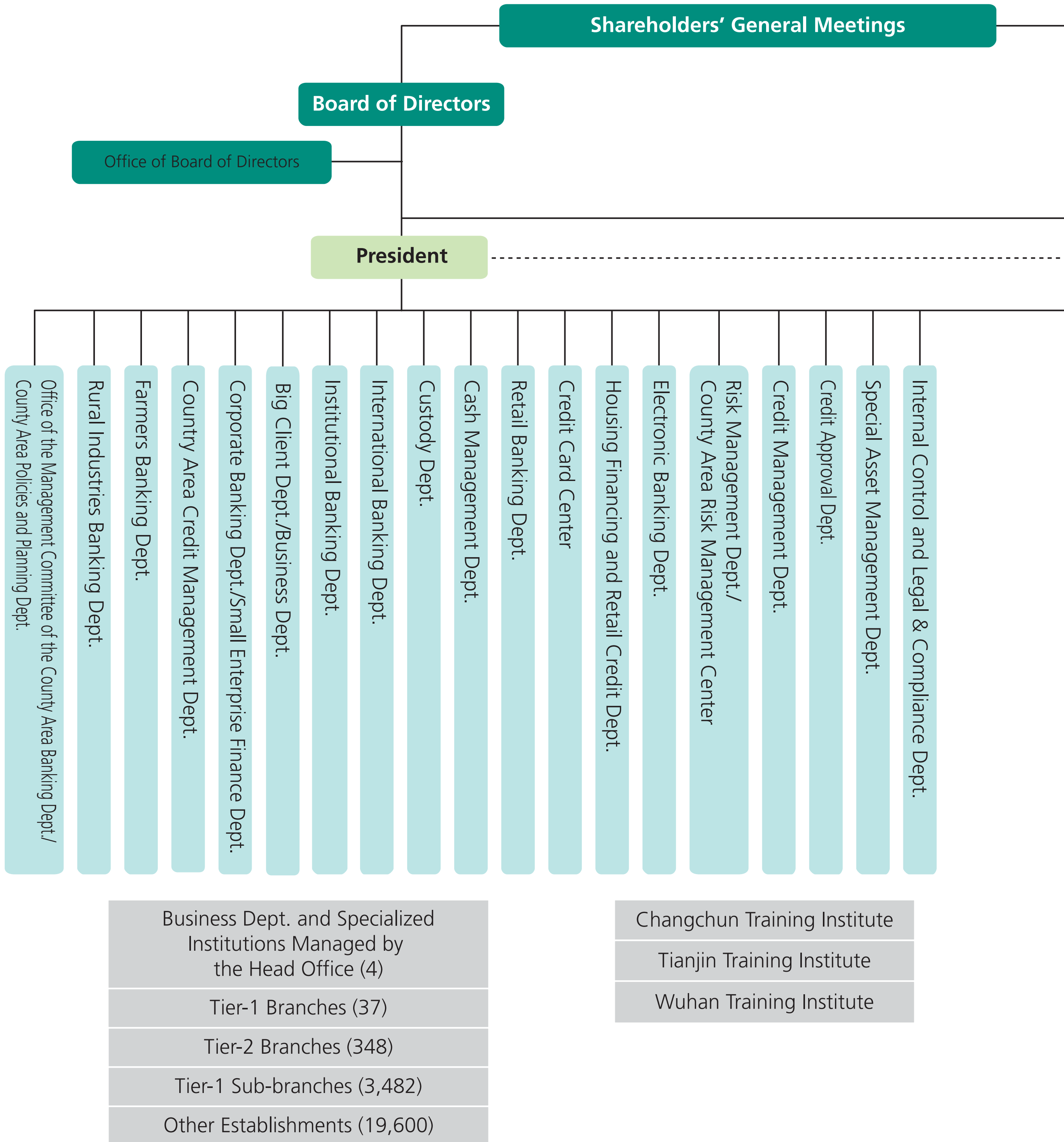
Commitments Made by the Bank or Our Shareholders Holding 5% Shares or Above

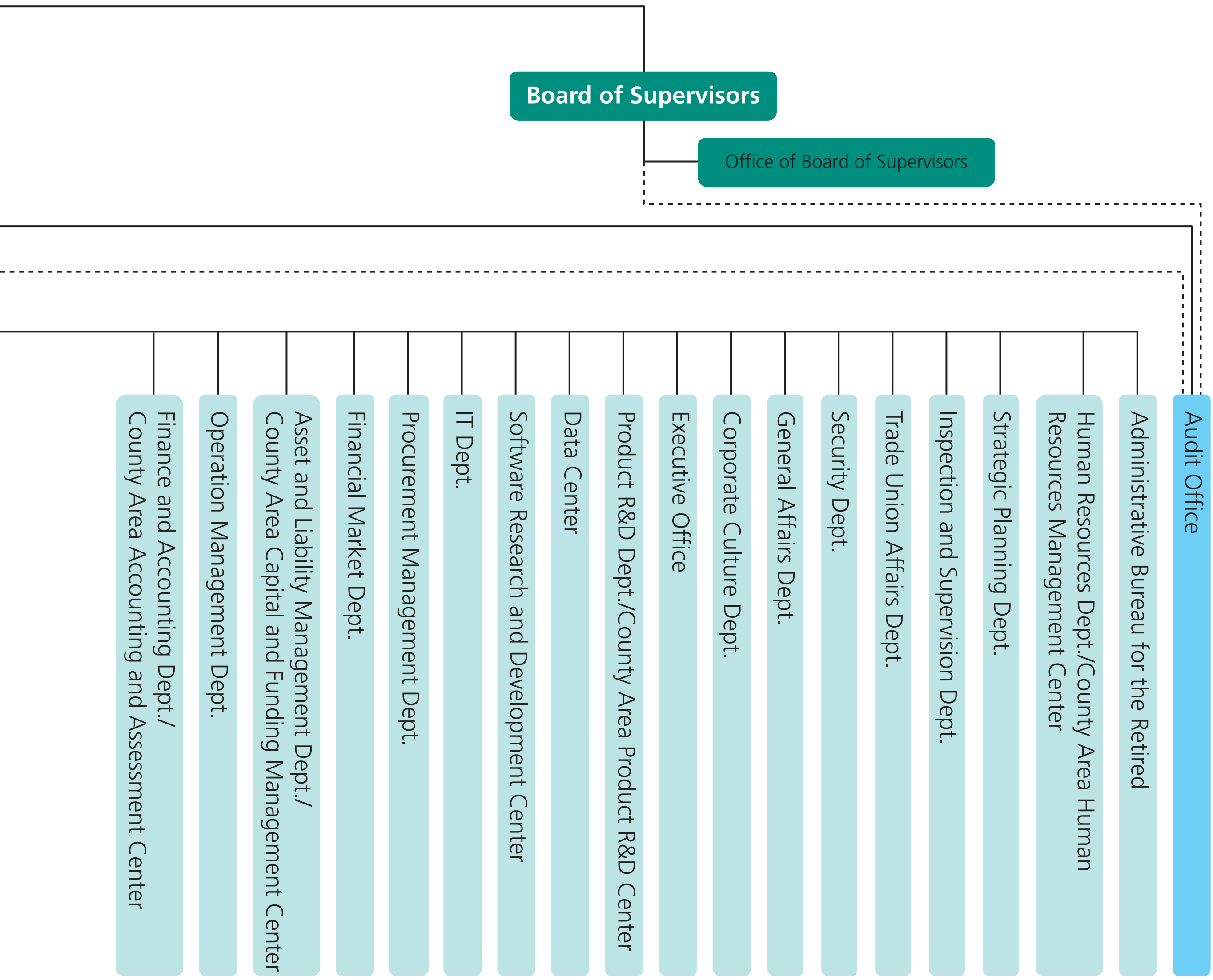
Subject of commitment	Commitment	Details of commitment	Date of commitment	Due date of commitment	Performance up to date
MOF	Lock-up of shares	No transfer of or entrusting others to manage the shares, directly or indirectly held by it, issued before the date of the initial public offering of the Bank's A shares, and no repurchase of such shares by the Bank shall be conducted within 36 months from the date of listing of the Bank's A shares. However, upon the conversion of such A shares held by it into H shares after being approved by the CSRC or the authorized securities approval authority of the State Council, such converted H shares will not be subject to the above 36-month lock-up period.	15 July 2010	15 July 2013	Not due and performed regularly
Huijin	Lock-up of shares	No transfer of or entrusting others to manage the shares, directly or indirectly held by it, issued before the date of the initial public offering of the Bank's A shares, and no repurchase of such shares by the Bank shall be conducted within 36 months from the date of listing of the Bank's A shares. However, upon the conversion of such A shares held by it into H shares after being approved by the CSRC or the authorized securities approval authority of the State Council, such converted H shares will not be subject to the above 36-month lock-up period. Huijin undertook to comply with the lock-up period applicable to the shares it held as the promoter of the Bank according to the applicable domestic and overseas laws and regulatory requirements.	15 July 2010	15 July 2013	Not due and performed regularly

Subject of commitment	Commitment	Details of commitment	Date of commitment	Due date of commitment	Performance up to date
Huijin	Non-competition commitment	(1) so long as Huijin continues to hold any of our shares or is deemed to be a controlling shareholder or a connected person of a controlling shareholder in accordance with the laws or listing rules of China or of the place where our shares are listed, it will not engage or participate in any competing commercial banking activities. If Huijin engages or participates in any competing commercial banking activities or activities which evolve into competing commercial banking activities in China or abroad, Huijin will immediately cease to participate in, manage or engage in such competing commercial banking activities; (2) if Huijin obtains any governmental approval, authorization or license to operate commercial banking activities directly, or obtains any other opportunities to operate commercial banking activities, Huijin will immediately relinquish such approval, authorization or license, and will not operate any commercial banking activities; (3) notwithstanding the above undertaking (1) and (2), Huijin, as a state-owned investment vehicle established by the PRC government to invest in financial institutions, may through its investments in other companies (including but not limited to its wholly-owned entities, joint ventures, contractual joint ventures, or through its direct or indirect ownership of shares or other interests in such companies) operate or participate in any competing commercial banking activities in China or abroad; (4) Huijin, as a state-owned investment vehicle established by the PRC government to invest in financial institutions, will treat its investments in commercial banks on an equal footing, and will not confer upon any commercial banks any governmental approval, authorization or license to operate commercial banking activities or any business opportunities it obtains or may obtain, nor will it take advantage of its status as a holder of our shares or the information obtained by virtue of such status to make decisions or judgments against us or in favor of other commercial banks, and will avoid such circumstances arising. It will exercise its shareholder's rights in our best interests as if we were its sole investment in a commercial bank, and will exercise its commercial judgment to maximize the interests of our shareholders and our Company, which judgment will not be affected by its investments in other commercial banks.	15 July 2010	Valid for long-term	Continuous commitment and performed regularly

Subject of commitment	Commitment	Details of commitment	Date of commitment	Due date of commitment	Performance up to date
SSF	Lock-up of shares	The purchased shares held by the SSF are subject to a lock-up period of five years commencing on the transaction completion date or three years commencing on the pricing date of our initial public offering, whichever is longer. Prior to the first anniversary following the expiration of the lock-up period, the SSF is allowed to transfer no more than 30% in aggregate of the purchased shares (including any split shares, bonus shares and allocated shares attached thereto) and prior to the second anniversary of the expiration of the lock-up period, the SSF is allowed to transfer no more than 60% in aggregate of the purchased shares (including any split shares, bonus shares and allocated shares attached thereto), provided that our initial public offering is completed within five years following the transaction completion date.	21 April 2010	21 April 2017	Not due and performed regularly

Organizational Chart





Hong Kong branch
Singapore branch
Seoul branch
New York branch
Dubai branch
Tokyo representative office
Frankfurt representative office
Sydney representative office
Vancouver representative office
Hanoi representative office

ABC International Holdings Limited
China Agricultural Finance Co., Ltd.
ABC-CA Fund Management Co., Ltd.
ABC Financial Leasing Co., Ltd.
Agricultural Bank of China (UK) Limited
ABC Life Insurance Co., Ltd.
ABC Hubei Hanchuan Rural Bank Limited Liability Company
ABC Hexigten Rural Bank Limited Liability Company
ABC Ansai Rural Bank Limited Liability Company
ABC Jixi Rural Bank Limited Liability Company
ABC Xiamen Tong'an Rural Bank Limited Liability Company
ABC Zhejiang Yongkang Rural Bank Limited Liability Company

List of Domestic and Overseas Branches and Institutions

Domestic Institutions

- **BEIJING BRANCH**
ADD: 13 Chaoyangmenbei Dajie
Dongcheng District
Beijing 100010
PRC
TEL: 010-68358266
FAX: 010-61128239

- **TIANJIN BRANCH**
ADD: No. 3 6 Zijinshan Road
Hexi District
Tianjin 300074
PRC
TEL: 022-23338734
FAX: 022-23338733

- **HEBEI BRANCH**
ADD: 39 Ziqiang Road
Shijiazhuang
Hebei Province 050000
PRC
TEL: 0311-87026132
FAX: 0311-87019961

- **SHANXI BRANCH**
ADD: 33 Southern Inner Ring
Street West
Taiyuan
Shanxi Province 030024
PRC
TEL: 0351-6240801
FAX: 0351-4956999

- **INNER MONGOLIA BRANCH**
ADD: 83 Zhelimu Road
Hohhot
Inner Mongolia 010010
PRC
TEL: 0471-6901716
FAX: 0471-6904750

- **LIAONING BRANCH**
ADD: 27 Beijing Street
Shenhe District
Shenyang Liaoning
Province 110013
PRC
TEL: 024-22550004
FAX: 024-22550007

- **JILIN BRANCH**
ADD: 926 Renmindajie
Changchun
Jilin Province 130051
PRC
TEL: 0431-82093605
FAX: 0431-82093517

- **HEILONGJIANG BRANCH**
ADD: 131 Xidazhijie
Nangang District, Harbin
Heilongjiang Province
150006
PRC
TEL: 0451-86208845
FAX: 0451-86216843

- **SHANGHAI BRANCH**
ADD: 599 Xujiahui Road
Huangpu District
Shanghai 200023
PRC
TEL: 021-53961888
FAX: 021-53961900

- **JIANGSU BRANCH**
ADD: 357 Hongwu Road
Nanjing 210002
PRC
TEL: 025-84577005
FAX: 025-84577017

- **ZHEJIANG BRANCH**
ADD: 55 Changqing Street
Hangzhou
Zhejiang Province 310003
PRC
TEL: 0571-87226000
FAX: 0571-87226177

- **ANHUI BRANCH**
ADD: 448 Changjiang Zhonglu
Hefei
Anhui Province 230061
PRC
TEL: 0551-62843475
FAX: 0551-62843573

- **FUJIAN BRANCH**
ADD: 177 Hualin Road
Fuzhou
Fujian Province 350003
PRC
TEL: 0591-87909355
FAX: 0591-87909620

- **JIANGXI BRANCH**
ADD: 339 Zhongshan Road
Nanchang
Jiangxi Province 330008
PRC
TEL: 0791-86693775
FAX: 0791-86693972

- **SHANDONG BRANCH**
ADD: 168 Jingqi Road
Ji'nan
Shandong Province 250001
PRC
TEL: 0531-85858888
FAX: 0531-82056558

- **HENAN BRANCH**

ADD: 16 Outer Ring Road
CBD Zhengdong
New District
Zhengzhou
Henan Province 450016
PRC
TEL: 0371-69196826
FAX: 0371-69196724

- **HUBEI BRANCH**

ADD: Seat A
Jinjin Garden
66 Zhongbei Road
Wuchang District
Wuhan
Hubei Province 430071
PRC
TEL: 027-68875258
FAX: 027-87326693

- **HUNAN BRANCH**

ADD: 540 Furong Zhonglu
Section 1
Changsha
Hunan Province 410005
PRC
TEL: 0731-84300265
FAX: 0731-84300261

- **GUANGDONG BRANCH**

ADD: 425 East Zhujiang Road
Zhujiang New Town
Tianhe District
Guangzhou
Guangdong Province
510623
PRC
TEL: 020-38008185
FAX: 020-38008210

- **GUANGXI BRANCH**

ADD: 56 Jinhu Road
Nanning
Guangxi Autonomous
Region 530028
PRC
TEL: 0771-2106036
FAX: 0771-2106035

- **HAINAN BRANCH**

ADD: 26 Binhai Avenue
Haikou
Hainan Province 570125
PRC
TEL: 0898-66777728
FAX: 0898-66791452

- **SICHUAN BRANCH**

ADD: 6 Tiyuchang Road
Chengdu
Sichuan Province 610015
PRC
TEL: 028-86760366
FAX: 028-86760277

- **CHONGQING BRANCH**

ADD: 103 Xinhua Road
Yuzhong District
Chongqing 400011
PRC
TEL: 023-63551188
FAX: 023-63844275

- **GUIZHOU BRANCH**

ADD: 201 South Zhonghua Road
Guiyang
Guizhou Province 550002
PRC
TEL: 0851-5221016
FAX: 0851-5221069

- **YUNNAN BRANCH**

ADD: 1 Renmin Middle Road
Kunming
Yunnan Province 650051
PRC
TEL: 0871-3203765
FAX: 0871-3203584

- **TIBET BRANCH**

ADD: 12 East Kang'ang Road
Lhasa
Tibet 850000
PRC
TEL: 0891-6339191
FAX: 0891-6328111-6150

- **SHAANXI BRANCH**

ADD: 64 South Guanzheng Street
Xi'an
Shaanxi Province 710068
PRC
TEL: 029-87804847
FAX: 029-87804810

- **GANSU BRANCH**

ADD: 108 North Jinchang Road
Lanzhou
Gansu Province 730030
PRC
TEL: 0931-8895082
FAX: 0931-8895040

- **QINGHAI BRANCH**

ADD: 96 Huanghe Road
Xining
Qinghai Province 810001
PRC
TEL: 0971-6145208
FAX: 0971-6114575

- **NINGXIA BRANCH**

ADD: 95 West Jiefang Street
Xingqing District
Yinchuan
Ningxia Autonomous
Region 750001
PRC
TEL: 0951-6027614
FAX: 0951-6027430

- **XINJIANG BRANCH**

ADD: 66 South Jiefang Road
Urumqi 830002
PRC
TEL: 0991-2369407
FAX: 0991-2815229

- **XINJIANG PRODUCTION AND CONSTRUCTION CORPS BRANCH**

ADD: 173 South Jiefang Road
Urumqi 830002
PRC
TEL: 0991-2217109
FAX: 0991-2217300

- **DALIAN BRANCH**

ADD: 10 Zhongshan Road
Zhongshan District
Dalian
Liaoning Province 116001
PRC
TEL: 0411-82510089
FAX: 0411-82510646

- **QINGDAO BRANCH**

ADD: 19 Shandong Road
Qingdao
Shandong Province 266071
PRC
TEL: 0532-85802215
FAX: 0532-85814102

- **NINGBO BRANCH**

ADD: 518 East Zhongshan Road
Ningbo
Zhejiang Province 315040
PRC
TEL: 0574-87363537
FAX: 0574-87363537

- **XIAMEN BRANCH**

ADD: ABC Building
98–100 Jiahe Road
Siming District
Xiamen
Fujian Province 361009
PRC
TEL: 0592-5578855
FAX: 0592-5578899

- **SHENZHEN BRANCH**

ADD: 5008 East Shennan Road
Shenzhen
Guangdong Province
518001
PRC
TEL: 0775-25590960
FAX: 0755-25572255

- **TIANJIN TRAINING INSTITUTE**

ADD: 88 Weijin Nanlu
Nankai District
Tianjin 300381
PRC
TEL: 022-23381289
FAX: 022-23389307

- **CHANGCHUN TRAINING INSTITUTE**

ADD: 1408 Qianjin Street
Chaoyang District
Changchun
Jilin Province 130012
PRC
TEL: 0431-86822002
FAX: 0431-86822002

- **WUHAN TRAINING INSTITUTE**

ADD: 186 Zhongbei Road
Wuchang District
Wuhan
Hubei Province 430077
PRC
TEL: 027-86783669
FAX: 027-86795502

- **SUZHOU BRANCH**

ADD: 65 Shishan Road
New District
Suzhou
Jiangsu Province 215011
PRC
TEL: 0512-68247016
FAX: 0512-68417800

- **ABC-CA FUND MANAGEMENT CO., LTD.**

ADD: 7/F, Lujiazui Business Plaza
1600 Century Road
Pudong New District
Shanghai 200122
PRC
TEL: 021-61095588
FAX: 021-61095556

- **ABC FINANCIAL LEASING CO., LTD.**

ADD: 5–6/F, 518 East Yan'an Road
Huangpu District
Shanghai 200001
PRC
TEL: 021-68776699
FAX: 021-68777599

- **ABC HEXIGTEN RURAL BANK LIMITED LIABILITY COMPANY**

ADD: 1/F, Industrial Park
Middle Section
Jiefang Road
Jingpeng Township
Hexigten 025350
TEL: 0476-2331111
FAX: 0476-2331111

- **ABC XIAMEN TONG'AN RURAL BANK LIMITED LIABILITY COMPANY**

ADD: No.185 Zhaoyuan Community
Committee Complex
Zhaoyuan Road,
Tong'an District
Xiamen
Fujian Province 361100
PRC
TEL: 0592-7319223
FAX: 0592-7319223

- **ABC LIFE INSURANCE CO., LTD.**

ADD: Block A, Minsheng Financial Center
28 Jianguomen Nei Avenue
Dongcheng District
Beijing 100005
PRC
TEL: 010-82828899
FAX: 010-82827966

- **ABC HUBEI HANCHUAN RURAL BANK LIMITED LIABILITY COMPANY**

ADD: 32 Xinzheng Road,
Xinhe Town
Hanchuan
Hubei Province 431600
PRC
TEL: 0712-8412338
FAX: 0712-8412338

- **ABC ANSAI RURAL BANK LIMITED LIABILITY COMPANY**

ADD: Majiagou Village
Zhenwudong Town
Ansai County
Shaanxi Province 717400
PRC
TEL: 0911-6229906
FAX: 0911-6229906

- **ABC JIXI RURAL BANK LIMITED LIABILITY COMPANY**

ADD: 340 Longchuan Road
Huayang Town
Jixi County
Anhui Province 245300
PRC
TEL: 0563-8158916
FAX: 0563-8158916

- **ABC ZHEJIANG YONGKANG RURAL BANK LIMITED LIABILITY COMPANY**

ADD: 1/F, Jinsong Buidling
Yongkang Headquarters Center
Zhejiang Province 321300
PRC
TEL: 0579-87017378
FAX: 0579-87017378

Overseas Institutions

- **ABC INTERNATIONAL HOLDINGS LIMITED**

ADD: 701–702, 7/F
One Pacific Place
88 Queensway
Hong Kong
TEL: 00852-36660000
FAX: 00852-36660009

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

ADD: Room 828, 8/F.
Tower Two
Admiralty Centre
18 Harcourt Road
Hong Kong
TEL: 00852-25111645
FAX: 00852-25075959

- **AGRICULTURAL BANK OF CHINA (UK) LIMITED**

ADD: 7/F, 1 Bartholomew Lane,
London,
EC2N 2AX,
United Kingdom
TEL: 0044-20-73748900
FAX: 0044-20-73746425

- **HONG KONG BRANCH**

ADD: 25/F Agricultural Bank of
China Tower
50 Connaught Road Central
Hong Kong
TEL: 00852-28618000
FAX: 00852-28660133

- **SINGAPORE BRANCH**

ADD: No. 7 Temasek Boulevard
#30-01/02/03
Suntec Tower One
Singapore 038987
TEL: 0065-65355255
FAX: 0065-65387960

- **SEOUL BRANCH**

ADD: 14F Seoul Finance Center
84 Taepyung-ro 1-ga
Chung-gu
Seoul 100-768
Korea
TEL: 0082-2-37883900
FAX: 0082-2-37883901

- **NEW YORK BRANCH**

ADD: 277 Park Ave
30th Floor
New York
NY, 10172
U.S.A.
TEL: 001-212-8888998
FAX: 001-646-7385291

- **DUBAI BRANCH**

ADD: Office 2901, Tower II
Al Fattan Currency House
Level 29, DIFC Street
PO Box 124803
Dubai
U.A.E
TEL: 00971-45676900
FAX: 00971-45676910

- **TOKYO REPRESENTATIVE OFFICE**

ADD: 511 Yusen Bldg 3-2
2-Chome Marunouchi
Chiyoda-Ku
Tokyo 100-0005
Japan
TEL: 0081-3-52085577
FAX: 0081-3-52085579

- **FRANKFURT REPRESENTATIVE OFFICE**

ADD: Ulmenstrasse 37–39
60325 Frankfurt am Main
Deutschland
TEL: 0049-69-71589468
FAX: 0049-69-71589469

- **SYDNEY REPRESENTATIVE OFFICE**

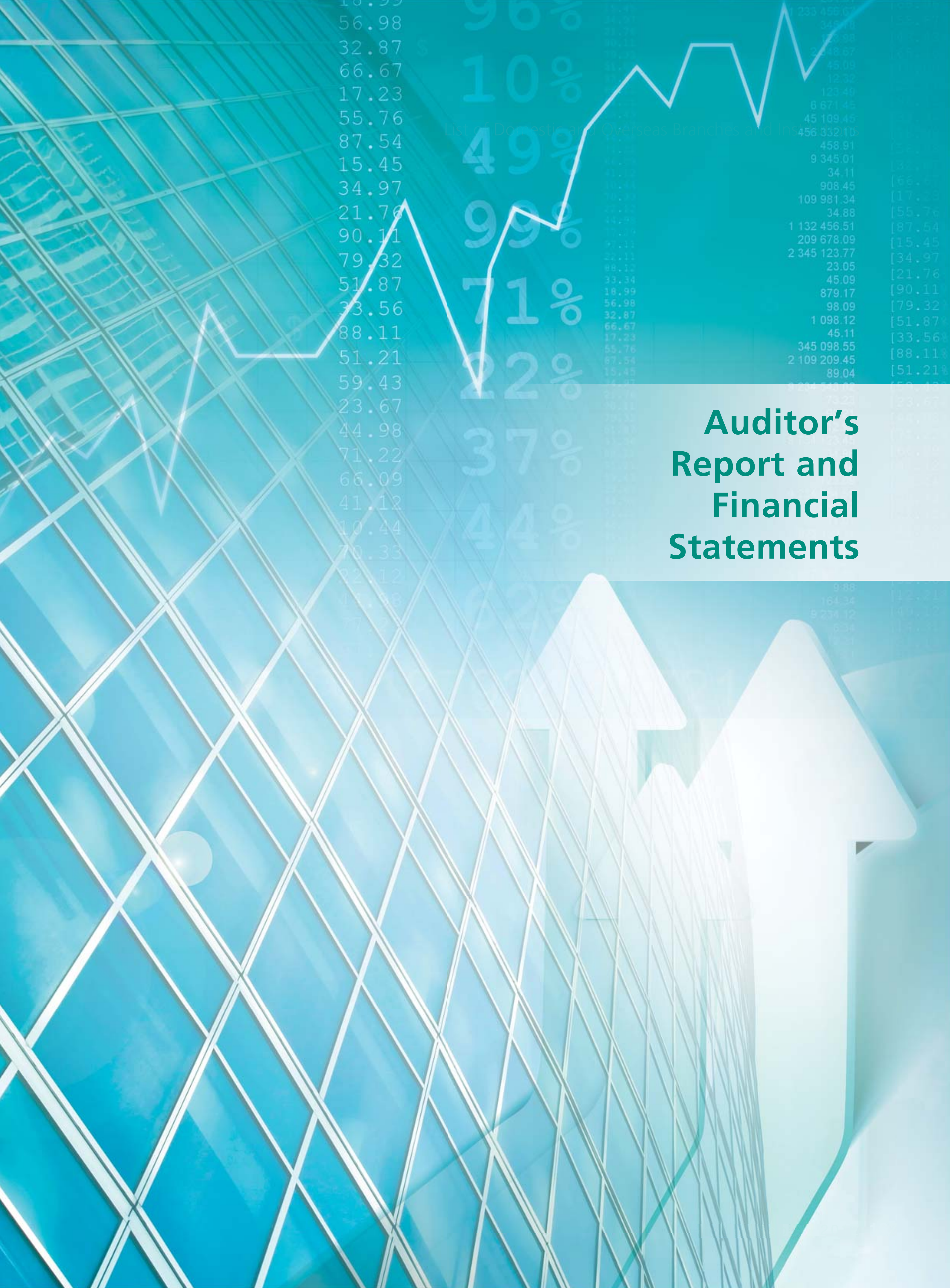
ADD: Suite 6502, Level 65
MLC Centre
19-29 Martin Place
Sydney NSW 2000
Australia
TEL: 00612-92221166
FAX: 00612-92315342

- **VANCOUVER REPRESENTATIVE OFFICE**

ADD: Suite 1260
355 Burrard Street
Vancouver
BC V6C 2G8
Canada
TEL: 001-604-682-8468
FAX: 001-888-389-9279

- **HANOI REPRESENTATIVE OFFICE**

ADD: Unit V502-503, 5th Floor
Pacific Place
83B Ly Thuong Kiet Street
Hoan Kiem District, Hanoi
Vietnam
TEL: 0084-4-39460599
FAX: 0084-4-39460587



Auditor's Report and Financial Statements

Deloitte.
德勤

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong
Tel: +852 2852 1600
Fax: +852 2541 1911
Email: mail@deloitte.com.hk
www.deloitte.com/cn

To the Members of Agricultural Bank of China Limited

(Incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Agricultural Bank of China Limited (the "Bank") and its subsidiaries (collectively referred to as the "Group") set out on pages 170 to 325 which comprise the consolidated and Bank's statements of financial position as at 31 December 2012, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Bank are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Bank and of the Group as at 31 December 2012 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

26 March 2013

Consolidated Income Statement

For the year ended 31 December 2012
(Amounts in millions of Renminbi, unless otherwise stated)

		Year ended 31 December	
	Notes	2012	2011
Interest income	5	566,063	472,921
Interest expense	5	(224,184)	(165,722)
Net interest income	5	341,879	307,199
Fee and commission income	6	78,573	71,524
Fee and commission expense	6	(3,729)	(2,774)
Net fee and commission income	6	74,844	68,750
Net trading gain	7	3,070	523
Net loss on financial instruments designated as at fair value through profit or loss	8	(309)	(2,307)
Net loss on investment securities		(28)	(200)
Other operating income	9	5,508	5,791
Operating income		424,964	379,756
Operating expenses	10	(182,802)	(157,330)
Impairment losses on assets	12	(54,235)	(64,225)
Profit before tax		187,927	158,201
Income tax expense	13	(42,796)	(36,245)
Profit for the year		145,131	121,956
Attributable to:			
Equity holders of the Bank		145,094	121,927
Non-controlling interests		37	29
		145,131	121,956
Earnings per share attributable to equity holders of the Bank (Expressed in RMB yuan per share)			
— Basic	15	0.45	0.38

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012
(Amounts in millions of Renminbi, unless otherwise stated)

	Year ended 31 December	
	2012	**2011**
Profit for the year	145,131	121,956
Other comprehensive (expenses)/income:		
Fair value changes on available-for-sale financial assets		
— fair value changes arising during the year	(3,004)	4,142
— amount reclassified to the profit or loss upon disposal/impairment	(25)	548
Income tax impact	804	(1,195)
Foreign currency translation differences	55	(353)
Other comprehensive (expenses)/income, net of tax	(2,170)	3,142
Total comprehensive income for the year	142,961	125,098
Total comprehensive income attributable to:		
Equity holders of the Bank	142,924	125,069
Non-controlling interests	37	29
	142,961	**125,098**

Consolidated Statement of Financial Position

At 31 December 2012
(Amounts in millions of Renminbi, unless otherwise stated)

	Notes	At 31 December 2012	2011
Assets			
Cash and balances with central banks	16	2,613,111	2,487,082
Deposits with banks and other financial institutions	17	262,233	131,874
Placements with banks and other financial institutions	18	223,380	212,683
Financial assets held for trading	19	23,189	15,589
Financial assets designated as at fair value through profit or loss	20	155,366	52,463
Derivative financial assets	21	4,825	8,524
Financial assets held under resale agreements	22	814,620	529,440
Loans and advances to customers	23	6,153,411	5,410,086
Available-for-sale financial assets	24	755,503	651,198
Held-to-maturity investments	25	1,308,796	1,178,888
Debt securities classified as receivables	26	608,594	729,914
Interests in associates	28	108	134
Property and equipment	29	141,490	131,815
Goodwill	30	1,381	—
Deferred tax assets	31	56,949	45,698
Other assets	32	121,386	92,189
Total assets		**13,244,342**	**11,677,577**
Liabilities			
Borrowings from central bank		66	50
Deposits from banks and other financial institutions	33	784,352	615,281
Placements from banks and other financial institutions	34	149,721	108,955
Financial liabilities held for trading	35	3,674	353
Financial liabilities designated as at fair value through profit or loss	36	155,071	208,057
Derivative financial liabilities	21	5,514	10,284
Financial assets sold under repurchase agreements	37	7,631	92,079
Due to customers	38	10,862,935	9,622,026
Debt securities issued	39	192,639	119,390
Deferred tax liabilities	31	15	27
Other liabilities	40	331,370	251,287
Total liabilities		**12,492,988**	**11,027,789**

(Amounts in millions of Renminbi, unless otherwise stated)

		At 31 December	
	Notes	**2012**	**2011**
Equity			
Share capital	41	324,794	324,794
Capital reserve	42	98,773	98,773
Investment revaluation reserve	43	(901)	1,324
Surplus reserve	44	43,996	29,509
General reserve	45	75,349	64,854
Retained earnings		208,488	131,086
Foreign currency translation reserve		(684)	(739)
Equity attributable to equity holders of the Bank		749,815	649,601
Non-controlling interests		1,539	187
Total equity		**751,354**	**649,788**
Total equity and liabilities		**13,244,342**	**11,677,577**

The consolidated financial statements on pages 170 to 325 were approved and authorised for issue by the Board of Directors on 26 March 2013 and are signed on its behalf by:

Jiang Chaoliang
Chairman

Lou Wenlong
Executive Director

Statement of Financial Position

At 31 December 2012
(Amounts in millions of Renminbi, unless otherwise stated)

		At 31 December	
	Notes	**2012**	**2011**
Assets			
Cash and balances with central banks	16	2,612,909	2,486,481
Deposits with banks and other financial institutions	17	255,005	130,848
Placements with banks and other financial institutions	18	225,140	212,683
Financial assets held for trading	19	23,189	15,573
Financial assets designated as at fair value through profit or loss	20	154,582	52,463
Derivative financial assets	21	4,825	8,524
Financial assets held under resale agreements	22	814,608	529,011
Loans and advances to customers	23	6,127,483	5,398,520
Available-for-sale financial assets	24	750,078	650,124
Held-to-maturity investments	25	1,304,949	1,178,888
Debt securities classified as receivables	26	606,725	729,914
Investments in subsidiaries	27	8,251	5,501
Interests in associates	28	108	116
Property and equipment	29	140,096	130,896
Deferred tax assets	31	56,934	45,684
Other assets	32	112,226	90,910
Total assets		**13,197,108**	**11,666,136**
Liabilities			
Borrowings from central bank		30	30
Deposits from banks and other financial institutions	33	788,746	617,059
Placements from banks and other financial institutions	34	127,307	98,447
Financial liabilities held for trading	35	3,674	353
Financial liabilities designated as at fair value through profit or loss	36	155,071	208,057
Derivative financial liabilities	21	5,506	10,284
Financial assets sold under repurchase agreements	37	7,631	92,079
Due to customers	38	10,862,387	9,621,644
Debt securities issued	39	192,639	119,390
Other liabilities	40	304,901	249,361
Total liabilities		**12,447,892**	**11,016,704**

Statement of Financial Position

At 31 December 2012
(Amounts in millions of Renminbi, unless otherwise stated)

		At 31 December	
	Notes	2012	2011
Equity			
Share capital	41	324,794	324,794
Capital reserve	42	98,574	98,574
Investment revaluation reserve	43	(898)	1,319
Surplus reserve	44	43,959	29,486
General reserve	45	75,181	64,698
Retained earnings		208,183	131,117
Foreign currency translation reserve		(577)	(556)
Total equity		**749,216**	**649,432**
Total equity and liabilities		**13,197,108**	**11,666,136**

The consolidated financial statements on pages 170 to 325 were approved and authorised for issue by the Board of Directors on 26 March 2013 and are signed on its behalf by:

Jiang Chaoliang
Chairman

Lou Wenlong
Executive Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012
(Amounts in millions of Renminbi, unless otherwise stated)

		Total equity attributable to equity holders of the Bank									
	Notes	Share capital	Capital reserve	Investment revaluation reserve	Surplus reserve	General reserve	Retained earnings	Foreign currency translation reserve	Subtotal	Non-controlling interests	Total
As at 1 January 2011		324,794	98,773	(2,171)	17,242	58,335	45,484	(386)	542,071	165	542,236
Profit for the year		—	—	—	—	—	121,927	—	121,927	29	121,956
Other comprehensive income/(expenses)		—	—	3,495	—	—	—	(353)	3,142	—	3,142
Total comprehensive income/(expenses) for the year		—	—	3,495	—	—	121,927	(353)	125,069	29	125,098
Appropriation to surplus reserve	44	—	—	—	12,267	—	(12,267)	—	—	—	—
Appropriation to general reserve	45	—	—	—	—	6,519	(6,519)	—	—	—	—
Dividends paid to non-controlling interests		—	—	—	—	—	—	—	—	(7)	(7)
Dividends recognised as distribution	14	—	—	—	—	—	(17,539)	—	(17,539)	—	(17,539)
As at 31 December 2011		**324,794**	**98,773**	**1,324**	**29,509**	**64,854**	**131,086**	**(739)**	**649,601**	**187**	**649,788**
Profit for the year		—	—	—	—	—	145,094	—	145,094	37	145,131
Other comprehensive (expenses)/income		—	—	(2,225)	—	—	—	55	(2,170)	—	(2,170)
Total comprehensive (expenses)/income for the year		—	—	(2,225)	—	—	145,094	55	142,924	37	142,961
Contribution from non-controlling shareholders	27	—	—	—	—	—	—	—	—	152	152
Appropriation to surplus reserve	44	—	—	—	14,487	—	(14,487)	—	—	—	—
Appropriation to general reserve	45	—	—	—	—	10,495	(10,495)	—	—	—	—
Dividends recognised as distribution	14	—	—	—	—	—	(42,710)	—	(42,710)	—	(42,710)
Acquisition of a subsidiary	46	—	—	—	—	—	—	—	—	1,163	1,163
As at 31 December 2012		**324,794**	**98,773**	**(901)**	**43,996**	**75,349**	**208,488**	**(684)**	**749,815**	**1,539**	**751,354**

(Amounts in millions of Renminbi, unless otherwise stated)

	Notes	Year ended 31 December 2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		187,927	158,201
Adjustments for:			
Amortisation of intangible assets and other assets		1,999	1,724
Depreciation of property and equipment		13,497	11,406
Impairment losses on assets		54,235	64,225
Interest income arising from investment securities		(97,144)	(83,546)
Interest income arising from impaired financial assets		(557)	(505)
Interest expense on bonds issued		4,637	3,307
Net loss on investment securities		28	200
Net gain on partial disposal of interest in an associate		(17)	(96)
Dividend income arising from investment securities		(4)	(3)
Net gain on disposal of property and equipment		(252)	(441)
Net foreign exchange loss		133	5,956
Operating cash flows before movements in working capital		164,482	160,428
Net increase in balances with central banks, deposits with banks and other financial institutions		(175,319)	(416,490)
Net increase in placements with banks and other financial institutions		(17,718)	(72,360)
Net increase in loans and advances to customers		(792,600)	(671,964)
Net increase in borrowings from central bank		16	20
Net increase in placements from banks and other financial institutions		40,766	52,253
Net increase in due to customers and deposits from banks and other financial institutions		1,432,266	823,152
(Increase)/decrease in other operating assets		(166,042)	95,150
(Decrease)/increase in other operating liabilities		(94,368)	283,083
Cash generated from operations		391,483	253,272
Income tax paid		(50,704)	(30,268)
NET CASH FROM OPERATING ACTIVITIES		340,779	223,004
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash received from disposal/redemption of investment securities		827,708	969,560
Cash received from interest income arising from investment securities		87,158	79,766
Cash received from other investing activities		1,695	1,356
Cash paid for purchase of investment securities		(922,765)	(1,051,872)
Cash paid for purchase of property and equipment and other assets		(27,870)	(23,059)
Net cash inflow on acquisition of a subsidiary	46	148	—
NET CASH USED IN INVESTING ACTIVITIES		(33,926)	(24,249)

(Amounts in millions of Renminbi, unless otherwise stated)

	Notes	Year ended 31 December 2012	2011
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash received from debt securities issued		51,000	50,000
Cash payments for transaction cost of bonds issued		(50)	(50)
Contribution from non-controlling shareholders		152	—
Cash payments for interest on bonds issued		(4,355)	(1,813)
Dividends paid		(42,710)	(17,336)
NET CASH FROM FINANCING ACTIVITIES		4,037	30,801
NET INCREASE IN CASH AND CASH EQUIVALENTS		310,890	229,556
CASH AND CASH EQUIVALENTS AT 1 JANUARY		642,107	415,617
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		(61)	(3,066)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**47**	**952,936**	**642,107**
NET CASH FLOWS FROM OPERATING ACTIVITIES INCLUDE:			
Interest received		465,169	382,636
Interest paid		177,228	146,536

1. GENERAL INFORMATION

Agricultural Bank of China Limited (the "Bank") was transformed from the Agricultural Bank of China (the "Former Entity") which was a wholly state-owned commercial bank approved for setup by the People's Bank of China (the "PBOC") and founded on 23 February 1979 in the People's Republic of China (the "PRC"). On 15 January 2009, Agricultural Bank of China Limited was established after the completion of the financial restructuring of the Former Entity. The Bank's establishment was authorised by the PBOC.

The Bank has financial services certificate No. B0002H111000001 issued by the China Banking Regulatory Commission (the "CBRC"), and business license No. 100000000005472 issued by the State Administration of Industry and Commerce of the PRC.

The principal activities of the Bank and its subsidiaries (collectively referred to as the "Group") comprise the provision of banking services, including Renminbi ("RMB") and foreign currency deposits, loans, payment and settlement services, assets custody services, fund management, financial leasing services, insurance services and other services as approved by the relevant regulators, and the provision of related services by its overseas establishments as approved by the respective local regulators.

The head office and domestic branches of the Bank and subsidiaries operating in the mainland China are referred to as "Domestic Institutions". Branches and subsidiaries registered outside the mainland China are referred to as "Overseas Institutions".

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

In the current year, the Group has applied the following new and revised IFRSs.

Amendments to IFRS 7	Disclosures — Transfers of Financial Assets
Amendments to IAS 12	Deferred Tax: Recovery of Underlying Assets

Amendments to IFRS 7 Disclosures — Transfers of Financial Assets

The Group has applied for the first time the amendments to IFRS 7 Disclosures — Transfers of Financial Assets in the current year. The amendments increase the disclosure requirements for transactions involving the transfer of financial assets in order to provide greater transparency around risk exposures when financial assets are transferred.

The Group entered into repurchase agreements with certain counterparties to sell debt securities and bills, which subject to the simultaneous agreements with commitments to repurchase at specified future dates and prices. The proceeds from selling such debt securities and bills are presented as "financial assets sold under repurchase agreements" (see note 37). As stipulated in the repurchase agreements, there is no transfer of the legal ownership of these debt securities and bills to the counterparties during the covered period. However, the Group is not allowed to sell or pledge these debt securities and bills during the covered period unless both parties mutually agree with such arrangement. Accordingly, the Group has determined that it retains substantially all the risks and rewards of these debt securities and bills and therefore has not derecognised from the consolidated financial statements but regarded as "collateral" for the secured lending from the counterparties. The relevant disclosures have been made regarding the transfer of these debt securities and bills on application of the amendments to IFRS 7 (see note 51). In accordance with the transitional provisions set out in the amendments to IFRS 7, the Group has not provided comparative information for the disclosures required by the amendments.

The adoption of other new and revised IFRSs has no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

(Amounts in millions of Renminbi, unless otherwise stated)

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (continued)

New and revised IFRSs issued but not yet effective

The Group has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

Amendments to IFRSs	Annual Improvements to IFRSs 2009–2011 Cycle[1]
Amendments to IFRS 7	Disclosure — Offsetting Financial Assets and Financial Liabilities[1]
Amendments to IFRS 9 and IFRS 7	Mandatory Effective Date of IFRS 9 and Transition Disclosures[3]
Amendments to IFRS 10, IFRS 11 and IFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interest in Other Entities: Transition Guidance[1]
Amendments to IFRS 10, IFRS 12 and IAS 27	Investment Entities[2]
IFRS 9	Financial Instruments[3]
IFRS 10	Consolidated Financial Statements[1]
IFRS 11	Joint Arrangements[1]
IFRS 12	Disclosure of Interests in Other Entities[1]
IFRS 13	Fair Value Measurement[1]
IAS 19 (as revised in 2011)	Employee Benefits[1]
IAS 27 (as revised in 2011)	Separate Financial Statements[1]
IAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[1]
Amendments to IAS 1	Presentation of Items of Other Comprehensive Income[4]
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities[2]

[1] *Effective for annual periods beginning on or after 1 January 2013.*
[2] *Effective for annual periods beginning on or after 1 January 2014.*
[3] *Effective for annual periods beginning on or after 1 January 2015.*
[4] *Effective for annual periods beginning on or after 1 July 2012.*

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (continued)

New and revised IFRSs issued but not yet effective (continued)

Annual Improvements to IFRSs 2009–2011 Cycle issued in May 2012

The annual improvements to IFRSs 2009–2011 Cycle include a number of amendments to various IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2013. Amendments to IFRSs include the amendments to IAS 16 Property, Plant and Equipment; and the amendments to IAS 32 Financial Instruments: Presentation.

The amendments to IAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in IAS 16 and as inventory otherwise. The directors do not anticipate that the amendments to IAS 16 will have a significant effect on the Group's consolidated financial statements.

The amendments to IAS 32 clarify that income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction should be accounted for in accordance with IAS 12 Income Taxes. The directors anticipate that the amendments to IAS 32 will have no effect on the Group's consolidated financial statements as the Group has already adopted this treatment.

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities and amendments to IFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities

The amendments to IAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realisation and settlement".

The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amendments to IFRS 7 are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should also be provided retrospectively for all comparative periods. However, the amendments to IAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

The directors anticipate that the application of these amendments to IAS 32 and IFRS 7 may result in more disclosures in the consolidated financial statements.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (continued)

New and revised IFRSs issued but not yet effective (continued)

IFRS 9 Financial Instruments

IFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9 are described as follows:

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

IFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The directors anticipate that IFRS 9 that will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2015 and that the adoption of IFRS 9 in the future may have significant impact on amounts reported in respect of the Group's available-for-sale investments and financial liabilities designated at fair value through profit or loss. It is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (continued)

New and revised IFRSs issued but not yet effective (continued)

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In May 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including IFRS 10, IFRS 11, IFRS 12, IAS 27 (as revised in 2011) and IAS 28 (as revised in 2011).

Key requirements of these five standards that are relevant to the Group are described below:

IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. SIC 12 Consolidation — Special Purpose Entities will be withdrawn upon the effective date of IFRS 10. Under IFRS 10, there is only one basis for consolidation, that is, control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in IFRS 10 to deal with complex scenarios.

IFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards.

In June 2012, the amendments to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain transitional guidance on the application of these IFRSs for the first time.

These five standards, together with the amendments relating to the transition guidance, are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

The directors anticipate that these five standards will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013. The Bank is still in the process of assessing the impact to the consolidated financial statements on the adoption of IFRS 10. The directors do not anticipate the adoption of the other standards would have significant impact on the Group's consolidated financial statements.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (continued)

New and revised IFRSs issued but not yet effective (continued)

Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities

The amendments to IFRS 10 introduce an exception to consolidating subsidiaries for an investment entity, except where the subsidiaries provide services that relate to the investment entity's investment activities. Under the amendments to IFRS 10, an investment entity is required to measure its interests in subsidiaries at fair value through profit or loss.

To qualify as an investment entity, certain criteria have to be met. Specifically, an entity is required to:

- obtain funds from one or more investors for the purpose of providing them with professional investment management services;
- commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments to IFRS 12 and IAS 27 have been made to introduce new disclosure requirements for investment entities.

The amendments to IFRS 10, IFRS 12 and IAS 27 are effective for annual periods beginning on or after 1 January 2014, with early application permitted. The directors anticipate that the application of the amendments will have no effect on the Group as the Bank is not an investment entity.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (continued)

New and revised IFRSs issued but not yet effective (continued)

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 Financial Instruments: Disclosures will be extended by IFRS 13 to cover all assets and liabilities within its scope.

IFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that IFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new standard may result in more extensive disclosures in the consolidated financial statements.

IAS 19 (as revised in 2011) Employee Benefits

The amendments to IAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur, and hence eliminate the "corridor approach" permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a 'net-interest' amount, which is calculated by applying the discount rate to the net defined benefit liability or asset.

The amendments to IAS 19 are effective for annual period beginning on or after 1 January 2013 and require retrospective application. The directors anticipate that the amendments to IAS 19 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and the actuarial gains and losses currently recognised in profit or loss will be recognised through other comprehensive income. However, the application of the amendments to IAS 19 would have no significant impact on amounts reported in respect of the Groups' defined benefit plans.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (continued)

New and revised IFRSs issued but not yet effective (continued)

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 Presentation of Items of Other Comprehensive Income introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to IAS 1, a 'statement of comprehensive income' is renamed as a 'statement of profit or loss and other comprehensive income' and an 'income statement' is renamed as a 'statement of profit or loss'. The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require items of other comprehensive income to be grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis. The amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

The amendments to IAS 1 are effective for annual periods beginning on or after 1 July 2012. The directors anticipate that the amendments to IAS 1 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements have been prepared in accordance with IFRSs. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of consideration given in exchange for assets.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and the subsidiaries controlled by the Bank. Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interests of consolidated subsidiaries are presented separately from the Group's equity therein.

The carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income and expenses of a subsidiary is attributed to the equity holders of the Bank and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

In the Bank's statement of financial position, its investments in subsidiaries are stated at cost, less impairment losses, if any.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

Investments in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of an associate are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investment in associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investments in associates. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 "Impairment of assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates (continued)

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associates that are not related to the Group.

In the Bank's statement of financial position, its investments in associates are stated at cost, less impairment losses, if any.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and when the revenue can be reliably measured. Specific recognition criteria for different nature of revenue are disclosed below:

Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised within "interest income" and "interest expense" in profit or loss using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or expense over the period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount on initial recognition. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. For those services that are over a period of time, fee and commission income are accrued over that period when the services are rendered. For other services, fee and commission income are recognised when the transactions are completed.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency transactions

The functional currency of the Domestic Institutions is RMB. The presentation currency of the Group and the Bank is RMB.

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for (i) exchange differences arising on a monetary item that forms part of the Bank's net investment in a foreign operation, in which case, such exchange differences are recognised in other comprehensive income and accumulated in equity and will be reclassified from equity to profit or loss on disposal of the foreign operation; (ii) exchange differences arising from the changes of the fair value of monetary assets classified as available-for-sale financial assets (other than the changes relating to the amortised cost of the monetary assets) which are recognised in other comprehensive income and accumulated in equity.

Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations (i.e. Overseas Institutions) are translated into the presentation currency of the Group at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at a rate that approximates the exchange rates at the dates of the transactions. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of foreign currency translation reserve (attributed to non-controlling interests as appropriate).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred tax (continued)

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Employee benefits

In the reporting period in which an employee has rendered services, the Group recognises the employee benefits payable for those services as a liability.

Social welfare

Social welfare expenditure refers to payments for employees' social welfare system established by the PRC government, including social insurance, housing funds and other social welfare contributions. The Group contributes on a monthly basis to these funds based on certain percentage of the salaries of the employees and the contributions are recognised in profit or loss for the period in which they are incurred. The Group's liabilities in respect of these funds are limited to the contribution payable in the reporting period.

Annuity scheme

The employees of Domestic Institutions participate in annuity scheme set up by the Bank (the "Annuity Scheme"). The Bank made annuity contributions with reference to employees' salaries, and the contributions are expensed in profit or loss when incurred. The Bank has no further obligation if the Annuity Scheme does not have sufficient assets for payment of supplementary retirement benefits to employees.

Early retirement benefits

Obligations of early retirement benefits are calculated using the projected unit credit actuarial cost method at the end of the reporting period. Actuarial gains and losses arising from changes in actuarial assumptions are recognised in profit or loss for the period in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the four categories, including financial assets at fair value through profit or loss ("FVTPL"), held-to-maturity investments, available-for-sale financial assets and loans and receivables. Investment securities comprise held-to-maturity investments, available-for-sale financial assets and debt securities classified as receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets at fair value through profit or loss

Financial assets at FVTPL have two subcategories, including financial assets held for trading and those designated as at FVTPL on initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Financial assets at fair value through profit or loss (continued)

- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with changes in fair value arising from re-measurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividends or interest earned on financial assets.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intention and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less any identified impairment losses.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or are not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated in the investment revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of the reporting period.

Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Loans and receivables

Loans and receivables are non-derivatives financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables including deposits with central banks, deposits and placements with banks and other financial institutions, financial assets held under resale agreements, loans and advances to customers, and debt securities classified as receivables are carried at amortised cost using the effective interest method, less any impairment losses.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the financial assets have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, the objective evidence of impairment could include:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
    - — adverse changes in the payment status of borrowers in the portfolio; and
    - — national or local economic conditions that correlate with defaults on the assets in the portfolio.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Financial assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

Impairment of financial assets carried at amortised cost

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the assets are impaired, and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. For financial assets with variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The calculation of present value of the estimated future cash flows of a collaterised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

The carrying amount of a financial asset is reduced through the use of an allowance account. Changes in carrying amount of the allowance account are recognised in the profit or loss. When a financial asset is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in other comprehensive income and accumulated in the investment revaluation reserve and there is objective evidence that asset is impaired, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period in which the impairment takes place.

Impairment loss on available-for-sale equity investment at fair value is not reversed through profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income and accumulated in the investment revaluation reserve. For available-for-sale debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Impairment loss on available-for-sale equity investment at cost is not reversed.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at FVTPL and other financial liabilities.

Financial liabilities at FVTPL

Financial liabilities at FVTPL have two subcategories, including financial liabilities held for trading and those designated as at FVTPL on initial recognition.

The criteria for a financial liability to be classified as held for trading or designated as at FVTPL are the same as those for a financial asset to be classified as held for trading or designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with changes in fair value arising on re-measurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any interest paid on the financial liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity instruments (continued)

Other financial liabilities

Other financial liabilities are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Bank are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured at their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately.

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their characteristics and risks are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss. These embedded derivatives are separately accounted for at fair value, with changes in fair value recognised in profit or loss.

Determination of fair value

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices. This includes listed equity securities and quoted debt instruments on major exchanges.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For all other financial instruments, fair value is determined using appropriate valuation techniques. Valuation techniques include the use of recent transaction prices, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial guarantee contract the Group managed on a fair value basis is designated as at FVTPL upon initial recognition. Financial guarantee contracts designated at FVTPL are stated at fair value, with changes in fair value arising from re-measurement recognised directly in profit or loss in the period in which they arise.

A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of obligation under the contract, as determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policy.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount presented in the statements of financial position when both of the following conditions are satisfied: (i) the Group has a legal right to set off the recognised amounts and the legal right is currently enforceable; and (ii) the Group intends either to settle on a net basis, or to realise the financial asset and settle the financial liability simultaneously.

Repurchase agreements and agreements to resell

Financial assets sold subject to repurchase agreements continue to be recognised, and are recorded as "available-for-sale financial assets", "debt securities classified as receivables" or "loans and advances to customers" as appropriate. The corresponding liability is included in "financial assets sold under repurchase agreements". Consideration paid for financial assets held under agreements to resell are recorded as "financial assets held under resale agreements".

The difference between purchase and sale price is recognised as interest expense or income in profit or loss over the life of the agreements using the effective interest method.

Insurance contracts and significant insurance risk testing

Insurance contracts are those contracts under which the Group has accepted significant insurance risk from the policyholders by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. Insurance contracts held by the Group are classified as direct insurance contracts and reinsurance contracts. The significance of insurance risk as determined by the Group is dependent on both the probability of an insurance event and the magnitude of its potential effect.

Some insurance contracts contain both an insurance component and a deposit component. The Group chooses to unbundle those components, if the insurance component and the deposit component are distinct and separately measurable. The unbundled insurance component is accounted for according to IFRS 4 and the unbundled deposit component is accounted for as investment contract liabilities. If the insurance component and the deposit component are not distinct and separately measurable, the whole contract is accounted for as an insurance contract.

For contracts issued by the Group which require testing on the significance of insurance risk, it should be performed at the initial recognition of such contracts, and based on a group of contracts with similar nature. When performing the significant insurance risk test, the Group makes judgments in sequence as to whether the contract transfers insurance risk, whether the contract has commercial substance, and whether the transferred insurance risk is significant.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Insurance contracts liabilities

Insurance contract liabilities of the Group include long term life insurance contract liabilities and short term insurance contract liabilities which include unearned premium reserves and claim reserves.

When measuring long term life insurance contract liabilities, the Group classifies insurance contracts whose insurance risks are of similar nature as a measurement unit. The Group mainly considers the characteristics of long term insurance contracts, including product type, gender, age, and durations of policies, when determining the measurement units.

When measuring short term insurance contract liabilities, the Group uses a group of insurance contracts whose insurance risks are of similar nature as a measurement unit. The Group's short term insurance contracts are classified into certain measurement units by type of insurance.

Insurance contract liabilities are measured based on reasonable estimate of amount of payments when the Group fulfils relevant obligations under the insurance contracts, which represents the difference between expected future cash outflows and inflows under such contracts. A reasonable estimate of expected future net cash flows is determined based on information currently available as at the end of the reporting period.

For long term life insurance contract liabilities, on each reporting date, the Group reviews the assumptions for reasonable estimates of liabilities and risk margins, with consideration of all available information, taking into account the Group's historical experience and expectation of future events. Changes in assumptions are recognized in the net profit. The Group has considered the impact of time value on the liability calculation for long term life insurance contracts.

Unearned premium reserves for short-term insurance contracts represent the larger of (a) portion of the premiums written net of certain acquisition costs relating to the unexpired terms of coverage; and (b) estimated future net cash outflows.

Claim reserves are provided for insurance claims of short term insurance contracts and consist of incurred and reported claim reserves, incurred but not reported claim reserves and claim expense reserves. In developing these reserves, the Group considered the nature and distribution of the risks, claims cost development, and experiences in deriving the best estimated amount and the applicable margins. The methods used for reported and unreported claims include "case by case" method, average cost per claim method, chain ladder method, etc. The Group calculated the claim expense reserves based on the best estimates of the future payments for claim expenses.

When evaluating insurance contract liabilities, the Group performs liability adequacy tests based on information currently available as at the reporting date. Additional insurance contract liabilities should be made if any deficiency exists.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment contract liabilities

Investment contract liabilities mainly represent liabilities with regard to the non-insurance portion of related contracts, and those contracts which do not pass the testing of significant insurance risk. The liabilities with investment nature in investment contracts are recorded as policyholder contract deposits and carried at amortized cost.

Precious metals

Precious metals that are not related to the Group's trading activities are initially measured at acquisition cost and subsequently measured at the lower of cost and net realisable value. Precious metals that are related to the Group's trading activities are initially recognised at fair value, with changes in fair value arising from re-measurement recognised directly in profit or loss in the period in which they arise.

Property and equipment

Property and equipment including buildings held for use in the supply of services, or for administrative purpose (other than construction in progress) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property and equipment (other than construction in progress) less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The useful lives, estimated residual value rates and annual depreciation rates of each class of property and equipment are as follows:

Classes	Useful lives	Estimated residual value rates	Annual depreciation rates
Buildings	15–35 years	3%	2.77%–6.47%
Electronic equipment, furniture and fixtures	3–11 years	3%	8.82%–32.33%
Motor vehicles	5 years	3%	19.40%

Properties in the course of construction for supply of services or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees. Such properties are reclassified to the appropriate category of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Land use rights

Land use rights are classified in other assets and amortised over a straight-line basis over the lease term.

Foreclosed assets

Foreclosed assets are initially recognised at fair value and subsequently measured at lower of its carrying amount and fair value less costs to sell at the end of the reporting period. When the fair value less costs to sell is lower than the foreclosed asset's carrying amount, an impairment loss is recognised in profit or loss.

Any gain or loss arising on the disposal of the foreclosed asset is included in profit or loss in the period in which the item is disposed.

A foreclosed asset used by the Group is transferred to property and equipment at net carrying amount.

Investment property

Investment property is property held to earn rentals or for capital appreciation or both.

Investment properties are initially measured at acquisition cost. Subsequent expenditures incurred for the investment property are included in the cost of the investment property if it is probable that economic benefits associated with the asset will flow to the Group and the subsequent expenditures can be measured reliably. Other subsequent expenditures are recognised in profit or loss in the period in which they are incurred.

Investment properties are measured using the cost model. Depreciation and amortisation is recognised the same way as buildings and land use rights.

At the end of the reporting period, the Group reviews the carrying amounts of its investment properties to determine whether there is any indication that the assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the property is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of a property is estimated to be less than its carrying amount, the carrying amount of the property is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the investment property is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the property in prior years. A reversal of an impairment loss is recognised as income immediately.

When an investment property is sold, transferred, retired or damaged, the Group recognises the amount of any proceeds on disposal net of the carrying amount and related taxes in profit or loss for the period.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

Cash and cash equivalents refer to short term highly liquid assets, which are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasehold land and building (continued)

To the extent the allocation of the lease payments can be made reliably, leasehold interests in land (i.e. land use rights) are accounted for as operating leases and amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property and equipment, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

Intangible assets

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment loss. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

Impairment of tangible and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Fiduciary activities

The Group acts as a custodian, trustee or in other fiduciary capacities to manage assets for customers in accordance with custody agreements between the Group and securities investment funds, social security funds, insurance companies, trust companies, qualified foreign institutional investors, annuity schemes and other institutions. The Group receives fees in return for its services provided under the custody agreements and does not take up any risks and rewards related to assets under custody. Therefore, assets under custody are not recognised in the Group's consolidated statement of financial position.

The Group conducts entrusted lending arrangements for its customers. Under the terms of entrusted loan arrangements, the Group grants loans to borrowers, as an intermediary, according to the instruction of its customers who are the lenders providing the entrusted loans. The Group is responsible for the arrangement and collection of the entrusted loans and receives a commission for the services rendered. As the Group does not assume the risks and rewards of the entrusted loans and the funding for the corresponding entrusted funds, they are not recognised as assets and liabilities of the Group.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements and key estimation uncertainties that the management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements and/or in the next twelve months.

Impairment losses on loans and advances to customers

The Group reviews its loan portfolio to assess impairment on a periodic basis. In determining whether an impairment loss should be recognised in profit or loss, the Group makes judgments as to whether there is any observable data indicating that there is an objective evidence of impairment which will have a measurable decrease in the estimated future cash flows from a portfolio of loans and advances. When the decrease may not have been identified individually or the individual loan is not significant, management uses estimates based on historical loss experience on a collective basis with similar credit risk characteristics to assess the impairment loss while estimating expected future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Fair value of financial instruments

The Group uses valuation technique for financial instruments which are not quoted in an active market. Valuation techniques include the use of discounted cash flows analysis, option pricing models or other valuation methods as appropriate. To the extent practical, models use only observable data. However, areas such as credit risk of the Bank and the counterparty, volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the estimated fair value of financial instruments.

Held-to-maturity investments

The Group classifies non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group's management has the positive intention and ability to hold to maturity as held-to-maturity investments. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to hold these investments to maturity other than for specific circumstances (such as selling an insignificant amount close to maturity), it will be required to reclassify the entire portfolio of held-to-maturity investments as available-for-sale financial assets.

Impairment of held-to-maturity investments

The determination of whether a held-to-maturity financial asset is impaired requires significant judgement. Objective evidence that a financial asset or group of assets is impaired includes a breach of contract, such as a default or delinquency in interest or principal payments or the disappearance of an active market for that financial asset because of significant financial difficulty of the issuer, etc. In making such judgement, the impact of objective evidence for impairment on expected future cash flows of the investment is taken into account.

Impairment of available-for-sale financial assets

The determination of whether an available-for-sale financial asset is impaired requires significant judgement. In making this judgement, the Group evaluates the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, credit ratings, delinquency rates and counterparty risk.

Taxes

There are certain transactions and activities for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially estimated, such differences will impact the current income tax and deferred income tax in the period during which such a determination is made.

(Amounts in millions of Renminbi, unless otherwise stated)

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Employee early retirement benefits obligations

The Group recognises liabilities in connection with early retirement benefits of employees in Domestic Institutions using the projected unit credit actuarial cost method based on various assumptions, including the discount rate, average medical expenses growth rate, cost of living adjustment for early retirements and other factors. Actual results may differ from the result of the projected amount. Any difference arising from the actual result or changes in assumptions may affect the amount of expense recognised in the consolidated income statement in the period during which such changes take place and the corresponding liability recognised in the consolidated statement of financial position.

5. NET INTEREST INCOME

	Year ended 31 December	
	2012	**2011**
Interest income		
Loans and advances to customers		
Including: Corporate loans and advances	281,914	240,597
Personal loans and advances	98,631	74,860
Discounted bills	8,318	6,848
Held-to-maturity investments	46,837	35,937
Balances with central banks	43,123	37,086
Available-for-sale financial assets	26,083	24,572
Debt securities classified as receivables	24,224	23,037
Financial assets held under resale agreements	23,153	23,569
Placements with banks and other financial institutions	7,201	3,747
Deposits with banks and other financial institutions	5,745	1,948
Financial assets held for trading	664	563
Financial assets designated as at fair value through profit or loss	170	157
Subtotal	566,063	472,921
Interest expense		
Due to customers	(186,717)	(140,606)
Deposits from banks and other financial institutions	(25,593)	(14,791)
Placements from banks and other financial institutions	(5,287)	(1,418)
Debt securities issued	(5,202)	(3,468)
Financial assets sold under repurchase agreements	(1,384)	(5,437)
Borrowings from central bank	(1)	(2)
Subtotal	(224,184)	(165,722)
Net interest income	341,879	307,199
Interest income on listed investments	73,037	60,994
Interest income on unlisted investments	24,941	23,272
Interest income accrued on impaired financial assets	557	505

(Amounts in millions of Renminbi, unless otherwise stated)

6. NET FEE AND COMMISSION INCOME

	Year ended 31 December	
	2012	**2011**
Fee and commission income		
Settlement and clearing services	20,617	19,696
Agency services	18,630	11,830
Consultancy and advisory services	16,017	19,489
Bank card	12,559	10,828
Electronic banking services	5,364	4,461
Custodian and other fiduciary services	2,495	1,672
Credit commitment	2,228	2,855
Others	663	693
Subtotal	78,573	71,524
Fee and commission expense		
Settlement and clearing services	(1,308)	(1,030)
Bank card	(1,227)	(742)
Electronic banking services	(957)	(598)
Others	(237)	(404)
Subtotal	(3,729)	(2,774)
Total	**74,844**	**68,750**

7. NET TRADING GAIN

	Year ended 31 December	
	2012	**2011**
Net gain on exchange rate derivatives	2,569	610
Net gain/(loss) on interest rate derivatives	61	(494)
Net loss on held-for-trading debt securities	(24)	(29)
Net gain on precious metals	464	436
Total	**3,070**	**523**

8. NET LOSS ON FINANCIAL INSTRUMENTS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Year ended 31 December	
	2012	**2011**
Net gain/(loss) on debt securities	135	(163)
Net gain/(loss) on financial guarantee contracts	470	(115)
Net loss on structured deposits	(867)	(2,011)
Others	(47)	(18)
Total	**(309)**	**(2,307)**

(Amounts in millions of Renminbi, unless otherwise stated)

9. OTHER OPERATING INCOME

	Year ended 31 December	
	2012	**2011**
Net gain on foreign exchange	1,483	2,686
Gain on disposal of property and equipment	361	328
Rental income	327	204
Government grant	2,175	1,087
Others	1,162	1,486
Total	**5,508**	**5,791**

10. OPERATING EXPENSES

		Year ended 31 December	
	Notes	**2012**	**2011**
Staff costs	(1)	94,760	81,970
General operating and administrative expenses	(2)	44,874	40,461
Business tax and surcharges	(3)	25,374	21,207
Depreciation and amortisation		15,496	13,130
Others		2,298	562
Total		**182,802**	**157,330**

(1) Staff costs

	Year ended 31 December	
	2012	**2011**
Salaries, bonuses, allowances and subsidies	58,253	52,308
Social insurance	14,672	11,788
Housing funds	6,076	5,134
Labour union fee and staff education expenses	2,607	2,353
Early retirement benefits	2,005	2,714
Others	11,147	7,673
Total	**94,760**	**81,970**

(2) Included in general operating and administrative expenses is auditor's remuneration of RMB135 million for the year (2011: RMB130 million).

(3) In accordance with the "Notice on Matters Relating to Furthering Agricultural Bank of China County Area Banking Division Reform on a Pilot Basis" (Yin Fa [2010] No.151), jointly issued by the PBOC, the Ministry of Finance (the "MOF") of the PRC and the CBRC on 7 May 2010, the tax policies applicable to the agriculture-related loans at the Group's county-level sub-branches in the geographical areas for the pilot program will be benchmarked against those that are applicable to rural credit cooperatives, and the business tax would be levied at 3% on interest income from agriculture-related loans.

11. EMOLUMENTS OF DIRECTORS, SUPERVISORS, CHIEF EXECUTIVES AND THE HIGHEST PAID INDIVIDUALS

(1) Details of the directors', supervisors' and chief executives' emoluments are as follows (in thousands of RMB):

	Year ended 31 December 2012				
Item	Fees	Basic salaries, allowances and benefits in kind	Contribution to pension schemes	Bonus	Total
Executive directors					
Jiang Chaoliang(i)(x)	—	1,069	61	—	1,130
Zhang Yun(x)	—	1,014	55	—	1,069
Guo Haoda(ii)(x)	—	873	52	—	925
Lou Wenlong(ii)(x)	—	289	18	—	307
Independent non-executive directors					
Anthony Wu Ting-yuk	411	—	—	—	411
Qiu Dong	441	—	—	—	441
Frederick Ma Si-hang	351	—	—	—	351
Wen Tiejun	361	—	—	—	361
Francis Yuen Tin-fan(iii)	—	—	—	—	—
Non-executive directors					
Shen Bingxi(iv)	—	—	—	—	—
Lin Damao(iv)	—	—	—	—	—
Cheng Fengchao(iv)	—	—	—	—	—
Li Yelin(iv)	—	—	—	—	—
Xiao Shusheng(iv)(v)	—	—	—	—	—
Zhao Chao(iv)(v)	—	—	—	—	—
Supervisors					
Che Yingxin	—	950	54	—	1,004
Liu Hong(vi)(vii)	—	—	—	—	—
Jia Xiangsen(viii)	10	—	—	—	10
Wang Yurui(viii)	10	—	—	—	10
Yan Chongwen(viii)	30	—	—	—	30
Zheng Xin(viii)	30	—	—	—	30
Dai Genyou(vi)	43	—	—	—	43
Chief executives					
Cai Huaxiang	—	873	52	—	925
Gong Chao(ix)	—	873	52	—	925
Wang Wei	—	873	52	—	925
Li Zhenjiang	—	799	51	—	850
Executive directors resigned					
Pan Gongsheng(ii)(x)	—	437	25	—	462
Yang Kun(ii)(x)	—	510	29	—	539
Non-executive directors resigned					
Zhang Guoming(v)	—	—	—	—	—
Xin Baorong(v)	—	—	—	—	—
Supervisor resigned					
Pan Xiaojiang(vi)	—	—	—	—	—
Chief executive resigned					
Zhu Hongbo(ix)	—	—	—	—	—
Total	**1,687**	**8,560**	**501**	**—**	**10,748**

11. EMOLUMENTS OF DIRECTORS, SUPERVISORS, CHIEF EXECUTIVES AND THE HIGHEST PAID INDIVIDUALS (continued)

(1) Details of the directors', supervisors' and chief executives' emoluments are as follows (in thousands of RMB): (continued)

(i) *Jiang Chaoliang was elected to be Chairman of the Board of Directors on 16 January 2012.*

(ii) *Guo Haoda was elected to be executive director effective from 14 December 2012. Lou Wenlong was elected to be Executive Vice President and executive director effective from 17 September 2012 and 10 December 2012 respectively. Pan Gongsheng ceased to be executive director effective from 8 June 2012. Yang Kun ceased to be executive director effective from 13 July 2012.*

(iii) *Francis Yuen Tin-fan was elected to be independent non-executive director effective from 8 March 2013.*

(iv) *These non-executive directors of the Bank did not receive any fees. Their emoluments were borne by the major equity shareholders of the Bank.*

(v) *Zhang Guoming and Xin Baorong ceased to be non-executive directors effective from 16 January 2012. Xiao Shusheng and Zhao Chao were elected to be non-executive directors effective from 29 February 2012.*

(vi) *Liu Hong was elected to be shareholder representative supervisor effective from 16 January 2012. Dai Genyou was elected to be external supervisor effective from 29 October 2012. Pan Xiaojiang ceased to be shareholder representative supervisor effective from 16 January 2012.*

(vii) *Liu Hong did not receive any emoluments of his part-time position as shareholder representative supervisor from the Bank in 2012.*

(viii) *For employee representative supervisors of the Bank, the amounts set forth above only included fees for their services as supervisors.*

(ix) *Gong Chao was elected to be chief executive effective from 16 March 2012. Zhu Hongbo ceased to be chief executive effective from 11 January 2012.*

(x) *He is also the chief executive of the Group and his emoluments disclosed above include those for services rendered by him as the chief executive.*

The total compensation packages for the above executive directors, supervisors and chief executives for the year ended 31 December 2012 have not yet been finalised in accordance with regulations of the relevant authorities in the PRC. The final compensation will be disclosed in a separate announcement when determined.

11. EMOLUMENTS OF DIRECTORS, SUPERVISORS, CHIEF EXECUTIVES AND THE HIGHEST PAID INDIVIDUALS (continued)

(1) Details of the directors', supervisors' and chief executives' emoluments are as follows (in thousands of RMB): (continued)

	Year ended 31 December 2011				
Item	Fees	Basic salaries, allowances and benefits in kind	Contribution to pension schemes	Bonus	Total
Executive directors					
Jiang Chaoliang(i)(x)	—	—	—	—	—
Zhang Yun(x)	—	1,686	50	—	1,736
Yang Kun(x)	—	1,593	48	—	1,641
Pan Gongsheng(x)	—	1,593	48	—	1,641
Independent non-executive directors					
Anthony Wu Ting-yuk	383	—	—	—	383
Qiu Dong	440	—	—	—	440
Frederick Ma Si-hang(ii)	266	—	—	—	266
Wen Tiejun(ii)	226	—	—	—	226
Non-executive directors					
Shen Bingxi(iii)	—	—	—	—	—
Lin Damao(iii)	—	—	—	—	—
Cheng Fengchao(iii)	—	—	—	—	—
Li Yelin(iii)(iv)	—	—	—	—	—
Xiao Shusheng(v)	—	—	—	—	—
Zhao Chao(v)	—	—	—	—	—
Supervisors					
Che Yingxin	—	1,649	49	—	1,698
Liu Hong(vi)	—	—	—	—	—
Jia Xiangsen(vii)	30	—	—	—	30
Wang Yurui(vii)	30	—	—	—	30
Yan Chongwen(vii)(viii)	13	—	—	—	13
Zheng Xin(vii)(viii)	13	—	—	—	13
Chief executives					
Guo Haoda	—	1,592	48		1,640
Cai Huaxiang	—	1,592	48		1,640
Gong Chao(ix)	—	—	—	—	—
Wang Wei(ix)	—	—	—	—	—
Li Zhenjiang	—	1,538	45		1,583
Executive director resigned					
Xiang Junbo(i)(x)	—	1,555	46	—	1,601
Non-executive directors resigned					
Zhang Guoming(iii)(v)	—	—	—	—	—
Xin Baorong(iii)(v)	—	—	—	—	—
Yuan Linjiang(iii)(iv)	—	—	—	—	—
Supervisors resigned					
Wang Xingchun(vii)(viii)	18	—	—	—	18
Pan Xiaojiang(vi)	30	—	—	—	30
Chief executive resigned					
Zhu Hongbo(ix)	—	1,592	48	—	1,640
Total	**1,449**	**14,390**	**430**	**—**	**16,269**

11. EMOLUMENTS OF DIRECTORS, SUPERVISORS, CHIEF EXECUTIVES AND THE HIGHEST PAID INDIVIDUALS (continued)

(1) Details of the directors', supervisors' and chief executives' emoluments are as follows (in thousands of RMB): (continued)

(i) *Xiang Junbo ceased to be Chairman of the Board of Directors on 28 October 2011. Jiang Chaoliang was elected to be Chairman of the Board of Directors on 16 January 2012.*

(ii) *Frederick Ma Si-hang and Wen Tiejun were elected to be independent non-executive directors effective from 18 April and 17 May 2011 respectively.*

(iii) *These non-executive directors of the Bank did not receive any fees. Their emoluments were borne by the major equity shareholders of the Bank.*

(iv) *Li Yelin was elected to be non-executive director effective from 29 July 2011. Yuan Linjiang ceased to be non-executive director effective from 28 March 2011.*

(v) *Zhang Guoming and Xin Baorong ceased to be non-executive directors effective from 16 January 2012. Xiao Shusheng and Zhao Chao were elected to be non-executive directors effective from 29 February 2012.*

(vi) *Pan Xiaojiang ceased to be shareholder representative supervisor effective from 16 January 2012. Liu Hong was elected to be shareholder representative supervisor effective from 16 January 2012.*

(vii) *For employee representative supervisors of the Bank, the amounts set forth above only included fees for their services as supervisors.*

(viii) *Wang Xingchun ceased to be employee representative supervisor effective from 27 July 2011. Yan Chongwen and Zheng Xin were elected to be employee representative supervisors effective from 27 July 2011.*

(ix) *Gong Chao was elected to be chief executive effective from 16 March 2012. Wang Wei was elected to be chief executive effective from 29 December 2011. Zhu Hongbo ceased to be chief executive effective from 11 January 2012.*

(x) *He is also the chief executive of the Group and his emoluments disclosed above include those for services rendered by him as the chief executive.*

The above compensation for the year ended 31 December 2011 was not decided at the time when the 2011 annual report was released. Supplementary announcement on final compensation of RMB16.27 million was released by the Bank on 8 June 2012. The amount of remuneration of directors, supervisors and chief executives recognised in profit or loss for the year of 2011 was RMB8.96 million.

11. EMOLUMENTS OF DIRECTORS, SUPERVISORS, CHIEF EXECUTIVES AND THE HIGHEST PAID INDIVIDUALS (continued)

(2) Five individuals with the highest emoluments in the Group (in thousands of RMB)

The emoluments of the five individuals whose emoluments were the highest in the Group for the year ended 31 December 2012 and 2011 were as follows:

	Year ended 31 December	
	2012	**2011**
Basis salaries, allowances and benefits in kind	4,779	8,113
Contribution to pension schemes	274	243
Total	**5,053**	**8,356**

Among the five individuals with the highest emoluments in the Group in current and prior year, three of them are directors.

(3) The number of these five individuals whose emoluments fell within the following bands are as follows:

	Year ended 31 December	
	2012	**2011**
HK$500,001 to HK$1,000,000	3	—
HK$1,000,001 to HK$1,500,000	2	—
HK$1,500,001 to HK$2,000,000	—	5

During the current and prior year, no emolument was paid by the Group to any of the directors, supervisors, chief executives or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as a compensation for loss of office. None of the directors or supervisors waived any emoluments during the current and prior year.

(Amounts in millions of Renminbi, unless otherwise stated)

12. IMPAIRMENT LOSSES ON ASSETS

	Year ended 31 December	
	2012	**2011**
Loans and advances to customers	54,628	62,100
Property and equipment	23	8
Financial assets held under resale agreements	—	5
Deposits with banks and other financial institutions	(30)	64
Held-to-maturity investments	(53)	245
Placements with banks and other financial institutions	(116)	491
Debt securities classified as receivables	(294)	451
Available-for-sale financial assets	(535)	496
Other assets	612	365
Total	**54,235**	**64,225**

13. INCOME TAX EXPENSE

	Year ended 31 December	
	2012	**2011**
Income tax expense comprises:		
Current income tax		
— PRC Enterprise Income Tax	52,978	51,598
— Hong Kong Profits Tax	265	125
— Other jurisdictions	12	—
Subtotal	53,255	51,723
Deferred tax (Note 31)		
— Current year	(10,459)	(15,478)
Subtotal	(10,459)	(15,478)
Total	**42,796**	**36,245**

PRC Enterprise Income Tax is calculated at 25% of the estimated assessable profit for both years. Taxation arising in other jurisdictions (including Hong Kong) is calculated at the rates prevailing in the relevant jurisdictions.

The tax charges for the year ended 31 December 2012 and 2011 can be reconciled to the profit per the consolidated income statement as follows:

	Year ended 31 December	
	2012	**2011**
Profit before tax	187,927	158,201
Tax calculated at applicable statutory tax rate of 25%	46,982	39,550
Tax effect of expenses not deductible for tax purpose	2,025	2,230
Tax effect of income not taxable for tax purpose (1)	(5,999)	(5,439)
Effect of different tax rates in other jurisdictions	(212)	(96)
Income tax expense	**42,796**	**36,245**

(1) Income not taxable for tax purpose represents interest income from treasury bonds.

(Amounts in millions of Renminbi, unless otherwise stated)

14. DIVIDENDS

	Notes	Year ended 31 December 2012	2011
Dividends recognised as distribution during the year:			
Cash dividend for the year of 2011	(1)	42,710	—
Cash dividend for six months ended 31 December 2010	(2)	—	17,539
		42,710	17,539

The final dividend of RMB0.1565 per share in respect of the year of 2012 amounting to RMB50,830 million in total has been proposed by the directors and is subject to approval by the shareholders in the general meeting.

Notes:

(1) Distribution of final dividend for 2011

A cash dividend of RMB0.1315 per share for the year of 2011, amounting to RMB42,710 million in total was approved, after the required appropriations for the statutory surplus reserve and the general reserve of the net profit of the Bank for the year of 2011 as determined in accordance with the relevant accounting rules and financial regulations applicable to PRC enterprises (the "PRC GAAP"), at the annual general meeting held on 8 June 2012.

The above dividend had been recognised as distribution during the year ended 31 December 2012.

(2) Distribution of final dividend in respect of the period from 1 July to 31 December 2010

A cash dividend of RMB0.054 per share in respect of the period from 1 July to 31 December 2010, amounting to RMB17,539 million in total was approved, after the required appropriations for the statutory surplus reserve and the general reserve of the net profit of the Bank for the six months ended 31 December 2010 as determined under the PRC GAAP, at the annual general meeting held on 8 June 2011.

The above dividend had been recognised as distribution during the year ended 31 December 2011.

15. EARNINGS PER SHARE

The calculation of basic earnings per share is as follows:

	Year ended 31 December 2012	2011
Earnings:		
Profit for the year attributable to equity holders of the Bank	145,094	121,927
Numbers of shares:		
Number of shares in issue (million)	324,794	324,794
Basic earnings per share (RMB yuan)	0.45	0.38

There was no potential ordinary share outstanding during the current and prior year.

(Amounts in millions of Renminbi, unless otherwise stated)

16. CASH AND BALANCES WITH CENTRAL BANKS

The Group

	Notes	As at 31 December 2012	As at 31 December 2011
Cash		93,096	79,811
Mandatory reserve deposits with central banks	(1)	2,094,197	1,980,825
Surplus reserve deposits with central bank	(2)	158,332	129,378
Other deposits with central bank	(3)	267,486	297,068
Total		**2,613,111**	**2,487,082**

The Bank

	Notes	As at 31 December 2012	As at 31 December 2011
Cash		93,022	79,304
Mandatory reserve deposits with central banks	(1)	2,094,116	1,980,744
Surplus reserve deposits with central bank	(2)	158,285	129,365
Other deposits with central bank	(3)	267,486	297,068
Total		**2,612,909**	**2,486,481**

(1) The Group places mandatory reserve deposits with the PBOC and overseas regulatory bodies. These include RMB reserve deposits and foreign currency reserve deposits. These mandatory reserve deposits are not available for the Group's daily operations.

As at 31 December 2012, for Domestic Institutions of the Group that meet the requirements of "Notice on Differential Mandatory Reserve Deposits for the Experimental Branches of Agricultural Bank of China Limited for 2012" (Yinbanfa [2012] No.24) which was effective from 20 March 2012, RMB mandatory reserve deposits placed with the PBOC were based on 18% of eligible RMB deposits(31 December 2011: 19%), while for the remaining Domestic Institutions, RMB mandatory reserve deposits were based on 20% of eligible RMB deposits (31 December 2011: 21%). Foreign currency mandatory reserve deposits were based on 5% (31 December 2011: 5%) of eligible foreign currency deposits from customers. Mandatory reserve deposits placed by Overseas Institutions were determined based on overseas regulatory requirements. The foreign currency reserve deposits placed with the PBOC are non-interest bearing.

(2) The surplus reserve deposits are deposits maintained with the PBOC in addition to the mandatory reserve deposits and mainly for the purpose of clearing.

(3) This mainly represents fixed deposit and fiscal deposits placed with the PBOC. The fiscal deposits placed with the PBOC are non-interest bearing.

(Amounts in millions of Renminbi, unless otherwise stated)

17. DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

The Group

	As at 31 December	
	2012	**2011**
Deposits with:		
Domestic banks	204,841	88,221
Other domestic financial institutions	2,330	2,777
Overseas banks	55,096	40,940
Gross amount	262,267	131,938
Allowance for impairment losses — individually assessed	(34)	(64)
Deposits with banks and other financial institutions	**262,233**	**131,874**

The Bank

	As at 31 December	
	2012	**2011**
Deposits with:		
Domestic banks	197,659	88,087
Other domestic financial institutions	2,329	2,776
Overseas banks	55,051	40,049
Gross amount	255,039	130,912
Allowance for impairment losses — individually assessed	(34)	(64)
Deposits with banks and other financial institutions	**255,005**	**130,848**

As at 31 December 2012, the carrying amount of deposits with banks and other financial institutions which have been pledged as security was RMB1,180 million (31 December 2011: RMB3,163 million). These deposits were mainly pledged with overseas banks for the purpose of carrying out financial derivative operations.

18. PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

The Group

	As at 31 December	
	2012	**2011**
Placements with:		
Domestic banks	97,824	59,825
Other domestic financial institutions	100,598	117,704
Overseas banks	25,333	35,645
Gross amount	223,755	213,174
Allowance for impairment losses — collectively assessed	(375)	(491)
Placements with banks and other financial institutions	**223,380**	**212,683**

(Amounts in millions of Renminbi, unless otherwise stated)

18. PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS (continued)

The Bank

	As at 31 December	
	2012	**2011**
Placements with:		
Domestic banks	97,824	59,825
Other domestic financial institutions	100,598	117,704
Overseas banks	27,093	35,645
Gross amount	225,515	213,174
Allowance for impairment losses — collectively assessed	(375)	(491)
Placements with banks and other financial institutions	**225,140**	**212,683**

19. FINANCIAL ASSETS HELD FOR TRADING

The Group

	As at 31 December	
	2012	**2011**
Debt securities issued by:		
Governments	1,227	1,931
Public sector and quasi-governments	9,575	4,469
Financial institutions	42	186
Corporations	12,345	9,003
Total	23,189	15,589
Analysed as:		
Listed in Hong Kong	—	16
Listed outside Hong Kong (1)	23,189	15,573
Total	**23,189**	**15,589**

The Bank

	As at 31 December	
	2012	**2011**
Debt securities issued by:		
Governments	1,227	1,931
Public sector and quasi-governments	9,575	4,469
Financial institutions	42	186
Corporations	12,345	8,987
Total	23,189	15,573
Analysed as:		
Listed outside Hong Kong (1)	23,189	15,573

(1) Debt securities traded on the China Domestic Interbank Bond Market are included in "Listed outside Hong Kong".

(Amounts in millions of Renminbi, unless otherwise stated)

20. FINANCIAL ASSETS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS

The Group

	As at 31 December	
	2012	**2011**
Debt securities issued by:		
Governments	2,938	1,810
Public sector and quasi-governments	3,606	1,931
Financial institutions	9,104	8,599
Corporations	13,898	3,334
Interests in trust products	72,053	36,593
Other debt instruments	48,766	—
Others	5,001	196
Total	155,366	52,463
Analysed as:		
Listed in Hong Kong	1,954	1,769
Listed outside Hong Kong (1)	13,049	3,057
Unlisted	140,363	47,637
Total	**155,366**	**52,463**

The Bank

	As at 31 December	
	2012	**2011**
Debt securities issued by:		
Governments	2,938	1,810
Public sector and quasi-governments	3,606	1,931
Financial institutions	9,104	8,599
Corporations	13,898	3,334
Interests in trust products	72,053	36,593
Other debt instruments	48,766	—
Others	4,217	196
Total	154,582	52,463
Analysed as:		
Listed in Hong Kong	1,954	1,769
Listed outside Hong Kong (1)	13,049	3,057
Unlisted	139,579	47,637
Total	**154,582**	**52,463**

(1) Debt securities traded on the China Domestic Interbank Bond Market are included in "Listed outside Hong Kong".

(Amounts in millions of Renminbi, unless otherwise stated)

21. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

The Group enters into currency rate, interest rate and precious metals related derivative contracts for the purposes of trading, asset and liability management and customer driven business.

The contractual/notional amounts and fair values of derivative financial instruments held by the Group are set out in the following tables. The contractual/notional amounts of derivative financial instruments provide a basis for comparison with fair values of instruments recognised on the consolidated statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair values of the instruments and, therefore, do not indicate the Group's exposure to credit or market risks. The derivative financial instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates, foreign exchange rates or precious metals prices relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The Group

	As at 31 December 2012		
	Contractual/ notional amount	**Fair value Assets**	**Fair value Liabilities**
Currency rate derivatives			
Currency forwards	180,704	1,612	(1,674)
Currency swaps	274,960	1,647	(1,371)
Cross-currency interest rate swaps	26,415	546	(881)
Currency options	6,286	15	(11)
Subtotal		3,820	(3,937)
Interest rate derivatives			
Interest rate swaps	173,385	925	(1,569)
Precious metal swaps	2,986	80	(8)
Total derivatives financial assets and liabilities		**4,825**	**(5,514)**

The Bank

	As at 31 December 2012		
	Contractual/ notional amount	**Fair value Assets**	**Fair value Liabilities**
Currency rate derivatives			
Currency forwards	180,704	1,612	(1,674)
Currency swaps	274,746	1,647	(1,363)
Cross-currency interest rate swaps	26,415	546	(881)
Currency options	6,286	15	(11)
Subtotal		3,820	(3,929)
Interest rate derivatives			
Interest rate swaps	173,385	925	(1,569)
Precious metal swaps	2,986	80	(8)
Total derivatives financial assets and liabilities		**4,825**	**(5,506)**

(Amounts in millions of Renminbi, unless otherwise stated)

21. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES (continued)

The Group and The Bank

	As at 31 December 2011		
	Contractual/ notional amount	Fair value Assets	Fair value Liabilities
Currency rate derivatives			
Currency forwards	247,419	3,262	(3,351)
Currency swaps	99,953	645	(1,000)
Cross-currency interest rate swaps	10,543	2,040	(2,957)
Subtotal		5,947	(7,308)
Interest rate derivatives			
Interest rate swaps	259,386	2,215	(2,972)
Other interest rate contracts	315	—	(4)
Subtotal		2,215	(2,976)
Precious metal swaps	5,789	362	—
Total derivatives financial assets and liabilities		**8,524**	**(10,284)**

22. FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

The Group

	As at 31 December	
	2012	2011
Analysed by collateral type:		
Securities	506,073	357,266
Bills	307,047	169,228
Loans and advances	1,500	2,951
Gross amount	814,620	529,445
Allowance for impairment losses — individually assessed	—	(5)
Financial assets held under resale agreements	**814,620**	**529,440**

The Bank

	As at 31 December	
	2012	2011
Analysed by collateral type:		
Securities	506,061	357,266
Bills	307,047	169,228
Loans and advances	1,500	2,517
Financial assets held under resale agreements	**814,608**	**529,011**

(Amounts in millions of Renminbi, unless otherwise stated)

23. LOANS AND ADVANCES TO CUSTOMERS

Analysis of loans and advances to customers:

The Group

	As at 31 December	
	2012	**2011**
Corporate loans and advances		
Loans and advances	4,612,731	4,104,447
Discounted bills	112,706	104,681
Subtotal	4,725,437	4,209,128
Personal loans and advances	1,707,962	1,430,800
Gross loans and advances	6,433,399	5,639,928
Individually assessed	(52,242)	(54,024)
Collectively assessed	(227,746)	(175,818)
Allowance for impairment losses	(279,988)	(229,842)
Loans and advances to customers	6,153,411	5,410,086

The Bank

	As at 31 December	
	2012	**2011**
Corporate loans and advances		
Loans and advances	4,586,911	4,093,164
Discounted bills	112,691	104,671
Subtotal	4,699,602	4,197,835
Personal loans and advances	1,707,462	1,430,520
Gross loans and advances	6,407,064	5,628,355
Individually assessed	(52,242)	(54,024)
Collectively assessed	(227,339)	(175,811)
Allowance for impairment losses	(279,581)	(229,835)
Loans and advances to customers	6,127,483	5,398,520

(Amounts in millions of Renminbi, unless otherwise stated)

23. LOANS AND ADVANCES TO CUSTOMERS (continued)

Analysis of loans and advances to customers by collective and individual assessments:

The Group

	Loans and advances for which allowance is collectively assessed (1)	Identified impaired loans and advances (2)			Total	Identified impaired gross loans and advances as a % of total gross loans and advances
		For which allowance is collectively assessed	For which allowance is individually assessed	Subtotal		
At 31 December 2012						
Gross loans and advances	6,347,551	12,962	72,886	85,848	6,433,399	1.33
Allowance for impairment losses	(219,284)	(8,462)	(52,242)	(60,704)	(279,988)	
Loans and advances to customers	**6,128,267**	**4,500**	**20,644**	**25,144**	**6,153,411**	
At 31 December 2011						
Gross loans and advances	5,552,570	11,176	76,182	87,358	5,639,928	1.55
Allowance for impairment losses	(169,493)	(6,325)	(54,024)	(60,349)	(229,842)	
Loans and advances to customers	**5,383,077**	**4,851**	**22,158**	**27,009**	**5,410,086**	

The Bank

	Loans and advances for which allowance is collectively assessed (1)	Identified impaired loans and advances (2)			Total	Identified impaired gross loans and advances as a % of total gross loans and advances
		For which allowance is collectively assessed	For which allowance is individually assessed	Subtotal		
At 31 December 2012						
Gross loans and advances	6,321,216	12,962	72,886	85,848	6,407,064	1.34
Allowance for impairment losses	(218,877)	(8,462)	(52,242)	(60,704)	(279,581)	
Loans and advances to customers	**6,102,339**	**4,500**	**20,644**	**25,144**	**6,127,483**	
At 31 December 2011						
Gross loans and advances	5,540,997	11,176	76,182	87,358	5,628,355	1.55
Allowance for impairment losses	(169,486)	(6,325)	(54,024)	(60,349)	(229,835)	
Loans and advances to customers	**5,371,511**	**4,851**	**22,158**	**27,009**	**5,398,520**	

(1) *Loans and advances for which allowance is collectively assessed consist of loans and advances which have not been specifically identified as impaired.*

(2) *Identified impaired loans and advances include loans for which objective evidence of impairment exists and which have been identified as bearing impairment losses, impairment losses are assessed either individually or collectively.*

(Amounts in millions of Renminbi, unless otherwise stated)

23. LOANS AND ADVANCES TO CUSTOMERS (continued)

Movements of allowance for impairment losses on loans and advances to customers:

The Group

	Year ended 31 December 2012		
	Individually assessed allowance	**Collectively assessed allowance**	**Total**
As at 1 January	54,024	175,818	229,842
Impairment allowances on loans charged to profit or loss	16,618	76,215	92,833
Reversal of impairment allowances	(14,574)	(23,631)	(38,205)
Net additions	2,044	52,584	54,628
Write-offs	(3,482)	(527)	(4,009)
Recovery of loans and advances written off in previous years	80	20	100
Unwinding of discount on allowance	(423)	(134)	(557)
Exchange difference	(1)	(15)	(16)
As at 31 December	**52,242**	**227,746**	**279,988**

	Year ended 31 December 2011		
	Individually assessed allowance	**Collectively assessed allowance**	**Total**
As at 1 January	58,501	110,232	168,733
Impairment allowances on loans charged to profit or loss	11,696	84,078	95,774
Reversal of impairment allowances	(15,484)	(18,190)	(33,674)
Net (reversals)/additions	(3,788)	65,888	62,100
Write-offs	(216)	(67)	(283)
Recovery of loans and advances written off in previous years	10	9	19
Unwinding of discount on allowance	(437)	(68)	(505)
Exchange difference	(46)	(176)	(222)
As at 31 December	**54,024**	**175,818**	**229,842**

(Amounts in millions of Renminbi, unless otherwise stated)

23. LOANS AND ADVANCES TO CUSTOMERS (continued)

Movements of allowance for impairment losses on loans and advances to customers: (continued)

The Bank

	Year ended 31 December 2012		
	Individually assessed allowance	**Collectively assessed allowance**	**Total**
As at 1 January	54,024	175,811	229,835
Impairment allowances on loans charged to profit or loss	16,618	75,815	92,433
Reversal of impairment allowances	(14,574)	(23,631)	(38,205)
Net additions	2,044	52,184	54,228
Write-offs	(3,482)	(527)	(4,009)
Recovery of loans and advances written off in previous years	80	20	100
Unwinding of discount on allowance	(423)	(134)	(557)
Exchange difference	(1)	(15)	(16)
As at 31 December	**52,242**	**227,339**	**279,581**

	Year ended 31 December 2011		
	Individually assessed allowance	**Collectively assessed allowance**	**Total**
As at 1 January	58,501	110,229	168,730
Impairment allowances on loans charged to profit or loss	11,696	84,074	95,770
Reversal of impairment allowances	(15,484)	(18,190)	(33,674)
Net (reversals)/additions	(3,788)	65,884	62,096
Write-offs	(216)	(67)	(283)
Recovery of loans and advances written off in previous years	10	9	19
Unwinding of discount on allowance	(437)	(68)	(505)
Exchange difference	(46)	(176)	(222)
As at 31 December	**54,024**	**175,811**	**229,835**

(Amounts in millions of Renminbi, unless otherwise stated)

24. AVAILABLE-FOR-SALE FINANCIAL ASSETS

The Group

		As at 31 December	
	Notes	**2012**	**2011**
Debt securities issued by:			
Governments		194,742	316,514
Public sector and quasi-governments		335,421	193,304
Financial institutions		38,981	22,585
Corporations		183,014	117,610
Subtotal		752,158	650,013
Equity instruments		661	1,185
Fund investments		2,684	—
Total		755,503	651,198
Analysed as:			
Debt securities			
Listed in Hong Kong		7,535	4,133
Listed outside Hong Kong	(1)	733,438	641,931
Unlisted		11,185	3,949
Equity instruments and fund investments			
Listed in Hong Kong		—	838
Listed outside Hong Kong		2,502	125
Unlisted	(2)	843	222
Total		**755,503**	**651,198**

(Amounts in millions of Renminbi, unless otherwise stated)

24. AVAILABLE-FOR-SALE FINANCIAL ASSETS (continued)

The Bank

		As at 31 December	
	Notes	**2012**	**2011**
Debt securities issued by:			
Governments		194,566	316,337
Public sector and quasi-governments		335,011	193,304
Financial institutions		38,311	22,585
Corporations		181,802	117,551
Subtotal		749,690	649,777
Equity instruments		388	347
Total		750,078	650,124
Analysed as:			
Debt securities			
Listed in Hong Kong		7,506	4,074
Listed outside Hong Kong	(1)	731,015	641,754
Unlisted		11,169	3,949
Equity instruments			
Listed outside Hong Kong		164	125
Unlisted	(2)	224	222
Total		**750,078**	**650,124**

(1) Debt securities traded on the China Domestic Interbank Bond Market are included in "Listed outside Hong Kong".

(2) Certain unlisted equity instruments are measured at cost because their fair value cannot be reliably measured.

(Amounts in millions of Renminbi, unless otherwise stated)

25. HELD-TO-MATURITY INVESTMENTS

The Group

		As at 31 December	
	Note	**2012**	**2011**
Debt securities issued by:			
Governments		552,192	585,132
Public sector and quasi-governments		656,045	478,452
Financial institutions		21,340	25,224
Corporations		79,439	90,400
Gross amount		1,309,016	1,179,208
Individually assessed		—	(61)
Collectively assessed		(220)	(259)
Allowance for impairment losses		(220)	(320)
Held-to-maturity investments		1,308,796	1,178,888
Analysed as:			
Listed in Hong Kong		913	916
Listed outside Hong Kong	(1)	1,306,019	1,168,681
Unlisted		1,864	9,291
Total		**1,308,796**	**1,178,888**

The Bank

		As at 31 December	
	Note	**2012**	**2011**
Debt securities issued by:			
Governments		552,192	585,132
Public sector and quasi-governments		655,884	478,452
Financial institutions		19,404	25,224
Corporations		77,689	90,400
Gross amount		1,305,169	1,179,208
Individually assessed		—	(61)
Collectively assessed		(220)	(259)
Allowance for impairment losses		(220)	(320)
Held-to-maturity investments		1,304,949	1,178,888
Analysed as:			
Listed in Hong Kong		913	916
Listed outside Hong Kong	(1)	1,302,172	1,168,681
Unlisted		1,864	9,291
Total		**1,304,949**	**1,178,888**

(1) .Debt securities traded on the China Domestic Interbank Bond Market are included in "Listed outside Hong Kong".

(Amounts in millions of Renminbi, unless otherwise stated)

26. DEBT SECURITIES CLASSIFIED AS RECEIVABLES

The Group

	Notes	As at 31 December 2012	2011
Debt securities:			
Receivable from the MOF	(1)	392,883	474,083
Special government bond	(2)	93,300	93,300
Public sector and quasi-governments bonds		66,316	20,000
Financial institution bonds		23,420	26,314
Corporate bonds		20,971	10,376
Certificate treasury bonds and savings treasury bonds		10,707	24,796
PBOC's designated bills		—	52,325
PBOC's special bills		—	29,222
Others		1,205	—
Gross amount		608,802	730,416
Individually assessed		(51)	(51)
Collectively assessed		(157)	(451)
Allowance for impairment losses		(208)	(502)
Debt securities classified as receivables		**608,594**	**729,914**

The Bank

	Notes	As at 31 December 2012	2011
Debt securities:			
Receivable from the MOF	(1)	392,883	474,083
Special government bond	(2)	93,300	93,300
Public sector and quasi-governments bonds		66,316	20,000
Financial institution bonds		23,414	26,314
Corporate bonds		20,565	10,376
Certificate treasury bonds and savings treasury bonds		10,455	24,796
PBOC's designated bills		—	52,325
PBOC's special bills		—	29,222
Gross amount		606,933	730,416
Individually assessed		(51)	(51)
Collectively assessed		(157)	(451)
Allowance for impairment losses		(208)	(502)
Debt securities classified as receivables		**606,725**	**729,914**

(1) Pursuant to the "Notice on Relevant Issues Concerning the Disposal of Non-performing Assets of Agricultural Bank of China" (Caijin [2008] No. 138) issued by the MOF, receivable from the MOF is to be settled annually over a period of 15 years starting from 1 January 2008 at an interest rate of 3.3% per annum.

(2) Special government bond refers to the non-transferable bond issued by the MOF in 1998 in the aggregate principal amount of RMB93.3 billion to the Former Entity for the purpose of improving its capital adequacy. The bond will mature in 2028 and bears interest at a fixed rate of 2.25% per annum, starting from 1 December 2008.

(Amounts in millions of Renminbi, unless otherwise stated)

27. INVESTMENTS IN SUBSIDIARIES

The Bank

	As at 31 December	
	2012	2011
Investment cost	8,910	6,160
Allowance for impairment losses	(659)	(659)
Investments in subsidiaries	**8,251**	**5,501**

Details of the Bank's principal subsidiaries are set out below.

Name of entity	Notes	Date of incorporation/ establishment	Place of incorporation/ establishment	Authorized/ paid-in capital	Proportion of equity interest (%)	Proportion of voting rights (%)	Principal activities
China Agricultural Finance Co., Ltd.		1 November 1988	Hong Kong, PRC	HKD588,790,000	100.00	100.00	Investment holding
ABC International Holdings Limited		11 November 2009	Hong Kong, PRC	HKD2,913,392,449	100.00	100.00	Investment holding
ABC Financial Leasing Co., Ltd.		29 September 2010	Shanghai, PRC	RMB2,000,000,000	100.00	100.00	Financial leasing
Agricultural Bank of China (UK) Limited		29 November 2011	London, United Kingdom	USD100,000,000	100.00	100.00	Banking
ABC-CA Fund Management		18 March 2008	Shanghai, PRC	RMB200,000,001	51.67	51.67	Fund management
ABC Hexigten Rural Bank Limited Liability Company		12 August 2008	Inner Mongolia, PRC	RMB19,600,000	51.02	51.02	Banking
ABC Hubei Hanchuan Rural Bank Limited Liability Company		12 August 2008	Hubei, PRC	RMB20,000,000	50.00	66.67	Banking
ABC Ansai Rural Bank Limited Liability Company		30 March 2010	Shaanxi, PRC	RMB20,000,000	51.00	51.00	Banking
ABC Jixi Rural Bank Limited Liability Company		25 May 2010	Anhui, PRC	RMB29,400,000	51.02	51.02	Banking
ABC Zhejiang Yongkang Rural Bank Limited Liability Company	(1)	20 April 2012	Zhejiang, PRC	RMB210,000,000	51.00	51.00	Banking
ABC Xiamen Tong'an Rural Bank Limited Liability Company	(2)	24 May 2012	Fujian, PRC	RMB100,000,000	51.00	51.00	Banking
ABC Life Insurance Co., Ltd.	(3)	19 December 2005	Beijing, PRC	RMB2,032,653,061	51.00	51.00	Life insurance

(1) *During the year, ABC Zhejiang Yongkang Rural Bank Limited Liability Company was set up and authorised by the CBRC to carry out banking business. The Bank contributed RMB107 million for 51% equity interest.*

(2) *During the year, ABC Xiamen Tong'an Rural Bank Limited Liability Company was set up and authorised by the CBRC to carry out banking business. The Bank contributed RMB51 million for 51% equity interest.*

(3) *During the year, the Bank acquired 51% of the issued share capital of Jiahe Life Insurance Co., Ltd. on 31 December 2012 at a consideration of RMB2,592 million and renamed it as ABC Life Insurance Co., Ltd. ("ABC Life Insurance"). Details are set up in note 46.*

During the year ended 31 December 2012, there was no change in the proportion of equity interest or voting rights the Bank held in its subsidiaries.

(Amounts in millions of Renminbi, unless otherwise stated)

28. INTERESTS IN ASSOCIATES

The Group

	As at 31 December	
	2012	**2011**
Carrying amount	124	150
Allowance for impairment losses	(16)	(16)
Interests in associates	**108**	**134**

The Bank

	As at 31 December	
	2012	**2011**
Carrying amount	124	132
Allowance for impairment losses	(16)	(16)
Interests in associates	**108**	**116**

29. PROPERTY AND EQUIPMENT

The Group

	Buildings	Electronic equipment, furniture and fixtures	Motor vehicles	Construction in progress	Total
COST					
As at 1 January 2012	105,756	39,204	4,077	20,837	169,874
Additions	1,312	9,815	128	12,949	24,204
Transfers	6,353	786	5	(7,144)	—
Disposals	(1,040)	(1,345)	(183)	(267)	(2,835)
Acquisitions through business combination	237	16	3	—	256
As at 31 December 2012	112,618	48,476	4,030	26,375	191,499
ACCUMULATED DEPRECIATION					
As at 1 January 2012	(18,560)	(16,555)	(2,652)	—	(37,767)
Charge for the year	(6,306)	(6,803)	(388)	—	(13,497)
Eliminated on disposals	178	1,217	167	—	1,562
As at 31 December 2012	(24,688)	(22,141)	(2,873)	—	(49,702)
ALLOWANCE FOR IMPAIRMENT LOSSES					
As at 1 January 2012	(278)	(10)	(3)	(1)	(292)
Impairment loss	(22)	(1)	—	—	(23)
Eliminated on disposals	7	1	—	—	8
As at 31 December 2012	(293)	(10)	(3)	(1)	(307)
CARRYING VALUES					
As at 31 December 2012	**87,637**	**26,325**	**1,154**	**26,374**	**141,490**
As at 1 January 2012	86,918	22,639	1,422	20,836	131,815

(Amounts in millions of Renminbi, unless otherwise stated)

29. PROPERTY AND EQUIPMENT (continued)

The Group (continued)

	Buildings	Electronic equipment, furniture and fixtures	Motor vehicles	Construction in progress	Total
COST					
As at 1 January 2011	95,493	30,778	4,006	18,631	148,908
Additions	1,337	8,598	268	12,220	22,423
Transfers	9,320	485	2	(9,807)	—
Disposals	(394)	(657)	(199)	(207)	(1,457)
As at 31 December 2011	105,756	39,204	4,077	20,837	169,874
ACCUMULATED DEPRECIATION					
As at 1 January 2011	(13,322)	(11,562)	(2,319)	—	(27,203)
Charge for the year	(5,324)	(5,578)	(504)	—	(11,406)
Eliminated on disposals	86	585	171	—	842
As at 31 December 2011	(18,560)	(16,555)	(2,652)	—	(37,767)
ALLOWANCE FOR IMPAIRMENT LOSSES					
As at 1 January 2011	(298)	(12)	(3)	(1)	(314)
Impairment loss	(8)	—	—	—	(8)
Eliminated on disposals	28	2	—	—	30
As at 31 December 2011	(278)	(10)	(3)	(1)	(292)
CARRYING VALUES					
As at 31 December 2011	**86,918**	**22,639**	**1,422**	**20,836**	**131,815**
As at 1 January 2011	81,873	19,204	1,684	18,630	121,391

(Amounts in millions of Renminbi, unless otherwise stated)

29. PROPERTY AND EQUIPMENT (continued)

The Bank

	Buildings	Electronic equipment, furniture and fixtures	Motor vehicles	Construction in progress	Total
COST					
As at 1 January 2012	105,462	39,049	4,062	20,216	168,789
Additions	1,309	9,790	121	12,649	23,869
Transfers	6,332	784	5	(7,121)	—
Disposals	(932)	(1,340)	(182)	(267)	(2,721)
As at 31 December 2012	112,171	48,283	4,006	25,477	189,937
ACCUMULATED DEPRECIATION					
As at 1 January 2012	(18,471)	(16,485)	(2,645)	—	(37,601)
Charge for the year	(6,299)	(6,782)	(384)	—	(13,465)
Eliminated on disposals	152	1,213	167	—	1,532
As at 31 December 2012	(24,618)	(22,054)	(2,862)	—	(49,534)
ALLOWANCE FOR IMPAIRMENT LOSSES					
As at 1 January 2012	(278)	(10)	(3)	(1)	(292)
Impairment loss	(22)	(1)	—	—	(23)
Eliminated on disposals	7	1	—	—	8
As at 31 December 2012	(293)	(10)	(3)	(1)	(307)
CARRYING VALUES					
As at 31 December 2012	**87,260**	**26,219**	**1,141**	**25,476**	**140,096**
As at 1 January 2012	86,713	22,554	1,414	20,215	130,896

(Amounts in millions of Renminbi, unless otherwise stated)

29. PROPERTY AND EQUIPMENT (continued)

The Bank (continued)

	Buildings	Electronic equipment, furniture and fixtures	Motor vehicles	Construction in progress	Total
COST					
As at 1 January 2011	95,370	30,617	3,993	18,624	148,604
Additions	1,159	8,579	264	11,606	21,608
Transfers	9,320	485	2	(9,807)	—
Disposals	(387)	(632)	(197)	(207)	(1,423)
As at 31 December 2011	105,462	39,049	4,062	20,216	168,789
ACCUMULATED DEPRECIATION					
As at 1 January 2011	(13,263)	(11,494)	(2,313)	—	(27,070)
Charge for the year	(5,287)	(5,566)	(503)	—	(11,356)
Eliminated on disposals	79	575	171	—	825
As at 31 December 2011	(18,471)	(16,485)	(2,645)	—	(37,601)
ALLOWANCE FOR IMPAIRMENT LOSSES					
As at 1 January 2011	(298)	(12)	(3)	(1)	(314)
Impairment loss	(8)	—	—	—	(8)
Eliminated on disposals	28	2	—	—	30
As at 31 December 2011	(278)	(10)	(3)	(1)	(292)
CARRYING VALUES					
As at 31 December 2011	**86,713**	**22,554**	**1,414**	**20,215**	**130,896**
As at 1 January 2011	81,809	19,111	1,677	18,623	121,220

According to the relevant laws and regulations, subsequent to the transformation into a joint stock company, the legal title of properties previously held by the Former Entity are to be transferred to the Bank. As at the date of issuance of this set of consolidated financial statements, the re-registration process has not been completed. Management anticipates that the registration process would not affect the rights of the Bank as the legal successor to those assets.

(Amounts in millions of Renminbi, unless otherwise stated)

29. PROPERTY AND EQUIPMENT (continued)

The carrying amounts of buildings located on land with the following remaining lease terms are as follows:

The Group

	As at 31 December	
	2012	**2011**
Held in Hong Kong		
on long-term lease (over 50 years)	139	—
on medium-term lease (10–50 years)	2	—
Subtotal	141	—
Held outside Hong Kong		
on long-term lease (over 50 years)	3,580	3,970
on medium-term lease (10–50 years)	75,165	74,989
on short-term lease (less than 10 years)	8,751	7,959
Subtotal	87,496	86,918
Total	**87,637**	**86,918**

The Bank

	As at 31 December	
	2012	**2011**
Held in Hong Kong		
on long-term lease (over 50 years)	88	—
Held outside Hong Kong		
on long-term lease (over 50 years)	3,580	3,970
on medium-term lease (10–50 years)	74,841	74,784
on short-term lease (less than 10 years)	8,751	7,959
Subtotal	87,172	86,713
Total	**87,260**	**86,713**

30. GOODWILL

The Group

Subsidiary acquired	**As at 1 January 2012**	**Addition**	**Disposal**	**As at 31 December 2012**	**Allowance for impairment losses**
ABC Life Insurance Co., Ltd.	—	1,381	—	1,381	—

Details about the acquisition of the subsidiary are set out in note 46.

(Amounts in millions of Renminbi, unless otherwise stated)

31. DEFERRED TAXATION

For the purpose of presentation on the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The followings are the analysis of the deferred tax balances:

The Group

	As at 31 December	
	2012	**2011**
Deferred tax assets	56,949	45,698
Deferred tax liabilities	(15)	(27)
	56,934	**45,671**

The Bank

	As at 31 December	
	2012	**2011**
Deferred tax assets	56,934	45,684

The followings are the movements and major deferred tax assets and liabilities recognised:

The Group

	Allowance for impairment losses	Early retirement benefits	Accrued but not paid staff cost	Provision	Fair value changes of financial instruments	Others	Total
As at 1 January 2012	36,035	3,248	5,411	699	300	(22)	45,671
Credit/(charge) to profit or loss	10,254	(304)	977	180	(667)	19	10,459
Credit to other comprehensive income	—	—	—	—	804	—	804
As at 31 December 2012	**46,289**	**2,944**	**6,388**	**879**	**437**	**(3)**	**56,934**

	Allowance for impairment losses	Early retirement benefits	Accrued but not paid staff cost	Provision	Fair value changes of financial instruments	Others	Total
As at 1 January 2011	21,635	3,343	4,113	807	1,571	(81)	31,388
Credit/(charge) to profit or loss	14,400	(95)	1,298	(108)	(76)	59	15,478
Charge to other comprehensive income	—	—	—	—	(1,195)	—	(1,195)
As at 31 December 2011	**36,035**	**3,248**	**5,411**	**699**	**300**	**(22)**	**45,671**

(Amounts in millions of Renminbi, unless otherwise stated)

31. DEFERRED TAXATION (continued)

The Bank

	Allowance for impairment losses	Early retirement benefits	Accrued but not paid staff cost	Provision	Fair value changes of financial instruments	Total
As at 1 January 2012	36,035	3,248	5,402	699	300	45,684
Credit/(charge) to profit or loss	10,252	(304)	978	180	(660)	10,446
Credit to other comprehensive income	—	—	—	—	804	804
As at 31 December 2012	**46,287**	**2,944**	**6,380**	**879**	**444**	**56,934**

	Allowance for impairment losses	Early retirement benefits	Accrued but not paid staff cost	Provision	Fair value changes of financial instruments	Total
As at 1 January 2011	21,635	3,343	4,102	807	1,571	31,458
Credit/(charge) to profit or loss	14,400	(95)	1,300	(108)	(76)	15,421
Charge to other comprehensive income	—	—	—	—	(1,195)	(1,195)
As at 31 December 2011	**36,035**	**3,248**	**5,402**	**699**	**300**	**45,684**

32. OTHER ASSETS

The Group

		As at 31 December	
	Note	2012	2011
Interest receivable		59,993	48,655
Land use rights	(1)	24,492	23,986
Accounts receivable		8,910	5,473
Premiums receivable and reinsurance assets		3,721	—
Intangible assets		2,106	1,744
Foreclosed assets		896	297
Others		21,268	12,034
Total		**121,386**	**92,189**

(Amounts in millions of Renminbi, unless otherwise stated)

32. OTHER ASSETS (continued)

The Bank

		As at 31 December	
	Note	2012	2011
Interest receivable		59,554	48,591
Land use rights	(1)	24,474	23,967
Accounts receivable		4,680	4,589
Intangible assets		1,885	1,735
Foreclosed assets		896	297
Others		20,737	11,731
Total		**112,226**	**90,910**

(1) Land use rights

The carrying amount of land use rights (including leasehold lands in Hong Kong) analysed by the remaining terms of the leases:

The Group

	As at 31 December	
	2012	2011
Held in Hong Kong		
on long-term lease (over 50 years)	1,055	—
Held outside Hong Kong		
on long-term lease (over 50 years)	327	348
on medium-term lease (10–50 years)	23,066	23,574
on short-term lease (less than 10 years)	44	64
Subtotal	23,437	23,986
Total	**24,492**	**23,986**

The Bank

	As at 31 December	
	2012	2011
Held in Hong Kong		
on long-term lease (over 50 years)	1,055	—
Held outside Hong Kong		
on long-term lease (over 50 years)	327	348
on medium-term lease (10–50 years)	23,048	23,555
on short-term lease (less than 10 years)	44	64
Subtotal	23,419	23,967
Total	**24,474**	**23,967**

(Amounts in millions of Renminbi, unless otherwise stated)

32. OTHER ASSETS (continued)

(1) Land use rights (continued)

According to the relevant laws and regulations, subsequent to the transformation into a joint stock company, land use rights previously held by the Former Entity are to be transferred to the Bank. As at the date of issuance of this set of consolidated financial statements, the re-registration process has not been completed. Management anticipates that the registration process would not affect the rights of the Bank as the legal successor to those land use rights.

33. DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

The Group

	As at 31 December	
	2012	**2011**
Deposits from:		
Domestic banks	251,549	226,573
Other domestic financial institutions	531,647	386,900
Overseas banks	702	1,604
Other overseas financial institutions	454	204
Total	**784,352**	**615,281**

The Bank

	As at 31 December	
	2012	**2011**
Deposits from:		
Domestic banks	251,755	226,587
Other domestic financial institutions	535,350	387,711
Overseas banks	702	1,604
Other overseas financial institutions	939	1,157
Total	**788,746**	**617,059**

34. PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

The Group

	As at 31 December	
	2012	**2011**
Placements from:		
Domestic banks	73,416	45,931
Overseas banks	76,305	63,024
Total	**149,721**	**108,955**

(Amounts in millions of Renminbi, unless otherwise stated)

34. PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS (continued)

The Bank

	As at 31 December	
	2012	**2011**
Placements from:		
Domestic banks	51,316	35,423
Overseas banks	75,991	63,024
Total	**127,307**	**98,447**

35. FINANCIAL LIABILITIES HELD FOR TRADING

The Group and The Bank

	As at 31 December	
	2012	**2011**
Short position in gold	3,674	353

36. FINANCIAL LIABILITIES DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS

The Group and The Bank

		As at 31 December	
	Notes	**2012**	**2011**
Principal guaranteed wealth management products	(1)	155,065	81,093
Financial guarantee agreements	(2)	6	599
Structured deposits	(3)	—	126,365
Total		**155,071**	**208,057**

(1) The Group designates the wealth management products with principal guaranteed as financial liabilities at fair value through profit or loss. The corresponding investments are designated as financial assets at fair value through profit or loss. As at 31 December 2012, the fair value of these products issued by the Group were lower than the contractual amount payable to the holders of these products upon maturity by RMB3,234 million (31 December 2011:RMB2,348 million lower than the contractual amount).

(2) Financial guarantee contracts require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. As the issuer of the financial guarantee, the Group designates such contracts as financial liabilities at fair value through profit or loss. As at 31 December 2012, the total notional amount of these contracts are RMB4,054 million (31 December 2011: RMB6,017 million).

(3) Structured deposits issued by the Group before 1 January 2012 were designated as financial liabilities at fair value through profit or loss in their entirety. Structured deposits issued after 1 January 2012 were not designated as financial liabilities at fair value through profit or loss. Embedded derivatives were separated from the structured deposits, if any and presented as derivative financial instruments separately in the consolidated statement of financial position. The debt component of the structured deposits is included in amounts due to customers.

For the current and prior year, there were no significant changes in the fair value of the Group's and the Bank's financial liabilities designated as at fair value through profit or loss that were attributable to changes in credit risk.

(Amounts in millions of Renminbi, unless otherwise stated)

37. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

The Group and The Bank

	As at 31 December	
	2012	**2011**
Analysed by type of collateral:		
Bonds	7,415	84,576
Bills	216	7,503
Total	**7,631**	**92,079**

38. DUE TO CUSTOMERS

The Group

		As at 31 December	
	Note	**2012**	**2011**
Demand deposits			
Corporate customers		2,706,447	2,639,856
Individual customers		3,221,969	2,818,538
Time deposits			
Corporate customers		1,314,629	1,032,314
Individual customers		3,200,531	2,807,779
Pledged deposits	(1)	216,879	216,517
Others		202,480	107,022
Total		**10,862,935**	**9,622,026**

The Bank

		As at 31 December	
	Note	**2012**	**2011**
Demand deposits			
Corporate customers		2,706,259	2,639,727
Individual customers		3,221,847	2,818,464
Time deposits			
Corporate customers		1,314,555	1,032,244
Individual customers		3,200,377	2,807,670
Pledged deposits	(1)	216,869	216,517
Others		202,480	107,022
Total		**10,862,387**	**9,621,644**

(Amounts in millions of Renminbi, unless otherwise stated)

38. DUE TO CUSTOMERS (continued)

(1) Analysed by business for which deposit is required:

The Group

	As at 31 December	
	2012	**2011**
Bank acceptances	70,409	78,644
Guarantee and letters of guarantee	29,800	33,188
Letters of credit	27,535	30,422
Margin transactions	44,638	24,168
Others	44,497	50,095
Total	**216,879**	**216,517**

The Bank

	As at 31 December	
	2012	**2011**
Bank acceptances	70,409	78,644
Guarantee and letters of guarantee	29,800	33,188
Letters of credit	27,535	30,422
Margin transactions	44,638	24,168
Others	44,487	50,095
Total	**216,869**	**216,517**

39. DEBT SECURITIES ISSUED

The Group and The Bank

		As at 31 December	
	Notes	**2012**	**2011**
Bonds issued	(1)	150,885	99,922
Certificates of deposit issued	(2)	41,754	19,468
Total		**192,639**	**119,390**

(Amounts in millions of Renminbi, unless otherwise stated)

39. DEBT SECURITIES ISSUED (continued)

(1) The carrying value of the Group's bonds issued are as follows:

	Notes	As at 31 December 2012	As at 31 December 2011
3.3% subordinated fixed rate bonds maturing in May 2019	(i)	20,000	20,000
4.0% subordinated fixed rate bonds maturing in May 2024	(ii)	25,000	25,000
Subordinated floating rate bonds maturing in May 2019	(iii)	5,000	5,000
5.3% subordinated fixed rate bonds maturing in June 2026	(iv)	50,000	50,000
3.2% fixed rate RMB bonds maturing in November 2015	(v)	1,000	—
4.99% subordinated fixed rate bonds maturing in December 2027	(vi)	50,000	—
Total nominal value		151,000	100,000
Less: Unamortised issuance cost		(115)	(78)
Carrying value		**150,885**	**99,922**

As approved by the PBOC and the CBRC, the Bank issued callable subordinated bonds of RMB50,000 million in May 2009, June 2011 and December 2012 respectively, and issued RMB bonds of RMB1,000 million in Hong Kong in November 2012.

(i) The subordinated fixed rate bonds issued in May 2009 have a tenure of 10 years, with a fixed coupon rate of 3.3%, payable annually. The Bank has an option to redeem all of the bonds at face value on 20 May 2014. If the Bank does not exercise this option, the coupon rate of the bonds will increase to 6.3% per annum from 20 May 2014 onwards.

(ii) The subordinated fixed rate bonds issued in May 2009 have a tenure of 15 years, with a fixed coupon rate of 4.0%, payable annually. The Bank has an option to redeem all of the bonds at face value on 20 May 2019. If the Bank does not exercise this option, the coupon rate of the bonds will increase to 7.0% per annum from 20 May 2019 onwards.

(iii) The subordinated floating rate bonds issued in May 2009 have a tenure of 10 years. The coupon rate is based on the PBOC one-year fixed deposit rate on the issue date and reset annually plus 60 basis points. Interest is payable annually. The Bank has an option to redeem all of the bonds at face value on 20 May 2014. If the Bank does not exercise this option, the interest rate of the bonds will be adjusted to the PBOC one-year fixed deposit rate plus 360 basis points from 20 May 2014 onwards.

(iv) The subordinated fixed rate bonds issued in June 2011 have a tenure of 15 years, with a fixed coupon rate of 5.3%, payable annually. The Bank has an option to redeem all of the bonds at face value on 7 June 2021. If the Bank does not exercise this option, the coupon rate of the bonds will remain at 5.3% per annum from 7 June 2021 onwards.

(v) The RMB bonds issued in Hong Kong in November 2012 have a tenure of 3 years, with a fixed coupon rate of 3.2%, payable semi-annually.

(vi) The subordinated fixed rate bonds issued in December 2012 have a tenure of 15 years, with a fixed coupon rate of 4.99%, payable annually. The Bank has an option to redeem all of the bonds at face value on 20 December 2022. If the Bank does not exercise this option, the coupon rate of the bonds will remain at 4.99% per annum from 20 December 2022 onwards.

As at 31 December 2011 and 2012, there was no default relating to arrears of principal, interest or redemption proceeds with the bonds issued by the Bank.

(2) Certificates of deposit were issued by the Hong Kong Branch and Singapore Branch of the Bank and measured at amortised cost.

(Amounts in millions of Renminbi, unless otherwise stated)

40. OTHER LIABILITIES

The Group

	Notes	As at 31 December 2012	As at 31 December 2011
Interest payable		133,744	91,143
Staff costs payable	(1)	47,697	40,617
Income taxes payable		40,419	37,868
Clearing and settlement		38,925	44,384
Insurance liabilities		12,855	—
Business and other taxes payable		8,034	7,124
Policyholders' deposits		4,460	—
Provision		4,090	3,369
Reinsurance liabilities		3,525	—
Dormant accounts		1,912	2,274
Amount payable to the MOF	(2)	1,610	3,057
Others		34,099	21,451
Total		**331,370**	**251,287**

The Bank

	Notes	As at 31 December 2012	As at 31 December 2011
Interest payable		133,759	91,116
Staff costs payable	(1)	47,515	40,550
Income taxes payable		40,344	37,817
Clearing and settlement		38,914	44,376
Business and other tax payable		8,030	7,106
Provision		4,090	3,369
Dormant accounts		1,912	2,274
Amount payable to the MOF	(2)	1,610	3,057
Others		28,727	19,696
Total		**304,901**	**249,361**

(Amounts in millions of Renminbi, unless otherwise stated)

40. OTHER LIABILITIES (continued)

(1) Staff costs payable

The Group

	2012			
	As at 1 January	Accrued (note)	Paid	As at 31 December
Salaries, bonuses, allowances and subsidies (i)	21,697	58,315	(54,308)	25,704
Social insurance (i)	847	14,689	(13,670)	1,866
Housing funds	274	6,078	(6,051)	301
Labour union fees and staff education expenses	1,981	2,613	(2,290)	2,304
Early retirement benefits (ii)	12,992	2,005	(3,220)	11,777
Others	2,826	11,147	(8,228)	5,745
Total	**40,617**	**94,847**	**(87,767)**	**47,697**

Note: The amounts include acquisitions through business combination of ABC Life Insurance.

	2011			
	As at 1 January	Accrued	Paid	As at 31 December
Salaries, bonuses, allowances and subsidies (i)	16,521	52,308	(47,132)	21,697
Social insurance (i)	848	11,788	(11,789)	847
Housing funds	302	5,134	(5,162)	274
Labour union fees and staff education expenses	1,556	2,353	(1,928)	1,981
Early retirement benefits (ii)	13,371	2,714	(3,093)	12,992
Others	1,986	7,673	(6,833)	2,826
Total	**34,584**	**81,970**	**(75,937)**	**40,617**

(Amounts in millions of Renminbi, unless otherwise stated)

40. OTHER LIABILITIES (continued)

(1) Staff costs payable (continued)

The Bank

	2012			
	As at 1 January	Accrued	Paid	As at 31 December
Salaries, bonuses, allowances and subsidies (i)	21,637	57,949	(54,033)	25,553
Social insurance (i)	847	14,659	(13,657)	1,849
Housing funds	274	6,068	(6,043)	299
Labour union fees and staff education expenses	1,978	2,602	(2,282)	2,298
Early retirement benefits (ii)	12,992	2,005	(3,220)	11,777
Others	2,822	11,116	(8,199)	5,739
Total	**40,550**	**94,399**	**(87,434)**	**47,515**

	2011			
	As at 1 January	Accrued	Paid	As at 31 December
Salaries, bonuses, allowances and subsidies (i)	16,434	52,124	(46,921)	21,637
Social insurance (i)	848	11,779	(11,780)	847
Housing funds	302	5,128	(5,156)	274
Labour union fees and staff education expenses	1,556	2,350	(1,928)	1,978
Early retirement benefits (ii)	13,371	2,714	(3,093)	12,992
Others	1,986	7,648	(6,812)	2,822
Total	**34,497**	**81,743**	**(75,690)**	**40,550**

(i) Salaries, bonuses, allowances and subsidies, retirement benefits and other social insurance are timely distributed and paid in accordance with the related laws and regulations and the Bank's policy.

(Amounts in millions of Renminbi, unless otherwise stated)

40. OTHER LIABILITIES (continued)

(1) Staff costs payable (continued)

(ii) Early retirement benefits

The Group's obligation in respect of the early retirement benefits at the end of each reporting period was calculated using the projected unit credit actuarial cost method.

The amounts recognised in consolidated income statement in respect of the early retirement benefits are as follows:

The Group and The Bank

	Year ended 31 December	
	2012	**2011**
Interest cost	336	410
Actuarial loss recognised in the year	748	1,737
Past service cost	921	567
Total	**2,005**	**2,714**

The principal assumptions used for the purpose of the actuarial valuations were as follows:

The Group and The Bank

	As at 31 December	
	2012	**2011**
Discount rate	3.19%	2.94%
Annual average medical expenses growth rate	8.00%	8.00%
Annual subsidies growth rate	8.00%	8.00%
Normal retirement age		
— Male	60	60
— Female	55	55

For the current and prior year, the Group has no default on the above staff costs payables.

(2) Amount payable to the MOF

Pursuant to the "Notice on Relevant Issues Concerning the Disposal of Non-performing Assets of Agricultural Bank of China" (Caijin [2008] No. 138) issued by the MOF, the MOF assigned the Bank to manage and dispose of the non-performing assets. The amount payable to the MOF represents proceeds collected from the transferred non-performing assets by the Group on behalf of the MOF.

(Amounts in millions of Renminbi, unless otherwise stated)

41. SHARE CAPITAL

The Bank was listed on the Shanghai Stock Exchange and The Stock Exchange of Hong Kong Limited on 15 July 2010 and 16 July 2010, respectively. During the year ended 31 December 2012, there was no change in its share capital.

	As at 1 January and 31 December 2012 and 2011	
	Number of shares (millions)	**Nominal value**
Registered, issued and fully paid:		
A shares of RMB1 each	294,055	294,055
H shares of RMB1 each	30,739	30,739
Total	**324,794**	**324,794**

Note: A share refers to the ordinary shares listed in mainland China. They are offered and traded in RMB. H share refers to the ordinary shares listed in Hong Kong. They are denominated in RMB, offered and traded in Hong Kong Dollar ("HKD").

As at 31 December 2012, 268,485 million A shares and none of the H share of the Bank with par value of RMB1 per share were subject to lock-up restriction respectively (31 December 2011: 273,599 million A shares and none of the H shares, respectively).

42. CAPITAL RESERVE

Capital reserve represents share premium of shares issued by the Bank in 2010. Share premium was recorded in the capital reserve after deducting direct issue costs which mainly included underwriting fees and professional fees.

43. INVESTMENT REVALUATION RESERVE

The Group

	2012		
	Gross amount	**Tax effect**	**Net effect**
As at 1 January	1,805	(481)	1,324
Fair value changes on available-for-sale financial assets	(3,004)	798	(2,206)
Reclassification adjustment to profit or loss upon disposal/impairment of available-for-sale financial assets	(25)	6	(19)
As at 31 December	**(1,224)**	**323**	**(901)**

(Amounts in millions of Renminbi, unless otherwise stated)

43. INVESTMENT REVALUATION RESERVE (continued)

The Group (continued)

	2011		
	Gross amount	**Tax effect**	**Net effect**
As at 1 January	(2,885)	714	(2,171)
Fair value changes on available-for-sale financial assets	4,142	(1,058)	3,084
Reclassification adjustment to profit or loss upon disposal/impairment of available-for-sale financial assets	548	(137)	411
As at 31 December	**1,805**	**(481)**	**1,324**

The Bank

	2012		
	Gross amount	**Tax effect**	**Net effect**
As at 1 January	1,800	(481)	1,319
Fair value changes on available-for-sale financial assets	(3,002)	798	(2,204)
Reclassification adjustment to profit or loss upon disposal/impairment of available-for-sale financial assets	(19)	6	(13)
As at 31 December	**(1,221)**	**323**	**(898)**

	2011		
	Gross amount	**Tax effect**	**Net effect**
As at 1 January	(2,885)	714	(2,171)
Fair value changes on available-for-sale financial assets	4,161	(1,064)	3,097
Reclassification adjustment to profit or loss upon disposal/impairment of available-for-sale financial assets	524	(131)	393
As at 31 December	**1,800**	**(481)**	**1,319**

44. SURPLUS RESERVE

Under the PRC Laws, the Bank and its domestic subsidiaries are required to transfer 10% of its net profit determined under the PRC GAAP to a non-distributable statutory surplus reserve. Appropriation to the statutory surplus reserve may cease when the balance of such reserve has reached 50% of the share capital. During the year, RMB14,487 million (2011: RMB12,267 million) and RMB14,473 million (2011: RMB12,246 million) were transferred to statutory surplus reserve by the Group and the Bank respectively. The Bank and its subsidiaries did not appropriate its profit to discretionary surplus reserve for the current year.

45. GENERAL RESERVE

The Bank is required to maintain a general reserve within equity, through the appropriation of profit determined under the PRC GAAP, which should not be less than 1% of the period end balance of its risk assets till the end of 30 June 2012. Starting from 1 July 2012 onwards, the Bank is required to maintain a general reserve at not less than 1.5% of its risk assets at the end of the reporting period.

Pursuant to the relevant regulatory requirements in the PRC, domestic subsidiaries of the Bank are required to appropriate certain amounts of their net profit as general reserve.

For the year ended 31 December 2012, the Group and the Bank transferred RMB10,495 million (2011: RMB6,519 million) and RMB10,483 million (2011: RMB6,404 million) to general reserve pursuant to the regulatory requirements in the PRC and overseas jurisdictions. The amount of general reserve of the Bank includes regulatory reserve appropriated by the Bank's overseas branches amounted to RMB78 million (2011: RMB22 million).

46. ACQUISITION OF A SUBSIDIARY

On 31 December 2012, the Bank acquired 51% of the issued share capital of Jiahe Life Insurance Co., Ltd. at a consideration of RMB2,592 million and renamed it as ABC Life Insurance Co., Ltd.. This acquisition has been accounted for using the acquisition method. The amount of goodwill arising as a result of the acquisition was RMB1,381 million. ABC Life Insurance is engaged in life insurance business, providing life, annuities, accident and health insurance products in China.

(Amounts in millions of Renminbi, unless otherwise stated)

46. ACQUISITION OF A SUBSIDIARY (continued)

(1) Assets acquired and liabilities recognised at the date of acquisition are as follows:

Cash and deposits with banks	9,627
Premiums receivable and reinsurance assets	3,721
Available-for-sale financial assets	4,932
Held-to-maturity investments	3,848
Other assets	1,768
Insurance liabilities	(12,855)
Policyholders' deposits	(4,460)
Reinsurance liabilities	(3,525)
Policyholders' dividends payable	(418)
Other liabilities	(264)
Net assets	**2,374**

(2) Goodwill arising on acquisition:

Consideration paid	2,592
Plus: non-controlling interests (49% in ABC Life Insurance)	1,163
Less: net assets acquired	2,374
Goodwill arising on acquisition	**1,381**

All consideration transferred is in cash.

Goodwill arose in the acquisition of ABC Life Insurance because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, and future market development of ABC Life Insurance. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

(3) Net cash inflow on acquisition of ABC Life Insurance

Cash consideration paid	(2,592)
Less: cash and cash equivalent balances acquired	2,740
	148

(Amounts in millions of Renminbi, unless otherwise stated)

47. CASH AND CASH EQUIVALENTS

For the purpose of the consolidated statement of cash flows, cash and cash equivalents include the following balances with an original maturity of less than three months:

The Group

	As at 31 December	
	2012	**2011**
Cash	93,096	79,811
Balances with central banks	158,332	129,378
Deposits with banks and other financial institutions	87,477	55,816
Placements with banks and other financial institutions	105,731	112,868
Financial assets held under resale agreements	508,300	264,234
Total	**952,936**	**642,107**

48. OPERATING SEGMENTS

Operating segments are identified on the basis of internal reports about the components of the Group that are regularly reviewed by the Board and relevant management committees, which are the chief decision makers of operation, for the purposes of allocating resources to segments and assessing their performance. The Group's chief operating decision makers review three different sets of financial information for resource allocation and performance assessment. They are financial information based on (i) geographical locations, (ii) business activities and (iii) County Area and Urban Area banking business.

The measurement of segment assets and liabilities and segment income and results is based on the Group's accounting policies. There is no difference between the segments accounting policies and the accounting policies for the preparation of the consolidated financial statements.

Transactions between segments are conducted under normal commercial terms and conditions. Internal charges and transfer pricing are determined with reference to market rates and have been reflected in the performance of each segment.

Segment revenues, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Geographical operating segments

The details of the geographical operating segments are as follows:

Head Office	
Yangtze River Delta:	including Shanghai, Jiangsu, Zhejiang, Ningbo
Pearl River Delta:	including Guangdong, Shenzhen, Fujian, Xiamen
Bohai Rim:	including Beijing, Tianjin, Hebei, Shandong, Qingdao
Central China:	including Shanxi, Hubei, Henan, Hunan, Jiangxi, Hainan, Anhui
Western China:	including Chongqing, Sichuan, Guizhou, Yunnan, Shanxi, Gansu, Qinghai, Ningxia, Xinjiang (including Xinjiang Bingtuan), Tibet, Inner Mongolia, Guangxi
Northeastern China:	including Liaoning, Heilongjiang, Jilin, Dalian, and
Overseas and Others:	including overseas branches and subsidiaries.

(Amounts in millions of Renminbi, unless otherwise stated)

48. OPERATING SEGMENTS (continued)

Geographical operating segments (continued)

For the year ended 31 December 2012

	Head office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	Northeastern China	Overseas and others	Segment total	Eliminations	Consolidated total
External interest income	163,171	104,202	61,401	71,536	52,098	91,362	16,231	6,062	566,063	—	566,063
External interest expense	(13,926)	(53,180)	(30,433)	(42,336)	(32,146)	(37,590)	(11,354)	(3,219)	(224,184)	—	(224,184)
Inter-segment interest (expense)/ income	(114,899)	22,294	12,263	27,296	23,566	21,693	7,787	—	—	—	—
Net interest income	34,346	73,316	43,231	56,496	43,518	75,465	12,664	2,843	341,879	—	341,879
Fee and commission income	6,961	18,102	11,620	11,178	11,628	15,536	2,699	849	78,573	—	78,573
Fee and commission expense	(180)	(871)	(627)	(678)	(509)	(706)	(155)	(3)	(3,729)	—	(3,729)
Net fee and commission income	6,781	17,231	10,993	10,500	11,119	14,830	2,544	846	74,844	—	74,844
Net trading gain	1,562	482	50	131	142	522	145	36	3,070	—	3,070
Net gain/(loss) on financial instruments designated as at fair value through profit or loss	442	(507)	(87)	(54)	(4)	(79)	—	(20)	(309)	—	(309)
Net (loss)/gain on investment securities	(37)	—	—	—	—	—	—	9	(28)	—	(28)
Other operating income	(143)	1,128	588	644	625	1,736	166	764	5,508	—	5,508
Operating income	42,951	91,650	54,775	67,717	55,400	92,474	15,519	4,478	424,964	—	424,964
Operating expenses	(8,833)	(35,031)	(22,089)	(28,348)	(30,456)	(43,317)	(13,534)	(1,194)	(182,802)	—	(182,802)
Impairment reversals/(losses) on assets	808	(17,738)	(7,154)	(11,394)	(3,741)	(10,835)	(3,704)	(477)	(54,235)	—	(54,235)
Profit/(loss) before tax	34,926	38,881	25,532	27,975	21,203	38,322	(1,719)	2,807	187,927	—	187,927
Income tax expense											(42,796)
Profit for the year											145,131
Depreciation and amortisation included in operating expenses	(1,580)	(2,813)	(1,739)	(2,284)	(2,587)	(3,308)	(1,128)	(57)	(15,496)	—	(15,496)
Capital expenditure	1,454	3,640	3,077	4,217	4,428	6,544	2,051	5,041	30,452	—	30,452
As at 31 December 2012											
Segment assets	3,324,094	2,817,620	1,701,935	2,238,833	1,897,828	2,670,956	618,675	282,469	15,552,410	(2,365,017)	13,187,393
Including: Interests in associates	—	—	—	—	108	—	—	—	108	—	108
Unallocated assets											56,949
Total assets											13,244,342
Segment liabilities	(2,674,506)	(2,792,418)	(1,688,309)	(2,226,780)	(1,885,574)	(2,654,775)	(619,235)	(275,974)	(14,817,571)	2,365,017	(12,452,554)
Unallocated liabilities											(40,434)
Total liabilities											(12,492,988)
Credit commitments	37,898	413,763	231,700	306,188	174,437	236,836	50,193	38,376	1,489,391	—	1,489,391

(Amounts in millions of Renminbi, unless otherwise stated)

48. OPERATING SEGMENTS (continued)

Geographical operating segments (continued)

For the year ended 31 December 2011

	Head office	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central China	Western China	Northeastern China	Overseas and others	Segment total	Eliminations	Consolidated total
External interest income	144,521	86,304	48,962	58,865	42,570	76,372	12,827	2,500	472,921	—	472,921
External interest expense	(13,026)	(38,728)	(21,720)	(30,353)	(23,768)	(28,125)	(8,312)	(1,690)	(165,722)	—	(165,722)
Inter-segment interest (expense)/ income	(85,390)	17,403	10,254	18,465	16,044	18,143	5,081	—	—	—	—
Net interest income	46,105	64,979	37,496	46,977	34,846	66,390	9,596	810	307,199	—	307,199
Fee and commission income	4,589	20,232	11,679	9,173	10,277	12,764	2,538	272	71,524	—	71,524
Fee and commission expense	(215)	(627)	(475)	(462)	(378)	(491)	(126)	—	(2,774)	—	(2,774)
Net fee and commission income	4,374	19,605	11,204	8,711	9,899	12,273	2,412	272	68,750	—	68,750
Net trading (loss)/gain	(915)	845	144	14	32	379	24	—	523	—	523
Net loss on financial instruments designated as at fair value through profit or loss	(556)	(1,310)	(71)	(123)	(2)	(204)	—	(41)	(2,307)	—	(2,307)
Net (loss)/gain on investment securities	(276)	—	—	—	94	—	—	(18)	(200)	—	(200)
Other operating income	1,301	926	428	602	543	709	199	1,083	5,791	—	5,791
Operating income	50,033	85,045	49,201	56,181	45,412	79,547	12,231	2,106	379,756	—	379,756
Operating expenses	(7,541)	(30,461)	(19,571)	(24,042)	(26,399)	(37,119)	(11,399)	(798)	(157,330)	—	(157,330)
Impairment reversals/(losses) on assets	170	(8,887)	(9,850)	(13,027)	(11,303)	(20,251)	(876)	(201)	(64,225)	—	(64,225)
Profit/(loss) before tax	42,662	45,697	19,780	19,112	7,710	22,177	(44)	1,107	158,201	—	158,201
Income tax expense											(36,245)
Profit for the year											121,956
Depreciation and amortisation included in operating expenses	(1,112)	(2,554)	(1,538)	(1,872)	(2,227)	(2,805)	(935)	(87)	(13,130)	—	(13,130)
Capital expenditure	1,317	4,065	2,119	3,627	4,254	6,166	1,904	833	24,285	—	24,285
As at 31 December 2011											
Segment assets	3,394,678	2,601,611	1,517,845	1,881,823	1,694,655	2,378,031	543,465	154,898	14,167,006	(2,535,127)	11,631,879
Including: Interests in associates	—	—	—	—	116	—	—	18	134	—	134
Unallocated assets											45,698
Total assets											11,677,577
Segment liabilities	(2,959,318)	(2,545,223)	(1,484,315)	(1,845,997)	(1,667,879)	(2,330,914)	(539,057)	(152,318)	(13,525,021)	2,535,127	(10,989,894)
Unallocated liabilities											(37,895)
Total liabilities											(11,027,789)
Credit commitments	43,153	452,774	248,205	358,714	215,809	286,097	52,006	31,086	1,687,844	—	1,687,844

48. OPERATING SEGMENTS (continued)

Business operating segments

The details of the business operating segments are as follows:

Corporate banking

The corporate banking segment provides financial products and services to corporations, government agencies and financial institutions. The range of products and services includes corporate loans and advances, trade finance, deposit products and other types of corporate intermediary services.

Personal banking

The personal banking segment provides financial products and services to individual customers. The range of products and services includes personal loans, deposit products, card business, personal wealth management services and other types of personal intermediary services.

Treasury operations

The Group's treasury operations conduct money market or repurchase transactions, debt instruments investments, and holding of derivative positions, for its own accounts or on behalf of customers.

Others and unallocated

Others and unallocated comprise equity investments and the remaining part of the Group that is not attributable to any of the above segments, and certain assets, liabilities, income or expenses of the Head Office that could not be allocated on a reasonable basis.

During the year, the Group changed the allocation basis for staff costs to better reflect the resources deployed for each segment and restated the comparative figures accordingly. For the year of 2011, profit before tax decreased by RMB16,118 million for corporate banking segment, and increased by RMB10,850 million and RMB5,268 million respectively for the segments of personal banking and treasury operations.

(Amounts in millions of Renminbi, unless otherwise stated)

48. OPERATING SEGMENTS (continued)

Business operating segments (continued)

For the year ended 31 December 2012

	Corporate banking	Personal banking	Treasury operations	Others and unallocated	Segment and consolidated total
External interest income	288,985	98,489	176,951	1,638	566,063
External interest expense	(75,055)	(128,340)	(19,764)	(1,025)	(224,184)
Inter-segment interest (expense)/income	(7,920)	145,811	(137,891)	—	—
Net interest income	206,010	115,960	19,296	613	341,879
Fee and commission income	43,115	34,638	—	820	78,573
Fee and commission expense	(1,291)	(2,436)	—	(2)	(3,729)
Net fee and commission income	41,824	32,202	—	818	74,844
Net trading gain	—	—	2,986	84	3,070
Net loss on financial instruments designated as at fair value through profit or loss	—	—	(279)	(30)	(309)
Net (loss)/gain on investment securities	—	—	(35)	7	(28)
Other operating income	1,688	1,236	1,505	1,079	5,508
Operating income	249,522	149,398	23,473	2,571	424,964
Operating expenses	(87,048)	(82,341)	(12,297)	(1,116)	(182,802)
Impairment (losses)/reversals on assets	(35,513)	(19,328)	1,028	(422)	(54,235)
Profit before tax	126,961	47,729	12,204	1,033	187,927
Income tax expense					(42,796)
Profit for the year					145,131
Depreciation and amortisation included in operating expenses	(3,876)	(9,159)	(2,416)	(45)	(15,496)
Capital expenditure	7,087	17,935	4,963	467	30,452
As at 31 December 2012					
Segment assets	4,609,227	1,853,401	6,661,908	62,857	13,187,393
Including: Interests in associates	—	—	—	108	108
Unallocated assets					56,949
Total assets					13,244,342
Segment liabilities	(4,584,002)	(6,759,389)	(1,056,194)	(52,969)	(12,452,554)
Unallocated liabilities					(40,434)
Total liabilities					(12,492,988)
Credit commitments	1,190,832	298,559	—	—	1,489,391

(Amounts in millions of Renminbi, unless otherwise stated)

48. OPERATING SEGMENTS (continued)

Business operating segments (continued)

For the year ended 31 December 2011

	Corporate banking	Personal banking	Treasury operations	Others and unallocated	Segment and consolidated total
External interest income	248,018	75,918	148,913	72	472,921
External interest expense	(58,200)	(92,259)	(15,045)	(218)	(165,722)
Inter-segment interest (expense)/income	(5,980)	117,950	(111,970)	—	—
Net interest income	183,838	101,609	21,898	(146)	307,199
Fee and commission income	34,850	36,385	—	289	71,524
Fee and commission expense	(1,197)	(1,411)	—	(166)	(2,774)
Net fee and commission income	33,653	34,974	—	123	68,750
Net trading gain	—	—	523	—	523
Net loss on financial instruments designated as at fair value through profit or loss	—	—	(2,187)	(120)	(2,307)
Net loss on investment securities	—	—	(176)	(24)	(200)
Other operating income	1,137	800	2,786	1,068	5,791
Operating income	218,628	137,383	22,844	901	379,756
Operating expenses	(72,791)	(72,387)	(11,459)	(693)	(157,330)
Impairment losses on assets	(45,062)	(17,280)	(1,747)	(136)	(64,225)
Profit before tax	100,775	47,716	9,638	72	158,201
Income tax expense					(36,245)
Profit for the year					121,956
Depreciation and amortisation included in operating expenses	(3,092)	(7,803)	(2,198)	(37)	(13,130)
Capital expenditure	5,440	14,538	4,307	—	24,285
As at 31 December 2011					
Segment assets	4,114,368	1,564,599	5,933,127	19,785	11,631,879
Including: Interests in associates	—	—	—	134	134
Unallocated assets					45,698
Total assets					11,677,577
Segment liabilities	(4,189,031)	(5,841,925)	(945,013)	(13,925)	(10,989,894)
Unallocated liabilities					(37,895)
Total liabilities					(11,027,789)
Credit commitments	1,406,720	281,124	—	—	1,687,844

48. OPERATING SEGMENTS (continued)

County Area and Urban Area segments

The Group's operating segments organised by County Area and Urban Area banking business are set out as follows:

County Area banking business

The Group's County Area banking business aims to provide a broad range of financial products and services to customers in County Area through its operating branches in the counties or county-level cities throughout the PRC. The products and services mainly comprise loans, deposits, bank cards and other types of intermediary services.

Urban Area banking business

Urban Area banking business comprises all other businesses not covered by County Area banking business, and overseas operations and subsidiaries.

(Amounts in millions of Renminbi, unless otherwise stated)

48. OPERATING SEGMENTS (continued)

County Area and Urban Area segments (continued)

For the year ended 31 December 2012

	County Area banking business	Urban Area banking business	Segment total	Eliminations	Consolidated total
External interest income	131,796	434,267	566,063	—	566,063
External interest expense	(77,192)	(146,992)	(224,184)	—	(224,184)
Inter-segment interest income/(expense)	83,695	(83,695)	—	—	—
Net interest income	138,299	203,580	341,879	—	341,879
Fee and commission income	28,131	50,442	78,573	—	78,573
Fee and commission expense	(1,397)	(2,332)	(3,729)	—	(3,729)
Net fee and commission income	26,734	48,110	74,844	—	74,844
Net trading gain	185	2,885	3,070	—	3,070
Net loss on financial instruments designated as at fair value through profit or loss	(190)	(119)	(309)	—	(309)
Net loss on investment securities	—	(28)	(28)	—	(28)
Other operating income	2,291	3,217	5,508	—	5,508
Operating income	167,319	257,645	424,964	—	424,964
Operating expenses	(77,516)	(105,286)	(182,802)	—	(182,802)
Impairment losses on assets	(26,087)	(28,148)	(54,235)	—	(54,235)
Profit before tax	63,716	124,211	187,927	—	187,927
Income tax expense					(42,796)
Profit for the year					145,131
Depreciation and amortisation included in operating expenses	(6,785)	(8,711)	(15,496)	—	(15,496)
Capital expenditure	7,884	22,568	30,452	—	30,452
As at 31 December 2012					
Segment assets	4,979,344	8,285,179	13,264,523	(77,130)	13,187,393
Including: Interests in associates	—	108	108	—	108
Unallocated assets					56,949
Total assets					13,244,342
Segment liabilities	(4,732,805)	(7,796,879)	(12,529,684)	77,130	(12,452,554)
Unallocated liabilities					(40,434)
Total liabilities					(12,492,988)
Credit commitments	480,218	1,009,173	—	—	1,489,391

(Amounts in millions of Renminbi, unless otherwise stated)

48. OPERATING SEGMENTS (continued)

County Area and Urban Area segments (continued)

For the year ended 31 December 2011

	County Area banking business	Urban Area banking business	Segment total	Eliminations	Consolidated total
External interest income	105,835	367,086	472,921	—	472,921
External interest expense	(56,656)	(109,066)	(165,722)	—	(165,722)
Inter-segment interest income/(expense)	70,899	(70,899)	—	—	—
Net interest income	120,078	187,121	307,199	—	307,199
Fee and commission income	25,973	45,551	71,524	—	71,524
Fee and commission expense	(953)	(1,821)	(2,774)	—	(2,774)
Net fee and commission income	25,020	43,730	68,750	—	68,750
Net trading gain	207	316	523	—	523
Net loss on financial instruments designated as at fair value through profit or loss	(468)	(1,839)	(2,307)	—	(2,307)
Net loss on investment securities	—	(200)	(200)	—	(200)
Other operating income	1,714	4,077	5,791	—	5,791
Operating income	146,551	233,205	379,756	—	379,756
Operating expenses	(67,815)	(89,515)	(157,330)	—	(157,330)
Impairment losses on assets	(23,018)	(41,207)	(64,225)	—	(64,225)
Profit before tax	55,718	102,483	158,201	—	158,201
Income tax expense					(36,245)
Profit for the year					121,956
Depreciation and amortisation included in operating expenses	(5,777)	(7,353)	(13,130)	—	(13,130)
Capital expenditure	6,121	18,164	24,285	—	24,285
As at 31 December 2011					
Segment assets	4,394,520	7,297,107	11,691,627	(59,748)	11,631,879
Including: Interests in associates	—	134	134	—	134
Unallocated assets					45,698
Total assets					11,677,577
Segment liabilities	(4,157,404)	(6,892,238)	(11,049,642)	59,748	(10,989,894)
Unallocated liabilities					(37,895)
Total liabilities					(11,027,789)
Credit commitments	356,666	1,331,178	1,687,844	—	1,687,844

(Amounts in millions of Renminbi, unless otherwise stated)

49. RELATED PARTY TRANSACTIONS

(1) The Group and the MOF

As at 31 December 2012, the MOF directly owned 39.21% (31 December 2011: 39.21%) of the share capital of the Bank.

The MOF is one of the ministries under the State Council, primarily responsible for state fiscal revenue and expenditures, and taxation policies.

The Group has the following balances and has entered into the following transactions with the MOF in its ordinary course of business:

	As at 31 December	
	2012	**2011**
Treasury bonds and special government bonds	661,550	589,784
Receivable from the MOF	392,883	474,083
Interest receivable from the MOF		
— treasury bonds and special government bonds	7,122	6,229
— receivable from the MOF	223	2,711
Amount payable to the MOF	1,610	3,057
Deposits from the MOF	10,835	9,310
Interest payable to the MOF	5	12
Other liability–redemption of certificate treasury bonds on behalf of the MOF	788	770

	Year ended 31 December	
	2012	**2011**
Interest income	35,561	36,852
Interest expense	(109)	(76)
Fee and commission income	7,740	3,009

Interest rate ranges during the years are as follows:

	Year ended 31 December	
	2012	**2011**
	%	**%**
Treasury bonds	1.77–6.34	1.44–6.34
Deposits from the MOF	0.01–1.21	0.10–1.49

Government bonds underwriting and redemption commitment are disclosed in note 50.

(Amounts in millions of Renminbi, unless otherwise stated)

49. RELATED PARTY TRANSACTIONS (continued)

(2) The Group and Huijin

Central Huijin Investment Ltd. ("Huijin") is a wholly-owned subsidiary of China Investment Corporation Limited, and is incorporated in Beijing, PRC. Huijin was established to hold certain equity investments as authorised by the State Council and does not engage in other commercial activities. Huijin exercises legal rights and obligations in the Bank on behalf of the PRC government.

As at 31 December 2012, Huijin directly owned 40.21% (31 December 2011: 40.12%) of the share capital of the Bank.

The Group has the following balances and has entered into the following transactions with Huijin in its ordinary course of business:

	As at 31 December	
	2012	**2011**
Debt securities	11,241	11,261
Interest receivable from Huijin	134	134
Deposits from Huijin	2,824	2
Non-principal guaranteed wealth management products issued by the Bank	4,162	10,028

	Year ended 31 December	
	2012	**2011**
Interest income	430	429
Interest expense	(63)	(47)

Interest rate ranges during the years are as follows:

	Year ended 31 December	
	2012	**2011**
	%	**%**
Debt securities	3.14–4.20	3.14–4.20
Deposits from Huijin	0.35–3.08	0.36–1.49

49. RELATED PARTY TRANSACTIONS (continued)

(3) The Bank and its subsidiaries

The Bank has entered into transactions with its subsidiaries, entities that it controls. Transactions are made at arm's length and in the ordinary course of business.

In the opinion of the directors, transactions between the Bank and its subsidiaries are not significant.

(4) The Bank and its associates

The Bank has entered into transactions with its associates, entities that it does not control but exercises significant influence. Transactions are made at arm's length and in the ordinary course of business.

In the opinion of the directors, transactions between the Bank and its associates are not significant.

(5) The Group and other government related entities

Other than disclosed above, a significant portion of the Group's banking transactions are entered into with government related entities. These transactions are entered into under normal commercial terms and conditions and mainly include provision of credit and guarantee, deposits, foreign exchange related services, agency services, purchase, sales and redemption of treasury bonds issued by the government.

Management considers that transactions with government related entities are activities conducted in the ordinary course of business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and those entities are government related. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are government related entities.

(Amounts in millions of Renminbi, unless otherwise stated)

49. RELATED PARTY TRANSACTIONS (continued)

(6) Key management personnel

Key management personnel are those persons who have the authority and responsibility to plan, direct and control the activities of the Group.

The Group enters into banking transactions with key management personnel in the normal course of business, and the Group had no material transactions with key management personnel.

The remuneration of directors and other members of key management during the year was as follows:

	Year ended 31 December	
	2012	**2011**
Salaries, bonuses and staff welfare	10.75	16.27

According to the regulations of the relevant authorities in the PRC, the key management personnel's final emoluments for current year have not been finalised. Management of the Group believes that difference in emoluments will not have significant impact on the consolidated financial statements of the Group as at 31 December 2012. The amount of actual remuneration will be announced when decided and approved by the Bank.

The above compensation for the year ended 31 December 2011 was not decided at the time when the 2011 annual report was released. Supplementary announcement on final compensation of RMB16.27 million was released by the Bank on 8 June 2012. The amount of remuneration of directors and other members of key management recognised in profit or loss for the year of 2011 was RMB8.96 million.

(Amounts in millions of Renminbi, unless otherwise stated)

49. RELATED PARTY TRANSACTIONS (continued)

(7) The Group and the Annuity Scheme

The Group has the following balances and has entered into the following transactions with the Annuity Scheme set up by the Bank:

	As at 31 December	
	2012	**2011**
Due to customers	16,207	171
Interest payable	30	—
Financial liabilities at fair value through profit or loss	—	1,102
Non-principal guaranteed wealth management products issued by the Bank	7,691	10,574

	Year ended 31 December	
	2012	**2011**
Interest expense	718	9
Net loss on financial instrument designated as at fair value through profit or loss	68	4

Interest rate range during the years are as follows:

	Year ended 31 December	
	2012 %	**2011** %
Due to customers	0.35–6.20	0.36–1.49

(Amounts in millions of Renminbi, unless otherwise stated)

50. CONTINGENT LIABILITIES AND COMMITMENTS

Legal proceedings

The Bank and its subsidiaries are involved as defendants in certain lawsuits arising from their normal business operations. As at 31 December 2012, provisions of RMB1,130 million (31 December 2011: RMB1,953 million) were made based on court judgments or the advice of legal counsel. Management of the Group believes that the final result of these lawsuits will not have a material impact on the financial position or operations of the Group.

Capital commitments

The Group

	As at 31 December	
	2012	**2011**
Contracted but not provided for	7,957	7,274
Authorised but not contracted for	1,148	1,510
Total	**9,105**	**8,784**

The Bank

	As at 31 December	
	2012	**2011**
Contracted but not provided for	7,956	7,274
Authorised but not contracted for	1,148	1,510
Total	**9,104**	**8,784**

Credit commitments

The Group

	As at 31 December	
	2012	**2011**
Loan commitments	563,941	796,913
— With an original maturity of less than 1 year	48,173	21,325
— With an original maturity of 1 year or above	515,768	775,588
Acceptances	397,311	346,048
Credit card commitments	199,555	161,187
Guarantee and letters of guarantee	181,872	223,389
Letters of credit	146,712	160,307
Total	**1,489,391**	**1,687,844**

(Amounts in millions of Renminbi, unless otherwise stated)

50. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Credit commitments (continued)

The Bank

	As at 31 December	
	2012	**2011**
Loan commitments	563,828	796,913
— With an original maturity of less than 1 year	48,152	21,325
— With an original maturity of 1 year or above	515,676	775,588
Acceptances	397,311	346,048
Credit card commitments	199,555	161,187
Guarantee and letters of guarantee	181,872	223,389
Letters of credit	146,712	160,307
Total	**1,489,278**	**1,687,844**

Credit commitments represent credit cards and general credit facility limits granted to customers. These general credit facilities may be drawn in the form of loans or through the issuance of letters of credit, guarantee and letters of guarantee or acceptances.

Credit risk weighted amounts for credit commitments

The Group

	As at 31 December	
	2012	**2011**
Credit commitments	710,782	821,838

The Bank

	As at 31 December	
	2012	**2011**
Credit commitments	710,736	821,838

The credit risk weighted amounts are the amounts calculated in accordance with the guidelines issued by the CBRC and are dependent on, among other factors, the creditworthiness of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100%.

(Amounts in millions of Renminbi, unless otherwise stated)

50. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Operating lease commitments

At the end of each reporting period, the Group and the Bank, as a lessee, had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

The Group

	As at 31 December	
	2012	**2011**
Within 1 year	3,107	2,134
1 to 2 years	2,700	1,899
2 to 3 years	2,295	1,684
Above 3 years	6,069	5,071
Total	**14,171**	**10,788**

The Bank

	As at 31 December	
	2012	**2011**
Within 1 year	3,019	2,114
1 to 2 years	2,638	1,895
2 to 3 years	2,254	1,679
Above 3 years	5,944	5,032
Total	**13,855**	**10,720**

Minimum lease payments recognised as operating expense during the year by the Group and the Bank were RMB3,395 million and RMB3,364 million respectively (2011: RMB2,777 million and RMB2,749 million respectively).

Finance lease commitments

At the end of each reporting period, the Group and the Bank, as lessors, have the following non-cancellable finance lease commitments:

	The Group		The Bank	
	31 December		31 December	
	2012	**2011**	**2012**	**2011**
Contractual amount	756	566	—	—

(Amounts in millions of Renminbi, unless otherwise stated)

50. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Collateral

Assets pledged

At the end of each reporting period, the carrying amounts of assets pledged as collateral under repurchase agreements are as follows.

The Group and The Bank

	As at 31 December	
	2012	**2011**
Bonds	7,416	83,645
Bills	214	7,496
Total	**7,630**	**91,141**

The carrying value of financial assets sold under repurchase agreements by the Group and the Bank as at 31 December 2012 was RMB7,631 million (31 December 2011: RMB92,079 million) as set out in note 37. All repurchase agreements are due within 12 months from the effective dates of these agreements.

In addition, the bonds and deposits with banks and other financial institutions pledged in accordance with regulatory requirements or as collateral of derivative transactions by the Group as at 31 December 2012 amounted to RMB6,210 million in total (31 December 2011: RMB8,393 million).

Collateral accepted

The Group received securities or cash as collateral in connection with purchase of assets under resale agreements. Part of the securities received can be resold or re-pledged. The fair value of these collateral as at 31 December 2012 was RMB4,720 million (31 December 2011: RMB13,281 million). Of this total, the fair value of collateral that the Group re-pledged but has an obligation to return, as at 31 December 2012, amounted to RMB81 million (31 December 2011: RMB7,471 million).

Government bonds underwriting and redemption commitment

The Group is entrusted by the MOF to underwrite certain treasury bonds. The investors of treasury bonds have a right to redeem the bonds at par at any time prior to maturity and the Group is committed to such redemption. The redemption price is calculated as the par value of the treasury bond plus unpaid interest in accordance with the early redemption arrangement.

As at 31 December 2012, the nominal value of treasury bonds the Group was obligated to redeem prior to maturity was RMB41,314 million (31 December 2011: RMB64,565 million). The original maturities of these bonds vary from 1 to 5 years. Management of the Group expects the amount of redemption before the maturity dates of those bonds will not be material.

The MOF will not provide funding for the early redemption of these bonds on a back-to-back basis, but will settle the principal and interest upon maturity.

51. TRANSFER OF FINANCIAL ASSETS

The Group entered into repurchase agreements with certain counterparties to sell debt securities classified as available-for-sale financial assets of carrying amount of RMB7,416 million and bills classified as loans and advances to customers of carrying amount of RMB214 million as at 31 December 2012, which subject to the simultaneous agreements with commitments to repurchase at specified future dates and prices. The proceeds from selling such debt securities and bills totalling RMB7,631 million are presented as "financial assets sold under repurchase agreements". As stipulated in the repurchase agreements, there is no transfer of the legal ownership of these debt securities and bills to the counterparties during the covered period. However, the Group is not allowed to sell or pledge these debt securities and bills during the covered period unless both parties mutually agree with such arrangement. Accordingly, the Group has determined that it retains substantially all the risks and rewards of these debt securities and bills and therefore has not derecognised from the consolidated financial statements but regarded as "collateral" for the secured lending from the counterparties. The counterparty's recourse is not limited to the transferred assets.

52. FINANCIAL RISK MANAGEMENT

Overview

The Group's primary risk management objective is to maintain risk within acceptable parameters to meet requirements from regulators, depositors and other stakeholders, and to maximise return for investors within an acceptable level of risk.

The Group has designed risk management policies and set up risk limits and controls to identify, analyse, monitor and report risks by means of relevant and up-to-date information systems. The Group regularly reviews its risk management policies and systems to address changes in markets, products and emerging best practices.

The most significant types of risk to which the Group is exposed are credit risk, market risk and liquidity risk. Market risk includes exchange rate risk, interest rate risk and other price risk.

Risk management framework

The Board of Directors is responsible for establishing overall risk appetite of the Group and reviewing and approving the risk management objectives and strategies.

Within this framework, the Group's senior management has overall responsibility for managing all aspects of risk, including implementing risk management strategies, initiatives and credit policies and approving internal rules, measures and procedures related to risk management. The Risk Management Department of the Group implements procedures for managing risk arising from financial instruments.

52. FINANCIAL RISK MANAGEMENT (continued)

52.1 Credit risk

Credit risk management

Credit risk represents the potential loss that may arise from a customer or counterparty's failure to meet its obligation. Credit risk can also arise from operational failures that result in an unauthorised or inappropriate advance, commitment or investment of funds. The Group's major credit risks arise from loans and advances, treasury operations and off-balance sheet related credit risk exposures.

The Group exercises standardised credit management procedures, including credit investigation and proposal submission, credit underwriting review, loan disbursement, post-lending monitoring and non-performing loans management. The Group enhances its credit risk management by strictly complying with its credit management procedures; strengthening customer investigation, credit rating, lending approval and post-lending monitoring measures; enhancing risk mitigation effect of loans through collateral; accelerating disposal process of non-performing loans and continuously upgrading the credit management system.

Apart from the credit risk exposures on credit-related assets and deposits with banks and other financial institutions, the credit risk arising from treasury business is managed by selecting counterparties with acceptable credit quality, balancing credit risk and return, referencing to both internal and external credit rating information where available and by applying appropriate limits. In addition, the Group also provides loan commitments and financial guarantee services to customers which may require the Group to make payments on behalf of customers upon their failure to perform under the terms of the contract. Risks arising from loan commitments and financial guarantees are similar to those associated with loans and advances. These transactions are, therefore, subject to the same risk management policies and procedures.

Impairment assessment

Key factors on impairment assessment

In accordance with the Guideline for Loan Credit Risk Classification issued by the CBRC, the Group sets up loan credit risk classification system and performs credit risk management based on loan classification of five categories. The Group classifies loans into the following five categories: normal, special mention, substandard, doubtful and loss. Loans classified as substandard, doubtful and loss are regarded as non-performing loans. The main factors considered in loan impairment assessment include probability of loan repayment and recoverability of principal and interest, which relate to borrowers' repayment ability, repayment record and intention, projected profitability, guarantees or collateral and legal responsibility of repayment. The allowance for impairment losses are assessed collectively or individually as appropriate.

52. FINANCIAL RISK MANAGEMENT (continued)

52.1 Credit risk (continued)

Impairment assessment (continued)

Key factors on impairment assessment (continued)

The five categories of loan classification in which the Group classifies its loans and advances to customers are set out below:

Normal	Borrowers can honour the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.
Special mention	Borrowers are able to service their loans currently, through their normal operational revenue, guarantee or pledged collateral, although repayment may be adversely affected by specific factors.
Substandard	Borrowers' ability to service their loans is in question and they cannot rely entirely on normal operational revenues to repay principal and interest. Losses may ensue even when collateral or guarantees are invoked.
Doubtful	Borrowers cannot repay principal and interest in full and significant losses will need to be recognised even when collateral or guarantees are invoked.
Loss	Only a small portion or none of the principal and interest can be recovered after taking all possible measures and exhausting all legal remedies.

For investment on debt securities, the Group makes impairment assessment individually or collectively as appropriate. For available-for-sale debt securities, which are measured at fair value, the Group recognises prolonged decline in fair value below its cost as allowance for impairment losses.

Maximum exposure to credit risk before taking into account any collateral held or other credit enhancements

The maximum exposure to credit risk represents the credit risk exposure to the Group at the end of each reporting period without taking into account any collateral held or other credit enhancements. The exposure to credit risk at the end of each reporting period mainly arises from credit and treasury operations as well as off-balance sheet items such as loan commitments, credit card commitment, acceptances, guarantee and letters of guarantee and letters of credit as these items also contain credit risk.

(Amounts in millions of Renminbi, unless otherwise stated)

52. FINANCIAL RISK MANAGEMENT (continued)

52.1 Credit risk (continued)

Maximum exposure to credit risk before taking into account any collateral held or other credit enhancements (continued)

A summary of the maximum exposure to credit risk is as follows:

The Group

	As at 31 December	
	2012	**2011**
Balances with central banks	2,520,015	2,407,271
Deposits with banks and other financial institutions	262,233	131,874
Placements with banks and other financial institutions	223,380	212,683
Financial assets held for trading	23,189	15,589
Financial assets designated as at fair value through profit or loss	154,582	52,463
Derivative financial assets	4,825	8,524
Financial assets held under resale agreements	814,620	529,440
Loans and advances to customers	6,153,411	5,410,086
Available-for-sale financial assets	752,158	650,013
Held-to-maturity investments	1,308,796	1,178,888
Debt securities classified as receivables	608,594	729,914
Other financial assets	72,624	54,128
Subtotal	12,898,427	11,380,873
Credit commitments	1,489,391	1,687,844
Total	**14,387,818**	**13,068,717**

The Bank

	As at 31 December	
	2012	**2011**
Balances with central banks	2,519,887	2,407,177
Deposits with banks and other financial institutions	255,005	130,848
Placements with banks and other financial institutions	225,140	212,683
Financial assets held for trading	23,189	15,573
Financial assets designated as at fair value through profit or loss	154,582	52,463
Derivative financial assets	4,825	8,524
Financial assets held under resale agreements	814,608	529,011
Loans and advances to customers	6,127,483	5,398,520
Available-for-sale financial assets	749,690	649,777
Held-to-maturity investments	1,304,949	1,178,888
Debt securities classified as receivables	606,725	729,914
Other financial assets	64,234	53,180
Subtotal	12,850,317	11,366,558
Credit commitments	1,489,278	1,687,844
Total	**14,339,595**	**13,054,402**

52. FINANCIAL RISK MANAGEMENT (continued)

52.1 Credit risk (continued)

Maximum exposure to credit risk before taking into account any collateral held or other credit enhancements (continued)

The Group implements specific policies and credit enhancement practices to mitigate credit risk exposure to an acceptable level. The most typical practice is by obtaining guarantee deposits, collateral or guarantees. The amount and type of acceptable collateral are determined through credit risk evaluations on the borrowers. The Group implements guidelines on the acceptability of specific classes of collateral and evaluation parameters.

The main types of collateral obtained are as follows:

- mortgage loans to personal customers are generally collateralised by mortgages over residential properties;

- other personal lending and corporate loans and advances are mainly collateralised by charges over land and properties or other assets of the borrowers; and

- financial assets held under resale agreements transactions are mainly collateralised by bonds, bills, loans and advances, and securities.

The Group monitors the market value of collateral periodically and requests for additional collateral in accordance with the underlying agreement when necessary.

(Amounts in millions of Renminbi, unless otherwise stated)

52. FINANCIAL RISK MANAGEMENT (continued)

52.1 Credit risk (continued)

Loans and advances to customers

The following tables set out the concentration of risk for loans and advances to customers by geographical area and industry.

(1) *The composition of loans and advances to customers by geographical area is analysed as follows:*

The Group

	As at 31 December 2012		As at 31 December 2011	
	Amount	**% of total**	**Amount**	**% of total**
Corporate loans and advances				
Head Office	105,962	2.3	91,053	2.2
Yangtze River Delta	1,183,265	25.0	1,092,186	26.0
Pearl River Delta	590,500	12.5	537,361	12.8
Bohai Rim	901,959	19.1	801,292	19.0
Central China	555,394	11.8	498,781	11.8
Western China	1,017,652	21.5	914,762	21.7
Northeastern China	180,858	3.8	156,680	3.7
Overseas and Others	189,847	4.0	117,013	2.8
Subtotal	4,725,437	100.0	4,209,128	100.0
Personal loans and advances				
Head Office	122	—	136	—
Yangtze River Delta	480,535	28.0	418,841	29.3
Pearl River Delta	320,387	18.8	271,354	19.0
Bohai Rim	229,884	13.5	195,257	13.6
Central China	228,436	13.4	179,834	12.6
Western China	385,225	22.6	315,971	22.1
Northeastern China	62,734	3.7	49,127	3.4
Overseas and Others	639	—	280	—
Subtotal	1,707,962	100.0	1,430,800	100.0
Gross loans and advances to customers	**6,433,399**		**5,639,928**	

(Amounts in millions of Renminbi, unless otherwise stated)

52. FINANCIAL RISK MANAGEMENT (continued)

52.1 Credit risk (continued)

Loans and advances to customers (continued)

(1) *The composition of loans and advances to customers by geographical area is analysed as follows:* (continued)

The Bank

	As at 31 December 2012		As at 31 December 2011	
	Amount	**% of total**	**Amount**	**% of total**
Corporate loans and advances				
Head Office	105,962	2.3	91,053	2.2
Yangtze River Delta	1,183,265	25.2	1,092,186	26.0
Pearl River Delta	590,500	12.6	537,361	12.8
Bohai Rim	901,959	19.2	801,292	19.1
Central China	555,394	11.8	498,781	11.9
Western China	1,017,652	21.6	914,762	21.8
Northeastern China	180,858	3.8	156,680	3.7
Overseas and Others	164,012	3.5	105,720	2.5
Subtotal	4,699,602	100.0	4,197,835	100.0
Personal loans and advances				
Head Office	122	—	136	—
Yangtze River Delta	480,535	28.0	418,841	29.3
Pearl River Delta	320,387	18.8	271,354	19.0
Bohai Rim	229,884	13.5	195,257	13.6
Central China	228,436	13.4	179,834	12.6
Western China	385,225	22.6	315,971	22.1
Northeastern China	62,734	3.7	49,127	3.4
Overseas and Others	139	—	—	—
Subtotal	1,707,462	100.0	1,430,520	100.0
Gross loans and advances to customers	**6,407,064**		**5,628,355**	

(Amounts in millions of Renminbi, unless otherwise stated)

52. FINANCIAL RISK MANAGEMENT (continued)

52.1 Credit risk (continued)

Loans and advances to customers (continued)

(2) *The composition of loans and advances to customers by industry is analysed as follows:*

The Group

	As at 31 December 2012		As at 31 December 2011	
	Amount	**% of total**	**Amount**	**% of total**
Corporate loans and advances				
Manufacturing	1,405,790	29.7	1,242,941	29.5
Transportation, logistics and postal services	522,934	11.1	462,256	11.0
Retail and wholesale	516,768	10.9	431,299	10.3
Production and supply of power, heat, gas and water	480,225	10.2	452,842	10.8
Real estate	475,016	10.1	505,607	12.0
Leasing and commercial services	291,282	6.2	258,510	6.1
Construction	205,781	4.4	170,963	4.1
Water, environment and public utilities management	200,482	4.2	182,072	4.3
Mining	194,097	4.1	152,972	3.6
Information transmission, software and information technology services	20,849	0.4	14,667	0.3
Others	412,213	8.7	334,999	8.0
Subtotal	4,725,437	100.0	4,209,128	100.0
Personal loans and advances				
Residential mortgage	1,051,035	61.5	891,513	62.3
Personal business	200,715	11.8	157,604	11.0
Personal consumption	170,506	10.0	144,150	10.1
Credit card overdraft	149,138	8.7	100,350	7.0
Others	136,568	8.0	137,183	9.6
Subtotal	1,707,962	100.0	1,430,800	100.0
Gross loans and advances to customers	**6,433,399**		**5,639,928**	

(Amounts in millions of Renminbi, unless otherwise stated)

52. FINANCIAL RISK MANAGEMENT (continued)

52.1 Credit risk (continued)

Loans and advances to customers (continued)

(2) *The composition of loans and advances to customers by industry is analysed as follows:* (continued)

The Bank

	As at 31 December 2012		As at 31 December 2011	
	Amount	**% of total**	**Amount**	**% of total**
Corporate loans and advances				
Manufacturing	1,382,254	29.4	1,231,701	29.3
Transportation, logistics and postal services	522,934	11.1	462,256	11.0
Retail and wholesale	516,139	11.0	431,299	10.4
Production and supply of power, heat, gas and water	480,160	10.2	452,842	10.8
Real estate	475,016	10.1	505,607	12.0
Leasing and commercial services	291,269	6.2	258,506	6.2
Construction	205,776	4.4	170,961	4.1
Water, environment and public utilities management	200,473	4.3	182,068	4.3
Mining	194,097	4.1	152,950	3.6
Information transmission, software and information technology services	20,849	0.4	14,667	0.3
Others	410,635	8.8	334,978	8.0
Subtotal	4,699,602	100.0	4,197,835	100.0
Personal loans and advances				
Residential mortgage	1,051,027	61.6	891,502	62.3
Personal business	200,397	11.7	157,424	11.0
Personal consumption	170,365	10.0	144,131	10.1
Credit card overdraft	149,138	8.7	100,350	7.0
Others	136,535	8.0	137,113	9.6
Subtotal	1,707,462	100.0	1,430,520	100.0
Gross loans and advances to customers	**6,407,064**		**5,628,355**	

(Amounts in millions of Renminbi, unless otherwise stated)

52. FINANCIAL RISK MANAGEMENT (continued)

52.1 Credit risk (continued)

Loans and advances to customers (continued)

(3) *The composition of loans and advances to customers by contractual maturity and security type is analysed as follows:*

The Group

	As at 31 December 2012			
	Less than 1 year	1 to 5 years	Over 5 years	Total
Unsecured loans	622,696	290,615	479,296	1,392,607
Guaranteed loans	758,074	251,402	282,276	1,291,752
Loans secured by mortgage	1,034,543	590,671	1,373,445	2,998,659
Pledged loans	363,059	48,239	339,083	750,381
Total	**2,778,372**	**1,180,927**	**2,474,100**	**6,433,399**

	As at 31 December 2011			
	Less than 1 year	1 to 5 years	Over 5 years	Total
Unsecured loans	482,637	306,852	411,460	1,200,949
Guaranteed loans	703,752	272,300	286,351	1,262,403
Loans secured by mortgage	856,491	583,310	1,128,611	2,568,412
Pledged loans	267,710	46,275	294,179	608,164
Total	**2,310,590**	**1,208,737**	**2,120,601**	**5,639,928**

The Bank

	As at 31 December 2012			
	Less than 1 year	1 to 5 years	Over 5 years	Total
Unsecured loans	622,333	290,292	479,296	1,391,921
Guaranteed loans	756,160	251,401	282,276	1,289,837
Loans secured by mortgage	1,028,310	574,359	1,372,421	2,975,090
Pledged loans	362,895	48,238	339,083	750,216
Total	**2,769,698**	**1,164,290**	**2,473,076**	**6,407,064**

	As at 31 December 2011			
	Less than 1 year	1 to 5 years	Over 5 years	Total
Unsecured loans	482,635	306,852	411,460	1,200,947
Guaranteed loans	703,647	272,300	286,351	1,262,298
Loans secured by mortgage	853,939	575,121	1,127,935	2,556,995
Pledged loans	267,662	46,274	294,179	608,115
Total	**2,307,883**	**1,200,547**	**2,119,925**	**5,628,355**

(Amounts in millions of Renminbi, unless otherwise stated)

52. FINANCIAL RISK MANAGEMENT (continued)

52.1 Credit risk (continued)

Loans and advances to customers (continued)

(4) *Past due loans*

The Group

	As at 31 December 2012				
	Up to 90 days	91–360 days	361 days to 3 years	Over 3 years	Total
Unsecured loans	5,564	1,635	1,208	559	8,966
Guaranteed loans	6,595	5,881	5,134	7,653	25,263
Loans secured by mortgage	18,374	11,092	6,926	13,319	49,711
Pledged loans	160	684	687	2,434	3,965
Total	**30,693**	**19,292**	**13,955**	**23,965**	**87,905**

The Bank

	As at 31 December 2012				
	Up to 90 days	91–360 days	361 days to 3 years	Over 3 years	Total
Unsecured loans	5,564	1,635	1,208	559	8,966
Guaranteed loans	6,595	5,881	5,134	7,653	25,263
Loans secured by mortgage	18,374	11,092	6,926	13,319	49,711
Pledged loans	152	672	672	2,433	3,929
Total	**30,685**	**19,280**	**13,940**	**23,964**	**87,869**

The Group and The Bank

	As at 31 December 2011				
	Up to 90 days	91–360 days	361 days to 3 years	Over 3 years	Total
Unsecured loans	3,633	1,040	524	877	6,074
Guaranteed loans	4,141	2,398	5,246	7,892	19,677
Loans secured by mortgage	17,715	4,215	8,206	13,637	43,773
Pledged loans	287	109	2,362	1,181	3,939
Total	**25,776**	**7,762**	**16,338**	**23,587**	**73,463**

Note: When either loan principal or interest was past due by one day in any period, the whole loan is classified as past due loan.

(Amounts in millions of Renminbi, unless otherwise stated)

52. FINANCIAL RISK MANAGEMENT (continued)

52.1 Credit risk (continued)

Loans and advances to customers (continued)

(5) Credit quality of loans and advances to customers

The Group

	Notes	As at 31 December 2012	2011
Neither past due nor impaired	(i)	6,322,649	5,530,486
Past due but not impaired	(ii)	24,902	22,084
Impaired	(iii)	85,848	87,358
Subtotal		6,433,399	5,639,928
Allowance for impairment losses of loans and advances to customers		(279,988)	(229,842)
Loans and advances to customers		**6,153,411**	**5,410,086**

The Bank

	Notes	As at 31 December 2012	2011
Neither past due nor impaired	(i)	6,296,350	5,518,913
Past due but not impaired	(ii)	24,866	22,084
Impaired	(iii)	85,848	87,358
Subtotal		6,407,064	5,628,355
Allowance for impairment losses of loans and advances to customers		(279,581)	(229,835)
Loans and advances to customers		**6,127,483**	**5,398,520**

(i) Loans and advances neither past due nor impaired

The Group

	As at 31 December 2012		
	Normal	**Special mention**	**Total**
Corporate loans and advances	4,384,031	268,360	4,652,391
Personal loans and advances	1,667,073	3,185	1,670,258
Total	**6,051,104**	**271,545**	**6,322,649**

	As at 31 December 2011		
	Normal	**Special mention**	**Total**
Corporate loans and advances	3,845,910	286,594	4,132,504
Personal loans and advances	1,391,146	6,836	1,397,982
Total	**5,237,056**	**293,430**	**5,530,486**

(Amounts in millions of Renminbi, unless otherwise stated)

52. FINANCIAL RISK MANAGEMENT (continued)

52.1 Credit risk (continued)

Loans and advances to customers (continued)

(5) *Credit quality of loans and advances to customers* (continued)

(i) Loans and advances neither past due nor impaired (continued)

The Bank

	As at 31 December 2012		
	Normal	Special mention	Total
Corporate loans and advances	4,358,198	268,358	4,626,556
Personal loans and advances	1,666,609	3,185	1,669,794
Total	**6,024,807**	**271,543**	**6,296,350**

	As at 31 December 2011		
	Normal	Special mention	Total
Corporate loans and advances	3,834,616	286,594	4,121,210
Personal loans and advances	1,390,868	6,835	1,397,703
Total	**5,225,484**	**293,429**	**5,518,913**

(ii) Loans and advances past due but not impaired

The Group

	As at 31 December 2012				
	Up to 30 days	31–60 days	61–90 days	Total	Fair value of collateral
Corporate loans and advances	158	1	—	159	94
Personal loans and advances	18,389	4,211	2,143	24,743	28,897
Total	**18,547**	**4,212**	**2,143**	**24,902**	**28,991**

The Bank

	As at 31 December 2012				
	Up to 30 days	31–60 days	61–90 days	Total	Fair value of collateral
Corporate loans and advances	158	1	—	159	94
Personal loans and advances	18,353	4,211	2,143	24,707	28,846
Total	**18,511**	**4,212**	**2,143**	**24,866**	**28,940**

(Amounts in millions of Renminbi, unless otherwise stated)

52. FINANCIAL RISK MANAGEMENT (continued)

52.1 Credit risk (continued)

Loans and advances to customers (continued)

(5) *Credit quality of loans and advances to customers* (continued)

(ii) Loans and advances past due but not impaired (continued)

The Group and The Bank

	As at 31 December 2011				
	Up to 30 days	31–60 days	61–90 days	Total	Fair value of collateral
Corporate loans and advances	429	9	5	443	288
Personal loans and advances	16,830	3,394	1,417	21,641	27,398
Total	**17,259**	**3,403**	**1,422**	**22,084**	**27,686**

(iii) Impaired loans and advances

The Group and The Bank

	As at 31 December 2012		
	Book value	Impairment allowance	Net book value
Individually assessed	72,886	(52,242)	20,644
Collectively assessed	12,962	(8,462)	4,500
Total	**85,848**	**(60,704)**	**25,144**

	As at 31 December 2011		
	Book value	Impairment allowance	Net book value
Individually assessed	76,182	(54,024)	22,158
Collectively assessed	11,176	(6,325)	4,851
Total	**87,358**	**(60,349)**	**27,009**

Including:

	As at 31 December	
	2012	2011
Individually assessed and impaired	72,886	76,182
Individually assessed and impaired as a percentage of gross loans and advances of the group	1.13%	1.35%
Fair value of collateral	6,350	6,272

(Amounts in millions of Renminbi, unless otherwise stated)

52. FINANCIAL RISK MANAGEMENT (continued)

52.1 Credit risk (continued)

Loans and advances to customers (continued)

(5) *Credit quality of loans and advances to customers* (continued)

(iii) Impaired loans and advances (continued)

The composition of impaired loans and advances to customers by geographical area is analysed as follows:

The Group and The Bank

	As at 31 December 2012		As at 31 December 2011	
	Amount	% of total	Amount	% of total
Head Office	2	—	2	—
Yangtze River Delta	19,734	23.0	14,880	17.0
Pearl River Delta	11,645	13.6	11,860	13.6
Bohai Rim	14,397	16.8	14,808	17.0
Central China	11,865	13.8	13,109	15.0
Western China	23,431	27.3	28,284	32.3
Northeastern China	4,564	5.3	4,195	4.8
Overseas and Others	210	0.2	220	0.3
Total	**85,848**	**100.0**	**87,358**	**100.0**

(6) *Rescheduled loans and advances*

Rescheduled loans and advances arise from renegotiating and deferring repayment terms and the reschedule policies are subject to continuous monitoring. Rescheduled loans and advances as at 31 December 2012 amounted to RMB11,592 million (31 December 2011: RMB9,934 million).

(7) *Assets foreclosed under credit enhancement arrangement*

Such assets are included in other assets.

(Amounts in millions of Renminbi, unless otherwise stated)

52. FINANCIAL RISK MANAGEMENT (continued)

52.1 Credit risk (continued)

Debt securities and bills

Credit quality of debt securities and bills

The Group

		As at 31 December	
	Notes	**2012**	**2011**
Neither past due nor impaired	(1)	2,843,872	2,620,914
Impaired	(2)	3,875	6,579
Subtotal		2,847,747	2,627,493
Individually assessed		(51)	(112)
Collectively assessed		(377)	(710)
Allowance for impairment losses		(428)	(822)
Debt securities and bills		**2,847,319**	**2,626,671**

The Bank

		As at 31 December	
	Notes	**2012**	**2011**
Neither past due nor impaired	(1)	2,835,688	2,620,662
Impaired	(2)	3,875	6,579
Subtotal		2,839,563	2,627,241
Individually assessed		(51)	(112)
Collectively assessed		(377)	(710)
Allowance for impairment losses		(428)	(822)
Debt securities and bills		**2,839,135**	**2,626,419**

(Amounts in millions of Renminbi, unless otherwise stated)

52. FINANCIAL RISK MANAGEMENT (continued)

52.1 Credit risk (continued)

Debt securities and bills (continued)

Credit quality of debt securities and bills (continued)

(1) Debt securities and bills neither past due nor impaired

The Group

	As at 31 December 2012				
	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity investments	Debt securities classified as receivables	Total
Government bonds	4,165	194,742	552,192	—	751,099
Public sector and quasi-government bonds	13,181	335,265	656,045	66,316	1,070,807
Financial institution bonds	9,146	35,333	21,340	23,420	89,239
Corporate bonds	26,243	182,996	79,439	20,918	309,596
Special government bond	—	—	—	93,300	93,300
Receivable from the MOF	—	—	—	392,883	392,883
Certificate treasury bonds and savings treasury bonds	—	—	—	10,707	10,707
Interests in trust products	72,053	—	—	—	72,053
Other debt instruments	48,766	—	—	—	48,766
Others	4,217	—	—	1,205	5,422
Total	**177,771**	**748,336**	**1,309,016**	**608,749**	**2,843,872**

(Amounts in millions of Renminbi, unless otherwise stated)

52. FINANCIAL RISK MANAGEMENT (continued)

52.1 Credit risk (continued)

Debt securities and bills (continued)

Credit quality of debt securities and bills (continued)

(1) Debt securities and bills neither past due nor impaired (continued)

The Group (continued)

	As at 31 December 2011				
	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity investments	Debt securities classified as receivables	Total
Government bonds	3,741	316,514	585,132	—	905,387
Public sector and quasi-government bonds	6,400	192,830	478,314	20,000	697,544
Financial institution bonds	8,785	17,466	24,451	26,314	77,016
Corporate bonds	12,337	117,592	90,400	10,319	230,648
Special government bond	—	—	—	93,300	93,300
Receivable from the MOF	—	—	—	474,083	474,083
Certificate treasury bonds and savings treasury bonds	—	—	—	24,796	24,796
PBOC's designated bills	—	—	—	52,325	52,325
PBOC's special bills	—	—	—	29,222	29,222
Interests in trust products	36,593	—	—	—	36,593
Total	**67,856**	**644,402**	**1,178,297**	**730,359**	**2,620,914**

(Amounts in millions of Renminbi, unless otherwise stated)

52. FINANCIAL RISK MANAGEMENT (continued)

52.1 Credit risk (continued)

Debt securities and bills (continued)

Credit quality of debt securities and bills (continued)

(1) Debt securities and bills neither past due nor impaired (continued)

The Bank

	As at 31 December 2012				
	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity investments	Debt securities classified as receivables	Total
Government bonds	4,165	194,566	552,192	—	750,923
Public sector and quasi-government bonds	13,181	334,855	655,884	66,316	1,070,236
Financial institution bonds	9,146	34,663	19,404	23,414	86,627
Corporate bonds	26,243	181,784	77,689	20,512	306,228
Special government bond	—	—	—	93,300	93,300
Receivable from the MOF	—	—	—	392,883	392,883
Certificate treasury bonds and savings treasury bonds	—	—	—	10,455	10,455
Interests in trust products	72,053	—	—	—	72,053
Other debt instruments	48,766	—	—	—	48,766
Others	4,217	—	—	—	4,217
Total	**177,771**	**745,868**	**1,305,169**	**606,880**	**2,835,688**

(Amounts in millions of Renminbi, unless otherwise stated)

52. FINANCIAL RISK MANAGEMENT (continued)

52.1 Credit risk (continued)

Debt securities and bills (continued)

Credit quality of debt securities and bills (continued)

(1) Debt securities and bills neither past due nor impaired (continued)

The Bank (continued)

	As at 31 December 2011				
	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity investments	Debt securities classified as receivables	Total
Government bonds	3,741	316,337	585,132	—	905,210
Public sector and quasi-government bonds	6,400	192,830	478,314	20,000	697,544
Financial institution bonds	8,785	17,466	24,451	26,314	77,016
Corporate bonds	12,321	117,533	90,400	10,319	230,573
Special government bond	—	—	—	93,300	93,300
Receivable from the MOF	—	—	—	474,083	474,083
Certificate treasury bonds and savings treasury bonds	—	—	—	24,796	24,796
PBOC's designated bills	—	—	—	52,325	52,325
PBOC's special bills	—	—	—	29,222	29,222
Interests in trust products	36,593	—	—	—	36,593
Total	**67,840**	**644,166**	**1,178,297**	**730,359**	**2,620,662**

(Amounts in millions of Renminbi, unless otherwise stated)

52. FINANCIAL RISK MANAGEMENT (continued)

52.1 Credit risk (continued)

Debt securities and bills (continued)

Credit quality of debt securities and bills (continued)

(2) Impaired debt securities

The Group and The Bank

	As at 31 December 2012			
	Available-for-sale financial assets	**Held-to-maturity investments**	**Debt securities classified as receivables**	**Total**
Public sector and quasi-government bonds	156	—	—	156
Financial institution bonds	3,648	—	—	3,648
Corporate bonds	18	—	53	71
Gross amount	3,822	—	53	3,875
Allowance for impairment losses	—	—	(51)	(51)
Impaired debt securities	**3,822**	**—**	**2**	**3,824**

	As at 31 December 2011			
	Available-for-sale financial assets	**Held-to-maturity investments**	**Debt securities classified as receivables**	**Total**
Public sector and quasi-government bonds	474	138	—	612
Financial institution bonds	5,119	773	—	5,892
Corporate bonds	18	—	57	75
Gross amount	5,611	911	57	6,579
Allowance for impairment losses	—	(61)	(51)	(112)
Impaired debt securities	**5,611**	**850**	**6**	**6,467**

(Amounts in millions of Renminbi, unless otherwise stated)

52. FINANCIAL RISK MANAGEMENT (continued)

52.1 Credit risk (continued)

Debt securities and bills (continued)

Credit quality of debt securities and bills (continued)

(3) Debt securities and bills analysed by credit rating:

The Group

	As at 31 December 2012					
	Unrated	AAA	AA	A	Below A	Total
Government bonds	745,353	4,834	912	—	—	751,099
Public sector and quasi-government bonds	1,009,567	54,367	6,906	—	—	1,070,840
Financial institution bonds	30,205	31,199	11,782	16,524	3,030	92,740
Corporate bonds	30,893	248,930	21,732	2,370	5,584	309,509
Special government bond	93,300	—	—	—	—	93,300
Receivable from the MOF	392,883	—	—	—	—	392,883
Certificate treasury bonds and savings treasury bonds	10,707	—	—	—	—	10,707
Interests in trust products	72,053	—	—	—	—	72,053
Other debt instruments	48,766	—	—	—	—	48,766
Others	5,422	—	—	—	—	5,422
Total	**2,439,149**	**339,330**	**41,332**	**18,894**	**8,614**	**2,847,319**

	As at 31 December 2011					
	Unrated	AAA	AA	A	Below A	Total
Government bonds	901,954	2,612	537	284	—	905,387
Public sector and quasi-government bonds	647,334	49,831	454	254	194	698,067
Financial institution bonds	34,436	28,148	9,756	8,480	1,530	82,350
Corporate bonds	18,879	183,478	24,422	2,098	1,671	230,548
Special government bond	93,300	—	—	—	—	93,300
Receivable from the MOF	474,083	—	—	—	—	474,083
Certificate treasury bonds and savings treasury bonds	24,796	—	—	—	—	24,796
PBOC's designated bills	52,325	—	—	—	—	52,325
PBOC's special bills	29,222	—	—	—	—	29,222
Interests in trust products	36,593	—	—	—	—	36,593
Total	**2,312,922**	**264,069**	**35,169**	**11,116**	**3,395**	**2,626,671**

(Amounts in millions of Renminbi, unless otherwise stated)

52. FINANCIAL RISK MANAGEMENT (continued)

52.1 Credit risk (continued)

Debt securities and bills (continued)

Credit quality of debt securities and bills (continued)

(3) Debt securities and bills analysed by credit rating: (continued)

The Bank

	As at 31 December 2012					
	Unrated	**AAA**	**AA**	**A**	**Below A**	**Total**
Government bonds	745,353	4,658	912	—	—	750,923
Public sector and quasi-government bonds	1,008,996	54,367	6,906	—	—	1,070,269
Financial institution bonds	30,205	30,486	9,884	16,524	3,030	90,129
Corporate bonds	30,473	247,387	20,355	2,341	5,584	306,140
Special government bond	93,300	—	—	—	—	93,300
Receivable from the MOF	392,883	—	—	—	—	392,883
Certificate treasury bonds and savings treasury bonds	10,455	—	—	—	—	10,455
Interests in trust products	72,053	—	—	—	—	72,053
Other debt instruments	48,766	—	—	—	—	48,766
Others	4,217	—	—	—	—	4,217
Total	**2,436,701**	**336,898**	**38,057**	**18,865**	**8,614**	**2,839,135**

	As at 31 December 2011					
	Unrated	**AAA**	**AA**	**A**	**Below A**	**Total**
Government bonds	901,954	2,435	537	284	—	905,210
Public sector and quasi-government bonds	647,334	49,831	454	254	194	698,067
Financial institution bonds	34,436	28,148	9,756	8,480	1,530	82,350
Corporate bonds	18,879	183,403	24,422	2,098	1,671	230,473
Special government bond	93,300	—	—	—	—	93,300
Receivable from the MOF	474,083	—	—	—	—	474,083
Certificate treasury bonds and savings treasury bonds	24,796	—	—	—	—	24,796
PBOC's designated bills	52,325	—	—	—	—	52,325
PBOC's special bills	29,222	—	—	—	—	29,222
Interests in trust products	36,593	—	—	—	—	36,593
Total	**2,312,922**	**263,817**	**35,169**	**11,116**	**3,395**	**2,626,419**

52. FINANCIAL RISK MANAGEMENT (continued)

52.2 Liquidity risk

Liquidity risk is the risk that funds will not be available to meet liabilities as they fall due. This may arise from cash flows or maturity mismatches of assets and liabilities.

The Group's Assets and Liabilities Management Department manages its liquidity risk via:

- optimising assets and liabilities structure;
- maintaining stability of deposit base;
- making advance projection on future cash flows and evaluating the appropriate current assets position; and
- maintaining an efficient internal fund transfer mechanism within the Group.

(Amounts in millions of Renminbi, unless otherwise stated)

52. FINANCIAL RISK MANAGEMENT (continued)

52.2 Liquidity risk (continued)

Analysis of the remaining maturity of the financial assets and liabilities

The tables below summarise the maturity analysis of financial assets and liabilities by remaining contractual maturities at the end of each reporting period:

The Group

	As at 31 December 2012							
	Past due/ undated	On demand	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
Cash and balances with central banks	2,219,183	251,428	—	—	—	142,500	—	2,613,111
Deposits with banks and other financial institutions	—	75,112	19,780	69,357	93,045	4,439	500	262,233
Placements with banks and other financial institutions	—	—	99,096	39,461	76,023	8,800	—	223,380
Financial assets held for trading	—	—	699	1,043	17,028	3,751	668	23,189
Financial assets designated as at fair value through profit or loss	784	—	10,107	27,955	75,813	40,673	34	155,366
Derivative financial assets	—	—	888	698	1,638	1,094	507	4,825
Financial assets held under resale agreements	—	—	466,032	161,914	186,674	—	—	814,620
Loans and advances to customers	14,764	—	390,879	583,663	2,077,560	1,266,564	1,819,981	6,153,411
Available-for-sale financial assets	3,348	—	20,292	29,756	196,179	336,182	169,746	755,503
Held-to-maturity investments	—	—	5,515	20,796	163,072	673,451	445,962	1,308,796
Debt securities classified as receivables	407	—	8	2,320	5,548	92,422	507,889	608,594
Other financial assets	3,286	6,948	13,156	19,939	27,046	703	1,546	72,624
Total financial assets	2,241,772	333,488	1,026,452	956,902	2,919,626	2,570,579	2,946,833	12,995,652
Borrowings from central bank	—	(30)	—	—	(36)	—	—	(66)
Deposits from banks and other financial institutions	—	(276,288)	(46,395)	(23,648)	(70,227)	(367,744)	(50)	(784,352)
Placements from banks and other financial institutions	—	—	(36,291)	(52,383)	(60,868)	(95)	(84)	(149,721)
Financial liabilities held for trading	—	(3,674)	—	—	—	—	—	(3,674)
Financial liabilities designated as at fair value through profit or loss	—	—	(62,066)	(41,329)	(42,071)	(9,570)	(35)	(155,071)
Derivative financial liabilities	—	—	(574)	(744)	(1,260)	(1,916)	(1,020)	(5,514)
Financial assets sold under repurchase agreements	—	—	(5,467)	(2,020)	(144)	—	—	(7,631)
Due to customers	—	(6,564,313)	(434,470)	(843,281)	(1,966,871)	(1,053,998)	(2)	(10,862,935)
Bonds issued	—	—	—	—	—	(25,993)	(124,892)	(150,885)
Other financial liabilities	—	(86,282)	(21,989)	(41,117)	(65,005)	(58,216)	(275)	(272,884)
Total financial liabilities	—	(6,930,587)	(607,252)	(1,004,522)	(2,206,482)	(1,517,532)	(126,358)	(12,392,733)
Net position	**2,241,772**	**(6,597,099)**	**419,200**	**(47,620)**	**713,144**	**1,053,047**	**2,820,475**	**602,919**

(Amounts in millions of Renminbi, unless otherwise stated)

52. FINANCIAL RISK MANAGEMENT (continued)

52.2 Liquidity risk (continued)

Analysis of the remaining maturity of the financial assets and liabilities (continued)

The Group (continued)

	As at 31 December 2011							
	Past due/ undated	On demand	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
Cash and balances with central banks	2,103,893	209,189	—	—	154,000	20,000	—	2,487,082
Deposits with banks and other financial institutions	—	49,023	10,771	33,413	38,667	—	—	131,874
Placements with banks and other financial institutions	—	—	103,636	30,769	78,178	100	—	212,683
Financial assets held for trading	—	—	4,350	2,448	6,559	1,714	518	15,589
Financial assets designated as at fair value through profit or loss	—	177	669	6,147	24,184	21,220	66	52,463
Derivative financial assets	—	—	854	840	1,185	1,699	3,946	8,524
Financial assets held under resale agreements	—	—	288,648	144,191	96,453	148	—	529,440
Loans and advances to customers	10,117	—	314,886	490,424	1,809,789	1,203,642	1,581,228	5,410,086
Available-for-sale financial assets	1,188	—	8,657	34,967	193,928	268,421	144,037	651,198
Held-to-maturity investments	—	—	5,354	50,865	256,899	525,528	340,242	1,178,888
Debt securities classified as receivables	6	—	46	376	96,384	22,266	610,836	729,914
Other financial assets	777	3,296	12,250	15,580	20,979	359	887	54,128
Total financial assets	2,115,981	261,685	750,121	810,020	2,777,205	2,065,097	2,681,760	11,461,869
Borrowings from central bank	—	(30)	—	—	(20)	—	—	(50)
Deposits from banks and other financial institutions	—	(243,071)	(35,104)	(27,902)	(138,748)	(169,557)	(899)	(615,281)
Placements from banks and other financial institutions	—	—	(54,742)	(33,733)	(20,325)	(49)	(106)	(108,955)
Financial liabilities held for trading	—	(353)	—	—	—	—	—	(353)
Financial liabilities designated as at fair value through profit or loss	—	—	(122,123)	(38,935)	(40,228)	(6,704)	(67)	(208,057)
Derivative financial liabilities	—	—	(758)	(725)	(1,001)	(2,121)	(5,679)	(10,284)
Financial assets sold under repurchase agreements	—	—	(66,643)	(23,587)	(1,849)	—	—	(92,079)
Due to customers	—	(6,040,089)	(335,622)	(780,828)	(1,718,502)	(744,676)	(2,309)	(9,622,026)
Bonds issued	—	—	—	—	—	(24,988)	(74,934)	(99,922)
Other financial liabilities	—	(49,866)	(33,544)	(23,118)	(44,139)	(31,101)	(9)	(181,777)
Total financial liabilities	—	(6,333,409)	(648,536)	(928,828)	(1,964,812)	(979,196)	(84,003)	(10,938,784)
Net position	**2,115,981**	**(6,071,724)**	**101,585**	**(118,808)**	**812,393**	**1,085,901**	**2,597,757**	**523,085**

(Amounts in millions of Renminbi, unless otherwise stated)

52. FINANCIAL RISK MANAGEMENT (continued)

52.2 Liquidity risk (continued)

Analysis of the remaining maturity of the financial assets and liabilities (continued)

The Bank

	As at 31 December 2012							
	Past due/ undated	On demand	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
Cash and balances with central banks	2,219,101	251,308	—	—	—	142,500	—	2,612,909
Deposits with banks and other financial institutions	—	74,023	19,780	69,357	91,845	—	—	255,005
Placements with banks and other financial institutions	—	—	100,856	39,461	76,023	8,800	—	225,140
Financial assets held for trading	—	—	699	1,043	17,028	3,751	668	23,189
Financial assets designated as at fair value through profit or loss	—	—	10,107	27,955	75,813	40,673	34	154,582
Derivative financial assets	—	—	888	698	1,638	1,094	507	4,825
Financial assets held under resale agreements	—	—	466,020	161,914	186,674	—	—	814,608
Loans and advances to customers	14,728	—	390,548	582,398	2,071,173	1,249,745	1,818,891	6,127,483
Available-for-sale financial assets	391	—	20,292	29,741	195,533	334,786	169,335	750,078
Held-to-maturity investments	—	—	5,515	20,796	162,473	672,580	443,585	1,304,949
Debt securities classified as receivables	2	—	8	2,320	5,514	90,992	507,889	606,725
Other financial assets	1,861	3,320	13,139	19,216	26,210	179	309	64,234
Total financial assets	2,236,083	328,651	1,027,852	954,899	2,909,924	2,545,100	2,941,218	12,943,727
Borrowings from central bank	—	(30)	—	—	—	—	—	(30)
Deposits from banks and other financial institutions	—	(280,682)	(46,395)	(23,648)	(70,227)	(367,744)	(50)	(788,746)
Placements from banks and other financial institutions	—	—	(34,627)	(48,883)	(43,618)	(95)	(84)	(127,307)
Financial liabilities held for trading	—	(3,674)	—	—	—	—	—	(3,674)
Financial liabilities designated as at fair value through profit or loss	—	—	(62,066)	(41,329)	(42,071)	(9,570)	(35)	(155,071)
Derivative financial liabilities	—	—	(566)	(744)	(1,260)	(1,916)	(1,020)	(5,506)
Financial assets sold under repurchase agreements	—	—	(5,467)	(2,020)	(144)	—	—	(7,631)
Due to customers	—	(6,563,997)	(434,445)	(843,226)	(1,966,736)	(1,053,981)	(2)	(10,862,387)
Bonds issued	—	—	—	—	—	(25,993)	(124,892)	(150,885)
Other financial liabilities	—	(67,572)	(21,162)	(40,508)	(59,483)	(57,707)	(244)	(246,676)
Total financial liabilities	—	(6,915,955)	(604,728)	(1,000,358)	(2,183,539)	(1,517,006)	(126,327)	(12,347,913)
Net position	**2,236,083**	**(6,587,304)**	**423,124**	**(45,459)**	**726,385**	**1,028,094**	**2,814,891**	**595,814**

(Amounts in millions of Renminbi, unless otherwise stated)

52. FINANCIAL RISK MANAGEMENT (continued)

52.2 Liquidity risk (continued)

Analysis of the remaining maturity of the financial assets and liabilities (continued)

The Bank (continued)

	As at 31 December 2011							
	Past due/ undated	On demand	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
Cash and balances with central banks	2,103,812	208,669	—	—	154,000	20,000	—	2,486,481
Deposits with banks and other financial institutions	—	47,997	10,771	33,413	38,667	—	—	130,848
Placements with banks and other financial institutions	—	—	103,636	30,769	78,178	100	—	212,683
Financial assets held for trading	—	—	4,334	2,448	6,559	1,714	518	15,573
Financial assets designated as at fair value through profit or loss	—	177	669	6,147	24,184	21,220	66	52,463
Derivative financial assets	—	—	854	840	1,185	1,699	3,946	8,524
Financial assets held under resale agreements	—	—	288,648	144,191	96,172	—	—	529,011
Loans and advances to customers	10,117	—	314,774	490,095	1,807,537	1,195,445	1,580,552	5,398,520
Available-for-sale financial assets	350	—	8,657	34,967	193,859	268,267	144,024	650,124
Held-to-maturity investments	—	—	5,354	50,865	256,899	525,528	340,242	1,178,888
Debt securities classified as receivables	6	—	46	376	96,384	22,266	610,836	729,914
Other financial assets	769	3,390	12,252	15,553	20,711	318	187	53,180
Total financial assets	2,115,054	260,233	749,995	809,664	2,774,335	2,056,557	2,680,371	11,446,209
Borrowings from central bank	—	(30)	—	—	—	—	—	(30)
Deposits from banks and other financial institutions	—	(244,849)	(35,104)	(27,902)	(138,748)	(169,557)	(899)	(617,059)
Placements from banks and other financial institutions	—	—	(54,742)	(32,625)	(10,925)	(49)	(106)	(98,447)
Financial liabilities held for trading	—	(353)	—	—	—	—	—	(353)
Financial liabilities designated as at fair value through profit or loss	—	—	(122,123)	(38,935)	(40,228)	(6,704)	(67)	(208,057)
Derivative financial liabilities	—	—	(758)	(725)	(1,001)	(2,121)	(5,679)	(10,284)
Financial assets sold under repurchase agreements	—	—	(66,643)	(23,587)	(1,849)	—	—	(92,079)
Due to customers	—	(6,039,884)	(335,606)	(780,787)	(1,718,390)	(744,668)	(2,309)	(9,621,644)
Bonds issued	—	—	—	—	—	(24,988)	(74,934)	(99,922)
Other financial liabilities	—	(49,030)	(33,520)	(23,111)	(44,140)	(30,177)	(9)	(179,987)
Total financial liabilities	—	(6,334,146)	(648,496)	(927,672)	(1,955,281)	(978,264)	(84,003)	(10,927,862)
Net position	**2,115,054**	**(6,073,913)**	**101,499**	**(118,008)**	**819,054**	**1,078,293**	**2,596,368**	**518,347**

(Amounts in millions of Renminbi, unless otherwise stated)

52. FINANCIAL RISK MANAGEMENT (continued)

52.2 Liquidity risk (continued)

Analysis of the undiscounted contractual cash flows

The tables below present the cash flows of non-derivative financial assets and financial liabilities by remaining contractual maturities at the end of each reporting period:

The Group

	As at 31 December 2012							
	Past due/ undated	On demand	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
Non-derivative financial assets								
Cash and balances with central banks	2,219,183	251,428	—	1,068	5,040	150,626	—	2,627,345
Deposits with banks and other financial institutions	—	75,112	19,999	70,506	95,518	4,443	500	266,078
Placements with banks and other financial institutions	—	—	99,925	40,425	77,920	9,232	—	227,502
Financial assets held for trading	—	—	702	1,077	17,724	4,284	778	24,565
Financial assets designated as at fair value through profit or loss	784	—	10,293	29,052	79,384	42,668	36	162,217
Financial assets held under resale agreements	—	—	467,465	164,394	190,703	—	—	822,562
Loans and advances to customers	58,549	—	418,614	631,973	2,304,231	1,711,667	3,099,541	8,224,575
Available-for-sale financial assets	3,348	—	21,094	33,935	217,929	398,587	201,210	876,103
Held-to-maturity investments	—	—	6,960	29,862	200,914	808,016	543,188	1,588,940
Debt securities classified as receivables	407	—	320	2,499	25,103	164,947	600,405	793,681
Other financial assets	2,495	6,948	283	688	462	518	1,237	12,631
Total non-derivative financial assets	2,284,766	333,488	1,045,655	1,005,479	3,214,928	3,294,988	4,446,895	15,626,199
Non-derivative financial liabilities								
Borrowings from central bank	—	(30)	—	—	(36)	—	—	(66)
Deposits from banks and other financial institutions	—	(276,325)	(48,792)	(31,556)	(78,855)	(421,854)	(64)	(857,446)
Placements from banks and other financial institutions	—	—	(36,362)	(52,579)	(61,279)	(99)	(88)	(150,407)
Financial liabilities held for trading	—	(3,674)	—	—	—	—	—	(3,674)
Financial liabilities designated as at fair value through profit or loss	—	—	(62,245)	(41,885)	(43,965)	(10,162)	(47)	(158,304)
Financial assets sold under repurchase agreements	—	—	(5,480)	(2,039)	(145)	—	—	(7,664)
Due to customers	—	(6,570,860)	(445,428)	(870,454)	(2,051,682)	(1,304,297)	(2)	(11,242,723)
Bonds issued	—	—	—	—	(7,042)	(51,509)	(150,075)	(208,626)
Other financial liabilities	—	(81,805)	(9,329)	(14,595)	(19,895)	(14,089)	(288)	(140,001)
Total non-derivative financial liabilities	—	(6,932,694)	(607,636)	(1,013,108)	(2,262,899)	(1,802,010)	(150,564)	(12,768,911)
Net position	**2,284,766**	**(6,599,206)**	**438,019**	**(7,629)**	**952,029**	**1,492,978**	**4,296,331**	**2,857,288**

(Amounts in millions of Renminbi, unless otherwise stated)

52. FINANCIAL RISK MANAGEMENT (continued)

52.2 Liquidity risk (continued)

Analysis of the undiscounted contractual cash flows (continued)

The Group (continued)

	As at 31 December 2011							
	Past due/ undated	On demand	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
Non-derivative financial assets								
Cash and balances with central banks	2,103,893	209,189	—	1,005	162,346	22,893	—	2,499,326
Deposits with banks and other financial institutions	—	49,024	10,946	34,053	39,661	209	—	133,893
Placements with banks and other financial institutions	—	—	104,044	31,603	80,769	113	—	216,529
Financial assets held for trading	—	—	4,362	2,494	6,834	1,924	599	16,213
Financial assets designated as at fair value through profit or loss	—	177	805	6,587	25,587	22,595	67	55,818
Financial assets held under resale agreements	—	—	290,158	146,667	99,216	162	—	536,203
Loans and advances to customers	46,990	—	335,838	526,850	1,995,819	1,571,150	2,625,062	7,101,709
Available-for-sale financial assets	1,188	—	9,244	37,596	211,330	314,819	168,126	742,303
Held-to-maturity investments	—	—	6,536	56,002	290,875	624,375	420,610	1,398,398
Debt securities classified as receivables	6	—	46	4,289	116,162	104,313	736,405	961,221
Other financial assets	229	3,294	1,003	154	871	1,471	772	7,794
Total non-derivative financial assets	2,152,306	261,684	762,982	847,300	3,029,470	2,664,024	3,951,641	13,669,407
Non-derivative financial liabilities								
Borrowings from central bank	—	(30)	—	—	(20)	—	—	(50)
Deposits from banks and other financial institutions	—	(243,213)	(35,725)	(31,098)	(146,469)	(199,518)	(903)	(656,926)
Placements from banks and other financial institutions	—	—	(54,838)	(33,894)	(20,888)	(54)	(111)	(109,785)
Financial liabilities held for trading	—	(353)	—	—	—	—	—	(353)
Financial liabilities designated as at fair value through profit or loss	—	—	(123,009)	(39,474)	(42,181)	(7,152)	(91)	(211,907)
Financial assets sold under repurchase agreements	—	—	(66,791)	(24,233)	(1,937)	—	—	(92,961)
Due to customers	—	(6,044,558)	(350,416)	(812,082)	(1,793,661)	(853,509)	(2,615)	(9,856,841)
Bonds issued	—	—	—	—	(4,499)	(41,279)	(91,170)	(136,948)
Other financial liabilities	—	(46,301)	(25,294)	(3,736)	(9,968)	(5,541)	—	(90,840)
Total non-derivative financial liabilities	—	(6,334,455)	(656,073)	(944,517)	(2,019,623)	(1,107,053)	(94,890)	(11,156,611)
Net position	**2,152,306**	**(6,072,771)**	**106,909**	**(97,217)**	**1,009,847**	**1,556,971**	**3,856,751**	**2,512,796**

(Amounts in millions of Renminbi, unless otherwise stated)

52. FINANCIAL RISK MANAGEMENT (continued)

52.2 Liquidity risk (continued)

Analysis of the undiscounted contractual cash flows (continued)

The Bank

	As at 31 December 2012							
	Past due/ undated	On demand	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
Non-derivative financial assets								
Cash and balances with central banks	2,219,101	251,308	—	1,068	5,040	150,626	—	2,627,143
Deposits with banks and other financial institutions	—	74,023	19,999	70,491	94,039	—	—	258,552
Placements with banks and other financial institutions	—	—	101,686	40,425	77,920	9,232	—	229,263
Financial assets held for trading	—	—	702	1,077	17,724	4,283	778	24,564
Financial assets designated as at fair value through profit or loss	—	—	10,293	29,052	79,384	42,668	36	161,433
Financial assets held under resale agreements	—	—	467,453	164,394	190,703	—	—	822,550
Loans and advances to customers	58,512	—	418,212	630,343	2,296,580	1,692,127	3,098,336	8,194,110
Available-for-sale financial assets	391	—	21,094	33,905	217,183	396,957	200,715	870,245
Held-to-maturity investments	—	—	6,960	29,853	200,118	806,516	540,390	1,583,837
Debt securities classified as receivables	2	—	320	2,499	25,068	163,485	600,405	791,779
Other financial assets	1,070	3,320	283	—	5	2	—	4,680
Total non-derivative financial assets	2,279,076	328,651	1,047,002	1,003,107	3,203,764	3,265,896	4,440,660	15,568,156
Non-derivative financial liabilities								
Borrowings from central bank	—	(30)	—	—	—	—	—	(30)
Deposits from banks and other financial institutions	—	(280,719)	(48,792)	(31,568)	(78,864)	(421,854)	(64)	(861,861)
Placements from banks and other financial institutions	—	—	(34,699)	(49,079)	(44,029)	(99)	(88)	(127,994)
Financial liabilities held for trading	—	(3,674)	—	—	—	—	—	(3,674)
Financial liabilities designated as at fair value through profit or loss	—	—	(62,245)	(41,885)	(43,965)	(10,162)	(47)	(158,304)
Financial assets sold under repurchase agreements	—	—	(5,480)	(2,039)	(145)	—	—	(7,664)
Due to customers	—	(6,570,544)	(445,402)	(870,397)	(2,051,543)	(1,304,278)	(2)	(11,242,166)
Bonds issued	—	—	—	—	(7,042)	(51,509)	(150,075)	(208,626)
Other financial liabilities	—	(63,097)	(8,503)	(13,975)	(14,366)	(13,580)	(257)	(113,778)
Total non-derivative financial liabilities	—	(6,918,064)	(605,121)	(1,008,943)	(2,239,954)	(1,801,482)	(150,533)	(12,724,097)
Net position	**2,279,076**	**(6,589,413)**	**441,881**	**(5,836)**	**963,810**	**1,464,414**	**4,290,127**	**2,844,059**

(Amounts in millions of Renminbi, unless otherwise stated)

52. FINANCIAL RISK MANAGEMENT (continued)

52.2 Liquidity risk (continued)

Analysis of the undiscounted contractual cash flows (continued)

The Bank (continued)

	As at 31 December 2011							
	Past due/ undated	On demand	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
Non-derivative financial assets								
Cash and balances with central banks	2,103,812	208,669	—	1,005	162,346	22,893	—	2,498,725
Deposits with banks and other financial institutions	—	47,998	10,946	34,050	39,661	209	—	132,864
Placements with banks and other financial institutions	—	—	104,044	31,603	80,769	113	—	216,529
Financial assets held for trading	—	—	4,346	2,494	6,834	1,924	599	16,197
Financial assets designated as at fair value through profit or loss	—	177	805	6,587	25,587	22,595	67	55,818
Financial assets held under resale agreements	—	—	290,158	146,667	98,916	—	—	535,741
Loans and advances to customers	46,990	—	335,717	526,496	1,993,535	1,562,952	2,624,386	7,090,076
Available-for-sale financial assets	350	—	9,244	37,596	211,261	314,665	168,113	741,229
Held-to-maturity investments	—	—	6,536	56,002	290,875	624,375	420,610	1,398,398
Debt securities classified as receivables	6	—	46	4,289	116,162	104,313	736,405	961,221
Other financial assets	221	3,388	980	—	—	—	—	4,589
Total non-derivative financial assets	2,151,379	260,232	762,822	846,789	3,025,946	2,654,039	3,950,180	13,651,387
Non-derivative financial liabilities								
Borrowings from central bank	—	(30)	—	—	—	—	—	(30)
Deposits from banks and other financial institutions	—	(244,989)	(35,725)	(31,098)	(146,469)	(199,518)	(903)	(658,702)
Placements from banks and other financial institutions	—	—	(54,838)	(32,775)	(11,058)	(54)	(111)	(98,836)
Financial liabilities held for trading	—	(353)	—	—	—	—	—	(353)
Financial liabilities designated as at fair value through profit or loss	—	—	(123,009)	(39,474)	(42,181)	(7,152)	(91)	(211,907)
Financial assets sold under repurchase agreements	—	—	(66,791)	(24,233)	(1,937)	—	—	(92,961)
Due to customers	—	(6,044,348)	(350,401)	(812,041)	(1,793,550)	(853,501)	(2,615)	(9,856,456)
Bonds issued	—	—	—	—	(4,499)	(41,279)	(91,170)	(136,948)
Other financial liabilities	—	(45,469)	(25,294)	(3,729)	(9,968)	(4,617)	—	(89,077)
Total non-derivative financial liabilities	—	(6,335,189)	(656,058)	(943,350)	(2,009,662)	(1,106,121)	(94,890)	(11,145,270)
Net position	**2,151,379**	**(6,074,957)**	**106,764**	**(96,561)**	**1,016,284**	**1,547,918**	**3,855,290**	**2,506,117**

Assets available to meet all of the liabilities and outstanding loan commitments include cash and balances with central banks, deposits with banks and other financial institutions, placements with banks and other financial institutions, and financial assets at fair value through profit or loss. In the normal course of business, the majority of customer deposits repayable on demand are expected to be revolved. In addition, the Group is able to sell the available-for-sale financial assets to repay the matured liabilities if necessary.

(Amounts in millions of Renminbi, unless otherwise stated)

52. FINANCIAL RISK MANAGEMENT (continued)

52.2 Liquidity risk (continued)

Derivative cash flows

Derivatives settled on a net basis

The Group's derivatives that will be settled on a net basis are mainly interest rate related. The tables below set forth the undiscounted contractual cash flows of the Group's net derivative positions by remaining contractual maturities:

The Group and The Bank

	As at 31 December 2012					
	Less than 1 month	**1–3 months**	**3–12 months**	**1–5 years**	**Over 5 years**	**Total**
Interest rate derivatives	4	(84)	(229)	(356)	(27)	(692)

	As at 31 December 2011					
	Less than 1 month	**1–3 months**	**3–12 months**	**1–5 years**	**Over 5 years**	**Total**
Interest rate derivatives	(19)	(77)	(157)	(520)	(68)	(841)

Derivatives settled on a gross basis

The Group's derivatives that will be settled on a gross basis are mainly currency rate and precious metal related. The tables below set forth the undiscounted contractual cash flows of the Group's gross derivative positions by remaining contractual maturities:

The Group

	As at 31 December 2012					
	Less than 1 month	**1–3 months**	**3–12 months**	**1–5 years**	**Over 5 years**	**Total**
Currency rate and precious metal derivatives						
— Cash inflow	99,558	104,039	209,501	11,453	255	424,806
— Cash outflow	(99,351)	(103,781)	(209,391)	(11,905)	(511)	(424,939)
Total	**207**	**258**	**110**	**(452)**	**(256)**	**(133)**

(Amounts in millions of Renminbi, unless otherwise stated)

52. FINANCIAL RISK MANAGEMENT (continued)

52.2 Liquidity risk (continued)

Derivative cash flows (continued)

Derivatives settled on a gross basis (continued)

The Bank

	As at 31 December 2012					
	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
Currency rate and precious metal derivatives						
— Cash inflow	99,343	104,039	209,501	11,453	255	424,591
— Cash outflow	(99,127)	(103,781)	(209,391)	(11,905)	(511)	(424,715)
Total	**216**	**258**	**110**	**(452)**	**(256)**	**(124)**

The Group and The Bank

	As at 31 December 2011					
	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
Currency rate and precious metal derivatives						
— Cash inflow	86,715	72,409	133,381	10,257	1,605	304,367
— Cash outflow	(86,654)	(72,385)	(133,290)	(10,873)	(2,326)	(305,528)
Total	**61**	**24**	**91**	**(616)**	**(721)**	**(1,161)**

Credit commitments

The tables below set forth the amounts of the off-balance sheet items by remaining maturity.

The Group

	As at 31 December 2012			
	Less than 1 year	1–5 years	Over 5 years	Total
Loan commitments	352,290	59,204	152,447	563,941
Credit card commitments	199,555	—	—	199,555
Guarantee and letters of guarantee	66,525	73,122	42,225	181,872
Acceptances	397,311	—	—	397,311
Letters of credit	142,429	3,823	460	146,712
Total	**1,158,110**	**136,149**	**195,132**	**1,489,391**

(Amounts in millions of Renminbi, unless otherwise stated)

52. FINANCIAL RISK MANAGEMENT (continued)

52.2 Liquidity risk (continued)

Credit commitments (continued)

The Bank

	As at 31 December 2012			
	Less than 1 year	1–5 years	Over 5 years	Total
Loan commitments	352,201	59,180	152,447	563,828
Credit card commitments	199,555	—	—	199,555
Guarantee and letters of guarantee	66,525	73,122	42,225	181,872
Acceptances	397,311	—	—	397,311
Letters of credit	142,429	3,823	460	146,712
Total	**1,158,021**	**136,125**	**195,132**	**1,489,278**

The Group and The Bank

	As at 31 December 2011			
	Less than 1 year	1–5 years	Over 5 years	Total
Loan commitments	625,340	34,376	137,197	796,913
Credit card commitments	161,187	—	—	161,187
Guarantee and letters of guarantee	109,665	61,000	52,724	223,389
Acceptances	346,048	—	—	346,048
Letters of credit	154,692	5,615	—	160,307
Total	**1,396,932**	**100,991**	**189,921**	**1,687,844**

52.3 Market risk

Market risk is the risk of loss, in respect of the Group's on and off-balance sheet activities, arising from movements in market rates including interest rates, foreign exchange rates, and commodity and equity prices. Market risk arises from both the Group's proprietary and customer driven business.

The Group is primarily exposed to interest rate risk arising from corporate and personal banking and other price risk arising from treasury operations. Interest rate risk is inherent in many of the Group's businesses and largely arises from mismatches between the repricing dates of interest-generating assets and interest-bearing liabilities.

The Group's foreign currency risk is the risk of loss in respect of its foreign currency exposures, arising from transactions taken on foreign currency denominated assets and liabilities, which results from movements in foreign currency exchange rates.

The Group considers the market risk arising from commodity and equity prices in respect of its trading and investment portfolios are immaterial.

Foreign currency risk

The Group conducts its businesses mainly in RMB, with certain transactions denominated in USD, HKD and, to a lesser extent, other currencies. Transactions in foreign currencies mainly arise from the Group's treasury exposures and foreign currency operations.

(Amounts in millions of Renminbi, unless otherwise stated)

52. FINANCIAL RISK MANAGEMENT (continued)

52.3 Market risk (continued)

Foreign currency risk (continued)

The breakdown of all financial assets and liabilities at the end of each reporting period analysed by currency is as follows:

The Group

	As at 31 December 2012				
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Other currencies (RMB equivalent)	Total
Cash and balances with central banks	2,600,641	10,808	1,082	580	2,613,111
Deposits with banks and other financial institutions	190,257	42,050	12,644	17,282	262,233
Placements with banks and other financial institutions	177,547	44,888	529	416	223,380
Financial assets held for trading	23,147	42	—	—	23,189
Financial assets designated as at fair value through profit or loss	138,200	7,641	9,422	103	155,366
Derivative financial assets	2,017	1,297	1,064	447	4,825
Financial assets held under resale agreements	814,620	—	—	—	814,620
Loans and advances to customers	5,818,485	303,166	25,757	6,003	6,153,411
Available-for-sale financial assets	713,066	34,596	1,896	5,945	755,503
Held-to-maturity investments	1,305,811	2,618	135	232	1,308,796
Debt securities classified as receivables	608,187	—	405	2	608,594
Other financial assets	69,293	1,848	1,237	246	72,624
Total financial assets	12,461,271	448,954	54,171	31,256	12,995,652
Borrowings from central bank	(66)	—	—	—	(66)
Deposits from banks and other financial institutions	(597,957)	(183,054)	(1,787)	(1,554)	(784,352)
Placements from banks and other financial institutions	(52,846)	(60,904)	(17,569)	(18,402)	(149,721)
Financial liabilities held for trading	(3,674)	—	—	—	(3,674)
Financial liabilities designated as at fair value through profit or loss	(154,266)	(671)	(9)	(125)	(155,071)
Derivative financial liabilities	(1,781)	(1,874)	(1,246)	(613)	(5,514)
Financial assets sold under repurchase agreements	(7,631)	—	—	—	(7,631)
Due to customers	(10,671,998)	(146,899)	(21,561)	(22,477)	(10,862,935)
Bonds issued	(150,885)	—	—	—	(150,885)
Other financial liabilities	(230,159)	(19,367)	(22,281)	(1,077)	(272,884)
Total financial liabilities	(11,871,263)	(412,769)	(64,453)	(44,248)	(12,392,733)
Net exposure	**590,008**	**36,185**	**(10,282)**	**(12,992)**	**602,919**

(Amounts in millions of Renminbi, unless otherwise stated)

52. FINANCIAL RISK MANAGEMENT (continued)

52.3 Market risk (continued)

Foreign currency risk (continued)

The Group (continued)

	As at 31 December 2011				
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Other currencies (RMB equivalent)	Total
Cash and balances with central banks	2,478,905	6,768	862	547	2,487,082
Deposits with banks and other financial institutions	89,328	27,794	6,467	8,285	131,874
Placements with banks and other financial institutions	168,964	43,677	42	—	212,683
Financial assets held for trading	15,387	202	—	—	15,589
Financial assets designated as at fair value through profit or loss	38,951	6,638	6,441	433	52,463
Derivative financial assets	3,236	3,924	438	926	8,524
Financial assets held under resale agreements	529,440	—	—	—	529,440
Loans and advances to customers	5,156,362	228,592	19,959	5,173	5,410,086
Available-for-sale financial assets	627,997	18,481	2,351	2,369	651,198
Held-to-maturity investments	1,161,698	16,701	300	189	1,178,888
Debt securities classified as receivables	729,908	—	—	6	729,914
Other financial assets	52,215	1,496	306	111	54,128
Total financial assets	11,052,391	354,273	37,166	18,039	11,461,869
Borrowings from central bank	(50)	—	—	—	(50)
Deposits from banks and other financial institutions	(446,285)	(162,754)	(2,771)	(3,471)	(615,281)
Placements from banks and other financial institutions	(47,539)	(41,047)	(11,862)	(8,507)	(108,955)
Financial liabilities held for trading	(353)	—	—	—	(353)
Financial liabilities designated as at fair value through profit or loss	(206,655)	(1,071)	(115)	(216)	(208,057)
Derivative financial liabilities	(2,814)	(5,325)	(747)	(1,398)	(10,284)
Financial assets sold under repurchase agreements	(92,079)	—	—	—	(92,079)
Due to customers	(9,498,852)	(92,300)	(15,393)	(15,481)	(9,622,026)
Bonds issued	(99,922)	—	—	—	(99,922)
Other financial liabilities	(162,445)	(5,665)	(13,077)	(590)	(181,777)
Total financial liabilities	(10,556,994)	(308,162)	(43,965)	(29,663)	(10,938,784)
Net exposure	**495,397**	**46,111**	**(6,799)**	**(11,624)**	**523,085**

(Amounts in millions of Renminbi, unless otherwise stated)

52. FINANCIAL RISK MANAGEMENT (continued)

52.3 Market risk (continued)

Foreign currency risk (continued)

The Bank

	As at 31 December 2012				
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Other currencies (RMB equivalent)	Total
Cash and balances with central banks	2,600,439	10,808	1,082	580	2,612,909
Deposits with banks and other financial institutions	183,029	42,050	12,644	17,282	255,005
Placements with banks and other financial institutions	177,547	46,648	529	416	225,140
Financial assets held for trading	23,147	42	—	—	23,189
Financial assets designated as at fair value through profit or loss	137,538	7,519	9,422	103	154,582
Derivative financial assets	2,017	1,297	1,064	447	4,825
Financial assets held under resale agreements	814,608	—	—	—	814,608
Loans and advances to customers	5,794,735	300,971	26,000	5,777	6,127,483
Available-for-sale financial assets	707,846	34,391	1,896	5,945	750,078
Held-to-maturity investments	1,301,964	2,618	135	232	1,304,949
Debt securities classified as receivables	606,723	—	—	2	606,725
Other financial assets	61,905	1,837	246	246	64,234
Total financial assets	12,411,498	448,181	53,018	31,030	12,943,727
Borrowings from central bank	(30)	—	—	—	(30)
Deposits from banks and other financial institutions	(602,351)	(183,054)	(1,787)	(1,554)	(788,746)
Placements from banks and other financial institutions	(30,746)	(60,590)	(17,569)	(18,402)	(127,307)
Financial liabilities held for trading	(3,674)	—	—	—	(3,674)
Financial liabilities designated as at fair value through profit or loss	(154,266)	(671)	(9)	(125)	(155,071)
Derivative financial liabilities	(1,781)	(1,874)	(1,246)	(605)	(5,506)
Financial assets sold under repurchase agreements	(7,631)	—	—	—	(7,631)
Due to customers	(10,671,450)	(146,899)	(21,561)	(22,477)	(10,862,387)
Bonds issued	(150,885)	—	—	—	(150,885)
Other financial liabilities	(205,967)	(19,005)	(20,627)	(1,077)	(246,676)
Total financial liabilities	(11,828,781)	(412,093)	(62,799)	(44,240)	(12,347,913)
Net exposure	**582,717**	**36,088**	**(9,781)**	**(13,210)**	**595,814**

(Amounts in millions of Renminbi, unless otherwise stated)

52. FINANCIAL RISK MANAGEMENT (continued)

52.3 Market risk (continued)

Foreign currency risk (continued)

The Bank (continued)

	As at 31 December 2011				
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Other currencies (RMB equivalent)	Total
Cash and balances with central banks	2,478,304	6,768	862	547	2,486,481
Deposits with banks and other financial institutions	88,302	27,794	6,467	8,285	130,848
Placements with banks and other financial institutions	168,964	43,677	42	—	212,683
Financial assets held for trading	15,387	186	—	—	15,573
Financial assets designated as at fair value through profit or loss	38,951	6,638	6,441	433	52,463
Derivative financial assets	3,236	3,924	438	926	8,524
Financial assets held under resale agreements	529,011	—	—	—	529,011
Loans and advances to customers	5,144,796	228,592	19,959	5,173	5,398,520
Available-for-sale financial assets	627,997	18,304	1,513	2,310	650,124
Held-to-maturity investments	1,161,698	16,701	300	189	1,178,888
Debt securities classified as receivables	729,908	—	—	6	729,914
Other financial assets	51,458	1,521	90	111	53,180
Total financial assets	11,038,012	354,105	36,112	17,980	11,446,209
Borrowings from central bank	(30)	—	—	—	(30)
Deposits from banks and other financial institutions	(448,063)	(162,754)	(2,771)	(3,471)	(617,059)
Placements from banks and other financial institutions	(37,031)	(41,047)	(11,862)	(8,507)	(98,447)
Financial liabilities held for trading	(353)	—	—	—	(353)
Financial liabilities designated as at fair value through profit or loss	(206,655)	(1,071)	(115)	(216)	(208,057)
Derivative financial liabilities	(2,814)	(5,325)	(747)	(1,398)	(10,284)
Financial assets sold under repurchase agreements	(92,079)	—	—	—	(92,079)
Due to customers	(9,498,470)	(92,300)	(15,393)	(15,481)	(9,621,644)
Bonds issued	(99,922)	—	—	—	(99,922)
Other financial liabilities	(160,620)	(5,695)	(13,082)	(590)	(179,987)
Total financial liabilities	(10,546,037)	(308,192)	(43,970)	(29,663)	(10,927,862)
Net exposure	**491,975**	**45,913**	**(7,858)**	**(11,683)**	**518,347**

(Amounts in millions of Renminbi, unless otherwise stated)

52. FINANCIAL RISK MANAGEMENT (continued)

52.3 Market risk (continued)

Foreign currency risk (continued)

The tables below indicate the potential effect on profit before tax of a 5% appreciation or depreciation of RMB spot and forward exchange rate against all other currencies.

The Group

	Profit before tax	
	Year ended 31 December	
	2012	**2011**
5% appreciation	(349)	(53)
5% depreciation	349	53

The Bank

	Profit before tax	
	Year ended 31 December	
	2012	**2011**
5% appreciation	(345)	(51)
5% depreciation	345	51

The impact on profit before tax arises from the effects of movement in RMB exchange rate on the net positions of foreign currency monetary assets and liabilities and foreign currency derivative instruments.

The effect on profit before tax is calculated based on the assumption that the Group's foreign currency sensitive positions and currency derivative instruments net position at the end of each reporting period remain unchanged. The Group mitigates its foreign currency risk through active management of its foreign currency exposures and appropriate use of derivative instruments, based on the management expectation of future foreign currency exchange rate movements. Therefore, the above sensitivity analysis may differ from the actual situation.

Interest rate risk

The Group's interest rate risk arises from the mismatches between contractual maturities or repricing dates of interest-generating assets and interest-bearing liabilities. The Group's interest-generating assets and interest-bearing liabilities are mainly denominated in RMB. The PBOC establishes RMB benchmark interest rates which include a cap for RMB deposit rates and a floor for RMB loan rates.

The Group manages its interest rate risk by:

- regularly monitoring the macro-economic factors that may impact the PBOC benchmark interest rates;
- minimising the mismatches between contractual maturities or repricing dates of interest-generating assets and interest-bearing liabilities; and
- enhancing the interest rate margin on interest-generating assets and interest-bearing liabilities with reference to the prevailing PBOC benchmark interest rates.

(Amounts in millions of Renminbi, unless otherwise stated)

52. FINANCIAL RISK MANAGEMENT (continued)

52.3 Market risk (continued)

Interest rate risk (continued)

The tables below summarise the contractual maturity or repricing date, whichever is earlier, of the Group's financial assets and liabilities at the end of each reporting period.

The Group

	As at 31 December 2012						
	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
Cash and balances with central banks	2,242,787	—	—	142,500	—	227,824	2,613,111
Deposits with banks and other financial institutions	97,393	69,357	92,844	2,139	500	—	262,233
Placements with banks and other financial institutions	100,072	39,411	75,297	8,600	—	—	223,380
Financial assets held for trading	781	1,261	17,403	3,184	560	—	23,189
Financial assets designated as at fair value through profit or loss	12,422	37,674	75,705	28,743	34	788	155,366
Derivative financial assets	—	—	—	—	—	4,825	4,825
Financial assets held under resale agreements	466,032	161,914	186,674	—	—	—	814,620
Loans and advances to customers	2,236,320	1,198,314	2,670,038	23,133	25,606	—	6,153,411
Available-for-sale financial assets	31,481	58,855	228,865	276,455	156,499	3,348	755,503
Held-to-maturity investments	10,953	63,043	210,542	596,088	428,170	—	1,308,796
Debt securities classified as receivables	8	2,320	15,548	82,422	507,889	407	608,594
Other financial assets	—	—	176	—	—	72,448	72,624
Total financial assets	5,198,249	1,632,149	3,573,092	1,163,264	1,119,258	309,640	12,995,652
Borrowings from central bank	—	—	(36)	—	—	(30)	(66)
Deposits from banks and other financial institutions	(371,364)	(23,582)	(69,652)	(318,639)	(50)	(1,065)	(784,352)
Placements from banks and other financial institutions	(36,291)	(52,395)	(60,868)	(83)	(84)	—	(149,721)
Financial liabilities held for trading	—	—	—	—	—	(3,674)	(3,674)
Financial liabilities designated as at fair value through profit or loss	(66,429)	(52,362)	(34,720)	(1,554)	—	(6)	(155,071)
Derivative financial liabilities	—	—	—	—	—	(5,514)	(5,514)
Financial assets sold under repurchase agreements	(5,467)	(2,020)	(144)	—	—	—	(7,631)
Due to customers	(6,916,464)	(840,181)	(1,945,367)	(1,023,651)	(2)	(137,270)	(10,862,935)
Bonds issued	—	—	(4,999)	(20,994)	(124,892)	—	(150,885)
Other financial liabilities	(7,594)	(19,376)	(11,776)	(2,765)	(243)	(231,130)	(272,884)
Total financial liabilities	(7,403,609)	(989,916)	(2,127,562)	(1,367,686)	(125,271)	(378,689)	(12,392,733)
Interest rate gap	**(2,205,360)**	**642,233**	**1,445,530**	**(204,422)**	**993,987**	**(69,049)**	**602,919**

(Amounts in millions of Renminbi, unless otherwise stated)

52. FINANCIAL RISK MANAGEMENT (continued)

52.3 Market risk (continued)

Interest rate risk (continued)

The Group (continued)

	As at 31 December 2011						
	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
Cash and balances with central banks	2,110,203	—	154,000	20,000	—	202,879	2,487,082
Deposits with banks and other financial institutions	59,794	33,413	38,667	—	—	—	131,874
Placements with banks and other financial institutions	107,986	32,691	71,906	100	—	—	212,683
Financial assets held for trading	4,429	2,751	6,285	1,694	430	—	15,589
Financial assets designated as at fair value through profit or loss	3,053	12,049	21,878	15,226	66	191	52,463
Derivative financial assets	—	—	—	—	—	8,524	8,524
Financial assets held under resale agreements	288,648	144,191	96,453	148	—	—	529,440
Loans and advances to customers	2,061,880	1,116,313	2,192,190	13,354	26,349	—	5,410,086
Available-for-sale financial assets	20,694	57,233	233,225	217,988	120,870	1,188	651,198
Held-to-maturity investments	21,581	81,229	290,721	458,555	326,802	—	1,178,888
Debt securities classified as receivables	45	377	106,384	22,266	600,836	6	729,914
Other financial assets	—	—	—	—	—	54,128	54,128
Total financial assets	4,678,313	1,480,247	3,211,709	749,331	1,075,353	266,916	11,461,869
Borrowings from central bank	—	—	(20)	—	—	(30)	(50)
Deposits from banks and other financial institutions	(276,138)	(27,255)	(137,878)	(169,557)	(899)	(3,554)	(615,281)
Placements from banks and other financial institutions	(54,489)	(34,002)	(20,358)	—	(106)	—	(108,955)
Financial liabilities held for trading	—	—	—	—	—	(353)	(353)
Financial liabilities designated as at fair value through profit or loss	(126,165)	(46,637)	(29,581)	(5,009)	(67)	(598)	(208,057)
Derivative financial liabilities	—	—	—	—	—	(10,284)	(10,284)
Financial assets sold under repurchase agreements	(66,643)	(23,587)	(1,849)	—	—	—	(92,079)
Due to customers	(6,264,137)	(783,836)	(1,715,502)	(744,676)	(2,309)	(111,566)	(9,622,026)
Bonds issued	—	—	(4,998)	(19,990)	(74,934)	—	(99,922)
Other financial liabilities	(2,817)	(8,706)	(5,497)	(2,448)	—	(162,309)	(181,777)
Total financial liabilities	(6,790,389)	(924,023)	(1,915,683)	(941,680)	(78,315)	(288,694)	(10,938,784)
Interest rate gap	**(2,112,076)**	**556,224**	**1,296,026**	**(192,349)**	**997,038**	**(21,778)**	**523,085**

(Amounts in millions of Renminbi, unless otherwise stated)

52. FINANCIAL RISK MANAGEMENT (continued)

52.3 Market risk (continued)

Interest rate risk (continued)

The Bank

	As at 31 December 2012						
	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
Cash and balances with central banks	2,242,658	—	—	142,500	—	227,751	2,612,909
Deposits with banks and other financial institutions	93,804	69,357	91,844	—	—	—	255,005
Placements with banks and other financial institutions	101,832	39,411	75,297	8,600	—	—	225,140
Financial assets held for trading	781	1,261	17,403	3,184	560	—	23,189
Financial assets designated as at fair value through profit or loss	12,422	37,674	75,705	28,743	34	4	154,582
Derivative financial assets	—	—	—	—	—	4,825	4,825
Financial assets held under resale agreements	466,020	161,914	186,674	—	—	—	814,608
Loans and advances to customers	2,235,835	1,196,628	2,663,867	6,637	24,516	—	6,127,483
Available-for-sale financial assets	31,481	58,839	228,220	275,059	156,088	391	750,078
Held-to-maturity investments	10,953	63,043	209,943	595,217	425,793	—	1,304,949
Debt securities classified as receivables	8	2,320	15,513	80,993	507,889	2	606,725
Other financial assets	—	—	—	—	—	64,234	64,234
Total financial assets	5,195,794	1,630,447	3,564,466	1,140,933	1,114,880	297,207	12,943,727
Borrowings from central bank	—	—	—	—	—	(30)	(30)
Deposits from banks and other financial institutions	(375,758)	(23,582)	(69,652)	(318,639)	(50)	(1,065)	(788,746)
Placements from banks and other financial institutions	(34,627)	(48,895)	(43,618)	(83)	(84)	—	(127,307)
Financial liabilities held for trading	—	—	—	—	—	(3,674)	(3,674)
Financial liabilities designated as at fair value through profit or loss	(66,429)	(52,362)	(34,720)	(1,554)	—	(6)	(155,071)
Derivative financial liabilities	—	—	—	—	—	(5,506)	(5,506)
Financial assets sold under repurchase agreements	(5,467)	(2,020)	(144)	—	—	—	(7,631)
Due to customers	(6,916,123)	(840,125)	(1,945,233)	(1,023,634)	(2)	(137,270)	(10,862,387)
Bonds issued	—	—	(4,999)	(20,994)	(124,892)	—	(150,885)
Other financial liabilities	(7,594)	(19,376)	(11,776)	(2,765)	(243)	(204,922)	(246,676)
Total financial liabilities	(7,405,998)	(986,360)	(2,110,142)	(1,367,669)	(125,271)	(352,473)	(12,347,913)
Interest rate gap	**(2,210,204)**	**644,087**	**1,454,324**	**(226,736)**	**989,609**	**(55,266)**	**595,814**

(Amounts in millions of Renminbi, unless otherwise stated)

52. FINANCIAL RISK MANAGEMENT (continued)

52.3 Market risk (continued)

Interest rate risk (continued)

The Bank (continued)

	As at 31 December 2011						
	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
Cash and balances with central banks	2,110,109	—	154,000	20,000	—	202,372	2,486,481
Deposits with banks and other financial institutions	58,768	33,413	38,667	—	—	—	130,848
Placements with banks and other financial institutions	107,986	32,691	71,906	100	—	—	212,683
Financial assets held for trading	4,413	2,751	6,285	1,694	430	—	15,573
Financial assets designated as at fair value through profit or loss	3,053	12,049	21,878	15,226	66	191	52,463
Derivative financial assets	—	—	—	—	—	8,524	8,524
Financial assets held under resale agreements	288,648	144,191	96,172	—	—	—	529,011
Loans and advances to customers	2,061,768	1,115,984	2,189,938	5,156	25,674	—	5,398,520
Available-for-sale financial assets	20,694	57,233	233,156	217,834	120,857	350	650,124
Held-to-maturity investments	21,581	81,229	290,721	458,555	326,802	—	1,178,888
Debt securities classified as receivables	45	377	106,384	22,266	600,836	6	729,914
Other financial assets	—	—	—	—	—	53,180	53,180
Total financial assets	4,677,065	1,479,918	3,209,107	740,831	1,074,665	264,623	11,446,209
Borrowings from central bank	—	—	—	—	—	(30)	(30)
Deposits from banks and other financial institutions	(277,916)	(27,255)	(137,878)	(169,557)	(899)	(3,554)	(617,059)
Placements from banks and other financial institutions	(54,489)	(32,895)	(10,957)	—	(106)	—	(98,447)
Financial liabilities held for trading	—	—	—	—	—	(353)	(353)
Financial liabilities designated as at fair value through profit or loss	(126,165)	(46,637)	(29,581)	(5,009)	(67)	(598)	(208,057)
Derivative financial liabilities	—	—	—	—	—	(10,284)	(10,284)
Financial assets sold under repurchase agreements	(66,643)	(23,587)	(1,849)	—	—	—	(92,079)
Due to customers	(6,263,915)	(783,796)	(1,715,390)	(744,668)	(2,309)	(111,566)	(9,621,644)
Bonds issued	—	—	(4,998)	(19,990)	(74,934)	—	(99,922)
Other financial liabilities	(2,817)	(8,706)	(5,497)	(2,448)	—	(160,519)	(179,987)
Total financial liabilities	(6,791,945)	(922,876)	(1,906,150)	(941,672)	(78,315)	(286,904)	(10,927,862)
Interest rate gap	**(2,114,880)**	**557,042**	**1,302,957**	**(200,841)**	**996,350**	**(22,281)**	**518,347**

(Amounts in millions of Renminbi, unless otherwise stated)

52. FINANCIAL RISK MANAGEMENT (continued)

52.3 Market risk (continued)

Interest rate risk (continued)

The following tables illustrate the potential impact of a parallel upward or downward shift of 100 basis points in all financial instruments' yield curves on the Group's net interest income and equity, based on the Group's positions of interest-generating assets and interest-bearing liabilities at the end of each reporting period.

The Group

	As at 31 December 2012		As at 31 December 2011	
	Net interest income	Equity	Net interest income	Equity
+100 basis points	(10,362)	(13,305)	(10,745)	(14,471)
-100 basis points	10,362	13,966	10,745	15,391

The Bank

	As at 31 December 2012		As at 31 December 2011	
	Net interest income	Equity	Net interest income	Equity
+100 basis points	(10,360)	(13,305)	(10,739)	(14,471)
-100 basis points	10,360	13,966	10,739	15,391

The sensitivity analysis on net interest income is based on reasonably possible changes in interest rates with the assumption that the structure of financial assets and financial liabilities held at the period end remains unchanged.

The sensitivity analysis on equity is the effect of certain changes in interest rates on fair value changes on fixed rate available-for-sale financial assets held at the period end.

The assumption does not represent the Group's capital and interest rate risk management policy. Therefore the above analysis may differ from the actual situation.

In addition, the impact of interest rate fluctuation is only for illustrating purpose, showing the potential impact on net interest income and equity of the Group under different yield structures and current interest rate risk situation. The impact does not take into account the risk management procedures that management may take to mitigate the interest rate risk.

52. FINANCIAL RISK MANAGEMENT (continued)

52.4 Insurance risk

The Group engages in its insurance business primarily in mainland China. Insurance risk refers to the financial impact resulted from the unpredictable occurrence of the insured events. These risks can be actively managed by the Group through effective sales management, underwriting control, reinsurance management and claim management. By effective sales management, risk of misleading sales could be restrained, therefore implementing effective risk management from the beginning. By underwriting control, risk of adverse selection could be reduced and moreover differential pricing policy based on the level of each kind of risk could be utilized. Through reinsurance, by drawing on the experience of reinsurance companies, insurance capacity could be enhanced. Through effective claim management, insurance payments could be controlled at a reasonable level.

Claim costs and premium income are the two core indicators for risk quantification. The Group conducts experience analysis of mortality rate and surrender rate in order to improve and determine reasonable estimates.

52.5 Capital management

The Group's objectives on capital management are as follows:

- safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- support the Group's stability and growth;
- allocate capital in an efficient and risk based approach to optimise risk adjusted return to the shareholders; and
- maintain an adequate capital base to support the development of its business.

The CBRC requires that the capital adequacy ratio and core capital adequacy ratio for commercial banks shall not fall below 8% and 4% respectively. For commercial banks, supplementary capital shall not exceed 100% of core capital while long-term subordinated liabilities included in the supplementary capital should not exceed 50% of the core capital. For commercial banks with total positions of trading accounts exceeding 10% of the on and off-balance sheet total assets, or RMB8.5 billion, they should provide for market risk capital. At present, the Group fully complies with these legal and regulatory requirements. Starting from 1 January 2013 onwards, capital adequacy and the utilization of regulatory capital will be managed by the Group in accordance with the new rules and regulations promulgated by the CBRC.

The on-balance sheet risk-weighted assets are measured based on different risk ratings that are determined according to the creditworthiness of assets and counterparties, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with adjustments made to reflect the more contingent nature of any potential losses. Market risk capital adjustment is calculated using the standardised approach.

(Amounts in millions of Renminbi, unless otherwise stated)

52. FINANCIAL RISK MANAGEMENT (continued)

52.5 Capital management (continued)

Capital adequacy and the utilization of regulatory capital are closely monitored by the Group's management in accordance with the guidelines developed by the Basel Committee and relevant regulations promulgated by the CBRC. The required information is filed with the CBRC by the Bank quarterly.

The Group

	Notes	As at 31 December 2012	As at 31 December 2011
Core capital adequacy ratio	(1)	9.67%	9.50%
Capital adequacy ratio	(2)	12.61%	11.94%
Components of capital base			
Core capital:			
Share capital		324,794	324,794
Reserves	(3)	374,960	282,508
Non-controlling interests		1,539	187
		701,293	607,489
Supplementary capital:			
General provision		64,334	56,287
Long-term subordinated bonds		150,000	100,000
Others		—	725
		214,334	157,012
Total capital base before deductions		915,627	764,501
Deductions:			
Goodwill		(1,381)	—
Equity investments which are not consolidated		(768)	(1,359)
Other deductible items		(3,430)	(132)
Total capital base after deductions		910,048	763,010
Risk-weighted assets and market risk capital adjustment	(4)	7,216,178	6,388,375

(1) Core capital adequacy ratio is calculated by dividing the net amount of core capital, which is after deductions of goodwill and 50% of unconsolidated equity investments and other deductible items, by risk-weighted assets and market risk capital adjustment.

(2) Capital adequacy ratio is calculated by dividing total capital base after deductions by risk-weighted assets and market risk capital adjustment.

(3) In accordance with the "Measures for the Management of Capital Adequacy Ratios of Commercial Banks" issued by the CBRC, reserves comprise eligible capital reserve, eligible retained earnings, surplus reserve and general reserve.

(4) The amount of market risk capital adjustment equals to 12.5 times of the market risk capital.

(Amounts in millions of Renminbi, unless otherwise stated)

53. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices and ask prices respectively;

- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models or discounted cash flow analysis using prices from observable current market transactions for similar instruments;

- the fair value of derivative instrument is calculated using quoted prices. Where such prices are not available, discounted cash flow analysis using the applicable yield curve for the duration of the instruments is used for non-option type of derivatives, and option pricing model is used for option type of derivatives; and

- the fair value of financial guarantee contract is determined using option pricing model where the main assumption is the probability of default by the specified counterparty and is extrapolated from market-based credit information and the amount of loss given default.

The tables below summarise the carrying amounts and fair values of those financial assets and liabilities not presented on the consolidated statement of financial position at their fair value. Financial assets and liabilities for which the carrying amounts approximate fair values, such as balances with central banks, deposits and placements with banks and other financial institutions, financial assets held under resale agreements, borrowings from central bank, placements from banks and other financial institutions, financial assets sold under repurchase agreements and certificates of deposit issued are not included in the tables below.

The Group

	As at 31 December 2012		As at 31 December 2011	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Loans and advances to customers	6,153,411	6,157,936	5,410,086	5,407,025
Held-to-maturity investments	1,308,796	1,301,753	1,178,888	1,184,307
Debt securities classified as receivables	608,594	607,110	729,914	733,145
	8,070,801	**8,066,799**	**7,318,888**	**7,324,477**
Financial liabilities				
Deposits from banks and other financial institutions	784,352	784,669	615,281	615,330
Due to customers	10,862,935	10,877,969	9,622,026	9,621,454
Bonds issued	150,885	149,491	99,922	97,991
	11,798,172	**11,812,129**	**10,337,229**	**10,334,775**

(Amounts in millions of Renminbi, unless otherwise stated)

53. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The Bank

	As at 31 December 2012		As at 31 December 2011	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Loans and advances to customers	6,127,483	6,132,008	5,398,520	5,395,459
Held-to-maturity investments	1,304,949	1,298,010	1,178,888	1,184,307
Debt securities classified as receivables	606,725	605,224	729,914	733,145
	8,039,157	**8,035,242**	**7,307,322**	**7,312,911**
Financial liabilities				
Deposits from banks and other financial institutions	788,746	789,062	617,059	617,108
Due to customers	10,862,387	10,877,422	9,621,644	9,621,072
Bonds issued	150,885	149,491	99,922	97,991
	11,802,018	**11,815,975**	**10,338,625**	**10,336,171**

The following tables provide an analysis of financial instruments that are measured at fair value subsequent to initial recognition, grouped into three levels based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

(Amounts in millions of Renminbi, unless otherwise stated)

53. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The Group

	As at 31 December 2012			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets held for trading	—	23,189	—	23,189
Financial assets designated as at fair value through profit or loss	5,023	23,249	127,094	155,366
Available-for-sale financial assets	24,973	724,565	5,741	755,279
Derivative financial assets	—	4,029	796	4,825
Total assets	29,996	775,032	133,631	938,659
Financial liabilities held for trading	(3,674)	—	—	(3,674)
Financial liabilities designated as at fair value through profit or loss	—	—	(155,071)	(155,071)
Derivative financial liabilities	—	(3,658)	(1,856)	(5,514)
Total liabilities	(3,674)	(3,658)	(156,927)	(164,259)

	As at 31 December 2011			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets held for trading	—	15,589	—	15,589
Financial assets designated as at fair value through profit or loss	4,083	10,537	37,843	52,463
Available-for-sale financial assets	12,233	638,116	627	650,976
Derivative financial assets	—	4,223	4,301	8,524
Total assets	16,316	668,465	42,771	727,552
Financial liabilities held for trading	(353)	—	—	(353)
Financial liabilities designated as at fair value through profit or loss	—	—	(208,057)	(208,057)
Derivative financial liabilities	—	(3,887)	(6,397)	(10,284)
Total liabilities	(353)	(3,887)	(214,454)	(218,694)

(Amounts in millions of Renminbi, unless otherwise stated)

53. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The Bank

	As at 31 December 2012			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets held for trading	—	23,189	—	23,189
Financial assets designated as at fair value through profit or loss	5,023	23,249	126,310	154,582
Available-for-sale financial assets	22,069	722,317	5,468	749,854
Derivative financial assets	—	4,029	796	4,825
Total assets	27,092	772,784	132,574	932,450
Financial liabilities held for trading	(3,674)	—	—	(3,674)
Financial liabilities designated as at fair value through profit or loss	—	—	(155,071)	(155,071)
Derivative financial liabilities	—	(3,650)	(1,856)	(5,506)
Total liabilities	(3,674)	(3,650)	(156,927)	(164,251)

	As at 31 December 2011			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets held for trading	—	15,573	—	15,573
Financial assets designated as at fair value through profit or loss	4,083	10,537	37,843	52,463
Available-for-sale financial assets	12,056	637,219	627	649,902
Derivative financial assets	—	4,223	4,301	8,524
Total assets	16,139	667,552	42,771	726,462
Financial liabilities held for trading	(353)	—	—	(353)
Financial liabilities designated as at fair value through profit or loss	—	—	(208,057)	(208,057)
Derivative financial liabilities	—	(3,887)	(6,397)	(10,284)
Total liabilities	(353)	(3,887)	(214,454)	(218,694)

There were no significant transfers between Level 1 and 2 during each year.

(Amounts in millions of Renminbi, unless otherwise stated)

53. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Reconciliation of Level 3 fair value measurements of financial assets and liabilities is as follows:

The Group

	2012			
	Financial assets designated as at fair value through profit or loss	Available-for-sale financial assets	Derivatives financial instruments, net	Financial liabilities designated as at fair value through profit or loss
As at 1 January 2012	37,843	627	(2,096)	(208,057)
Recognised in				
— Profit or loss	4,572	49	1,068	(3,156)
— Other comprehensive income	—	5	—	—
Purchases/issues	474,353	5,687	—	(148,022)
Settlements	(389,674)	(627)	(32)	204,164
As at 31 December 2012	**127,094**	**5,741**	**(1,060)**	**(155,071)**
Total gain or loss for the year for assets/ liabilities held as at 31 December 2012				
— included in the profit or loss	2,596	49	1,291	(1,050)
— included in other comprehensive income	—	5	—	—

The Bank

	2012			
	Financial assets designated as at fair value through profit or loss	Available-for-sale financial assets	Derivatives financial instruments, net	Financial liabilities designated as at fair value through profit or loss
As at 1 January 2012	37,843	627	(2,096)	(208,057)
Recognised in				
— Profit or loss	4,587	49	1,068	(3,156)
— Other comprehensive income	—	5	—	—
Purchases/issues	473,554	5,414	—	(148,022)
Settlements	(389,674)	(627)	(32)	204,164
As at 31 December 2012	**126,310**	**5,468**	**(1,060)**	**(155,071)**
Total gain or loss for the year for assets/ liabilities held as at 31 December 2012				
— included in the profit or loss	2,596	49	1,291	(1,050)
— included in other comprehensive income	—	5	—	—

(Amounts in millions of Renminbi, unless otherwise stated)

53. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The Group and The Bank

	2011			
	Financial assets designated as at fair value through profit or loss	**Available-for-sale financial assets**	**Derivatives financial instruments, net**	**Financial liabilities designated as at fair value through profit or loss**
As at 1 January 2011	32,026	1,969	(3,043)	(34,341)
Recognised in				
— Profit or loss	2,051	32	975	(3,784)
— Other comprehensive expenses	—	(39)	—	—
Purchases/issues	250,146	1,456	—	(732,288)
Settlements	(243,342)	(697)	(28)	562,356
Transfers out of Level 3	(3,038)	(2,094)	—	—
As at 31 December 2011	**37,843**	**627**	**(2,096)**	**(208,057)**
Total gain for the year for assets/ liabilities held as at 31 December 2011				
— included in the profit or loss	924	20	1,048	(1,757)
— included in other comprehensive income	—	(39)	—	—

54. EVENT AFTER THE REPORTING PERIOD

Pursuant to the meeting of the Board of Directors on 26 March 2013, the proposal of the profit appropriations of the Bank for the year ended 31 December 2012 is set out as follows:

(i) An appropriation of RMB14,473 million to the statutory surplus reserve;

(ii) An appropriation of RMB63,482 million to the general reserve (Hong Kong branch of the Bank appropriated RMB78 million separately in accordance with local regulatory requirements); and

(iii) A cash dividend of RMB0.1565 per share in respect of the year ended 31 December 2012 based on the number of shares issued as at 31 December 2012 amounting to RMB50,830 million in total (Note 14).

As at 31 December 2012, the statutory surplus reserve had been recognised as appropriation. The other two items will be recognised on the Bank's and the Group's financial statements after approval by shareholders in the forthcoming general meeting.

55. COMPARATIVES

Certain comparative amounts have been reclassified to conform with the current year's presentation.

According to Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Banking (Disclosure) Rules, the Group discloses the following supplementary information:

1. LIQUIDITY RATIOS

	As at 31 December	
	2012	**2011**
RMB current assets to RMB current liabilities	44.75%	40.18%
Foreign currency current assets to foreign currency current liabilities	161.78%	154.66%

Liquidity ratio is calculated in accordance with the relevant provisions of the PBOC and the CBRC, and based on the data determined under the PRC GAAP.

2. CURRENCY CONCENTRATIONS

	Equivalent in millions of Renminbi			
	USD	**HKD**	**Other**	**Total**
As at 31 December 2012				
Spot assets	396,775	179,887	36,592	613,254
Spot liabilities	(362,191)	(177,286)	(30,513)	(569,990)
Forward purchases	201,849	3,002	26,941	231,792
Forward sales	(207,220)	(3,752)	(49,676)	(260,648)
Net options position	(723)	—	81	(642)
Net long/(short) position	28,490	1,851	(16,575)	13,766
Net structural position	**(554)**	**2,464**	**(235)**	**1,675**

	Equivalent in millions of Renminbi			
	USD	**HKD**	**Other**	**Total**
As at 31 December 2011				
Spot assets	306,987	115,707	18,045	440,739
Spot liabilities	(270,267)	(113,469)	(17,529)	(401,265)
Forward purchases	180,338	3,192	17,361	200,891
Forward sales	(153,475)	(3,038)	(24,987)	(181,500)
Net long/(short) position	63,583	2,392	(7,110)	58,865
Net structural position	**(33,396)**	**335**	**(41)**	**(33,102)**

(Amounts in millions of Renminbi, unless otherwise stated)

3. CROSS-BORDER CLAIMS

The Group is principally engaged in business operations within the mainland China, and regards all claims on third parties outside the mainland China as cross-border claims.

Cross-border claims include balances with central banks, deposits and placements with banks and other financial institutions, financial assets held for trading, financial assets designated as at fair value through profit or loss, loans and advances to customers, financial assets held under resale agreements, available-for-sale financial assets, held-to-maturity investments and debt securities classified as receivables.

Cross-border claims are disclosed based on different countries or regions. A country or region is reported where it constitutes 10% or more of the aggregate amount of cross-border claims, after taking into account any risk transfers. Risk transfer is only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country.

	Banks and other financial institutions	Public sector entities	Others	Total
As at 31 December 2012				
Asia Pacific excluding				
Mainland China	17,008	1,739	168,226	186,973
— of which attributed to				
Hong Kong	714	66	136,014	136,794
Europe	15,679	675	—	16,354
North and South America	38,777	3,688	1,976	44,441
Africa	—	75	—	75
Total	**71,464**	**6,177**	**170,202**	**247,843**

	Banks and other financial institutions	Public sector entities	Others	Total
As at 31 December 2011				
Asia Pacific excluding				
Mainland China	25,732	—	107,101	132,833
— of which attributed to				
Hong Kong	2,807	—	89,808	92,615
Europe	26,106	2,234	—	28,340
North and South America	28,941	1,230	1,463	31,634
Africa	—	74	—	74
Total	**80,779**	**3,538**	**108,564**	**192,881**

(Amounts in millions of Renminbi, unless otherwise stated)

4. Overdue and rescheduled assets

(1) Gross amount of overdue loans and advances to customers

	As at 31 December	
	2012	**2011**
Overdue		
below 3 months	30,693	25,776
between 3 and 6 months	8,841	3,099
between 6 and 12 months	10,451	4,663
over 12 months	37,920	39,925
Total	**87,905**	**73,463**
Percentage of overdue loans and advances to customers in total loans		
below 3 months	0.48%	0.46%
between 3 and 6 months	0.14%	0.05%
between 6 and 12 months	0.16%	0.08%
over 12 months	0.59%	0.71%
Total	**1.37%**	**1.30%**

(2) Overdue and rescheduled loans and advances to customers

	As at 31 December	
	2012	**2011**
Total rescheduled loans and advances to customers	11,592	9,934
Including: rescheduled loans and advances to customers overdue for not more than 3 months	8,974	8,463
Percentage of rescheduled loans and advances to customers overdue for not more than 3 months in total loans	0.14%	0.15%

(3) Gross amount of overdue placements with banks and other financial institutions

The gross amount of the Group's overdue placements with banks and other financial institutions as at 31 December 2012 and 31 December 2011 are not material.

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AGRICULTURAL BANK OF CHINA