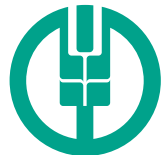


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# 中国农业银行

AGRICULTURAL BANK OF CHINA

**AGRICULTURAL BANK OF CHINA LIMITED**

**中國農業銀行股份有限公司**

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

**(Stock Code: 1288)**

## **Interim Results Announcement for the six months ended 30 June 2018**

Agricultural Bank of China Limited (the “**Bank**”) is pleased to announce the unaudited interim results of the Bank and its subsidiaries (together, the “**Group**”) for the six months ended 30 June 2018. This announcement contains the interim report of the Bank for the six months ended 30 June 2018, the contents of which have been prepared in accordance with the relevant disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Hong Kong Listing Rules**”). The interim financial information of the Group for the six months ended 30 June 2018 has been reviewed by PricewaterhouseCoopers in accordance with International Standard on Review Engagements 2410. The interim results have also been reviewed by the Audit and Compliance Committee of the Board of Directors of the Bank (the “**Audit and Compliance Committee**”). This interim results announcement is published on the websites of the Bank ([www.abchina.com](http://www.abchina.com)) and The Stock Exchange of Hong Kong Limited ([www.hkexnews.hk](http://www.hkexnews.hk)). The interim report of the Bank for the six months ended 30 June 2018 will be despatched to the holders of H shares of the Bank and will also be available at the abovementioned websites in due course.

By order of the Board of Directors  
**Agricultural Bank of China Limited**  
**ZHOU Wanfu**  
*Company Secretary*

Beijing, PRC  
28 August 2018

*As at the date of this announcement, our executive directors are Mr. ZHOU Mubing, Mr. ZHAO Huan, Mr. WANG Wei and Ms. GUO Ningning; our non-executive directors are Mr. XU Jiandong, Mr. CHEN Jianbo, Mr. HU Xiaohui, Mr. LIAO Luming and Mr. LI Qiyun; and our independent non-executive directors are Mr. WEN Tiejun, Mr. Francis YUEN Tin-fan, Ms. XIAO Xing, Mr. WANG Xinxin and Mr. HUANG Zhenzhong.*

## **PROFILE**

The predecessor of the Bank was 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. In July 2010, the Bank was listed on both the Shanghai Stock Exchange and the Hong Kong Stock Exchange.

As one of the major integrated financial service providers in China, the Bank is committed to building an international first-class commercial banking group with featured operations, efficient and convenient services, diversified functions, and demonstrated value-creation capability. Capitalizing on its comprehensive business portfolio, extensive distribution network and advanced IT platform, the Bank provides a diverse portfolio of corporate and retail banking products and services for a broad range of customers, and conducts treasury operations and asset management. Our business scope also includes, among other things, investment banking, fund management, financial leasing and life insurance. At the end of June 2018, the Bank had total assets of RMB21,920,851 million, loans and advances to customers of RMB11,463,138 million and deposits from customers of RMB16,939,933 million. Our capital adequacy ratio was 14.77%. The Bank achieved a net profit of RMB115,976 million in the first half of 2018.

The Bank had a total of 23,652 domestic branch outlets at the end of June 2018, including the Head Office, seven business units directly managed by the Head Office, seven units directly managed by the Head Office, 37 tier-1 branches (including five branches directly managed by the Head Office), 378 tier-2 branches (including branches in provincial capital cities), 3,472 tier-1 sub-branches (including business departments in municipalities, business departments of branches directly managed by the Head Office and business departments of tier-2 branches), 19,698 foundation-level branch outlets (including 13,288 tier-2 sub-branches), and 52 other establishments. Our overseas branch outlets consisted of thirteen overseas branches and four overseas representative offices. The Bank had fifteen major subsidiaries, including ten domestic subsidiaries and five overseas subsidiaries.

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## DEFINITIONS

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

1. A Share(s) Ordinary shares listed domestically which are subscribed and traded in Renminbi
2. ABC/Agricultural Bank of China/the Bank/the Group/We Agricultural Bank of China Limited, or Agricultural Bank of China Limited and its subsidiaries
3. Articles of Association *The Articles of Association of Agricultural Bank of China Limited* approved by the CBIRC on 8 November 2017
4. Basis point(s) A unit of measure related to the change in an interest rate or exchange rate, which is equivalent to 0.01%
5. 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 subsequently issued
6. CBIRC China Banking and Insurance Regulatory Commission, or its successors, the former China Banking Regulatory Commission and the former China Insurance Regulatory Commission, where the context requires, means the former China Banking Regulatory Commission or the former China Insurance Regulatory Commission
7. County Area Banking Business We provide customers in the County Areas with a broad range of financial services through our branch outlets located in counties and county-level cities in the People's Republic of China. We refer to such banking business as the "County Area Banking Business" or "Sannong Banking Business"
8. County Area Banking Division An internal division with management mechanism adopted by us for specialized operation of financial services provided to Sannong and the County Areas, as required under our restructuring into a joint stock limited liability company, which focuses on the County Area Banking Business with independence in aspects such as governance mechanism, operational decision making, financial accounting as well as incentive and constraint mechanism to a certain extent

|     |                          |  |
|-----|--------------------------|--|
| 9.  | County Area(s)           | The county-level regions (excluding the district-level areas in the cities) in the People’s Republic of China and the areas under their administration, including counties and county-level cities   |
| 10. | CSRC                     | China Securities Regulatory Commission   |
| 11. | Duration                 | An approach to measure the weighted average term of cash flows of debt securities, which mainly reflects the sensitivity of the value of debt securities to interest rate movements  |
| 12. | Economic capital         | Capital allocated to assets or business for the purpose of mitigating risks based on internal assessment of the management of commercial banks   |
| 13. | H Share(s)               | Ordinary shares listed on The Stock Exchange of Hong Kong Limited and subscribed and traded in Hong Kong Dollars, the nominal value of which are denominated in Renminbi   |
| 14. | Hong Kong Listing Rules  | <i>The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited</i>  |
| 15. | Hong Kong Stock Exchange | The Stock Exchange of Hong Kong Limited  |
| 16. | Huijin                   | Central Huijin Investment Ltd.   |
| 17. | Inclusive Finance        | The provision of appropriate and effective financial services to all walks of life and various society groups in need of financial services at an affordable cost based on the principles of equal opportunity and commercial sustainability |
| 18. | MOF                      | Ministry of Finance of the People’s Republic of China  |
| 19. | PBOC                     | The People’s Bank of China   |
| 20. | Sannong                  | Agriculture, rural areas and farmers   |
| 21. | SSF                      | National Council for Social Security Fund of the People’s Republic of China  |

## BASIC CORPORATE INFORMATION AND MAJOR FINANCIAL INDICATORS

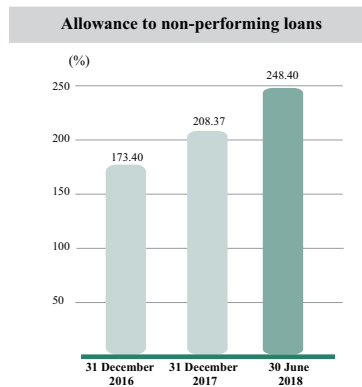
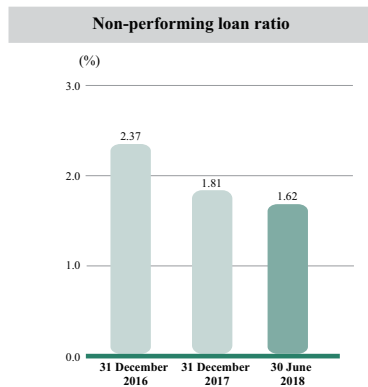
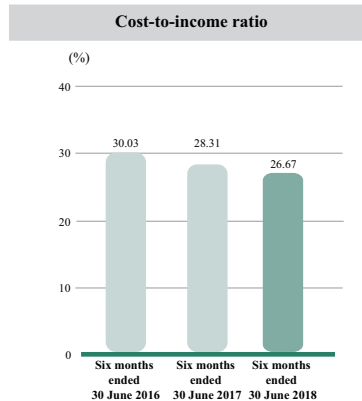
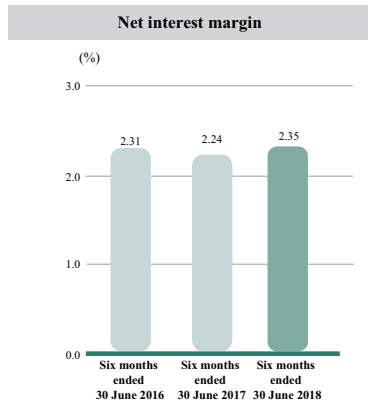
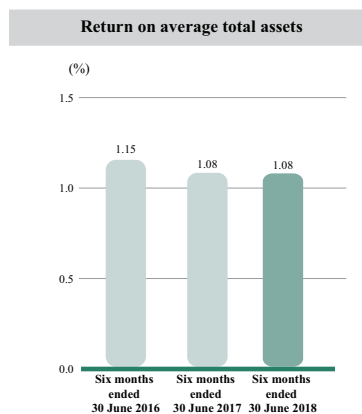
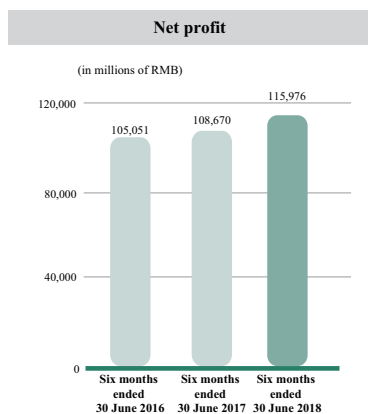
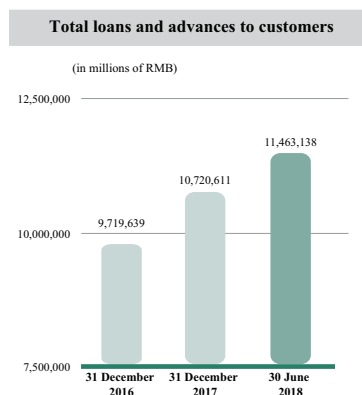
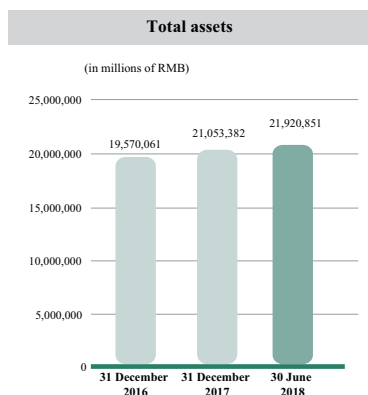
### Basic Corporate Information

|   |  |
|---|--|
| <b>Legal name in Chinese<br/>Abbreviation</b>   | 中國農業銀行股份有限公司<br>中國農業銀行   |
| <b>Legal name in English<br/>Abbreviation</b>   | AGRICULTURAL BANK OF CHINA LIMITED<br>AGRICULTURAL BANK OF CHINA (ABC)   |
| <b>Legal representative</b>   | ZHOU Mubing  |
| <b>Authorized representatives</b>   | ZHAO Huan<br>ZHOU Wanfu  |
| <b>Secretary to the Board of Directors<br/>and Company Secretary</b>                        | ZHOU Wanfu<br>Address: No. 69, Jianguomen Nei Avenue,<br>Dongcheng District, Beijing, PRC<br>Tel: 86-10-85109619 (Investors Relations)<br>Fax: 86-10-85108557<br>E-mail: ir@abchina.com  |
| <b>Selected media for information<br/>disclosure</b>  | <i>China Securities Journal, Shanghai Securities News,<br/>Securities Times and Securities Daily</i>   |
| <b>Website of Shanghai Stock Exchange<br/>publishing the interim report<br/>(A Shares)</b>  | www.sse.com.cn   |
| <b>Website of Hong Kong Stock Exchange<br/>publishing the interim report<br/>(H Shares)</b> | www.hkexnews.hk  |
| <b>Location where copies of<br/>the interim report are kept</b>                             | Office of the Board of Directors of the Bank   |
| <b>Listing exchange of A Shares<br/>Stock name<br/>Stock code<br/>Share registrar</b>       | Shanghai Stock Exchange<br>農業銀行<br>601288<br>China Securities Depository and Clearing Corporation<br>Limited, Shanghai Branch (Address: 3/F, China<br>Insurance Building, No. 166 Lujiazui East Road, New<br>Pudong District, Shanghai, PRC) |

|   |  |
|---|--|
| <b>Listing exchange of H Shares</b>                       | The Stock Exchange of Hong Kong Limited  |
| <b>Stock name</b>   | ABC  |
| <b>Stock code</b>   | 1288   |
| <b>Share registrar</b>                                    | Computershare Hong Kong Investor Services Limited<br>(Address: Shops 1712-1716, 17th Floor, Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong)                                |
| <b>Trading exchange and platform of preference shares</b> | The Integrated Business Platform of Shanghai Stock Exchange  |
| <b>Stock name (stock code)</b>                            | 農行優1 (360001), 農行優2 (360009)   |
| <b>Share registrar</b>                                    | China Securities Depository and Clearing Corporation Limited, Shanghai Branch (Address: 3/F, China Insurance Building, No. 166 Lujiazui East Road, New Pudong District, Shanghai, PRC) |
| <b>Name of domestic auditor</b>                           | PricewaterhouseCoopers Zhong Tian LLP  |
| <b>Address</b>  | 11/F, PricewaterhouseCoopers Center, Link Square 2, 202 Hu Bin Road, Huangpu District, Shanghai  |
| <b>Name of the undersigned accountants</b>                | JIANG Kun, HAN Dan   |
| <b>Name of international auditor</b>                      | PricewaterhouseCoopers   |
| <b>Address</b>  | 22/F, Prince's Building, Central, Hong Kong  |

## FINANCIAL HIGHLIGHTS

Financial data and indicators recorded in this results announcement are prepared in accordance with the International Financial Reporting Standards (the “IFRSs”) and denominated in RMB, unless otherwise stated.





## Major Financial Data

|   | <b>30 June<br/>2018</b> | 31 December<br>2017 | 31 December<br>2016 |
|---|-------------------------|---------------------|---------------------|
| <b>At the end of the reporting period</b>   |                         |                     |                     |
| (in millions of RMB)  |                         |                     |                     |
| Total assets  | <b>21,920,851</b>       | 21,053,382          | 19,570,061          |
| Total loans and advances to customers   | <b>11,463,138</b>       | 10,720,611          | 9,719,639           |
| Corporate loans   | <b>6,551,357</b>        | 6,147,584           | 5,368,250           |
| Discounted bills  | <b>154,421</b>          | 187,502             | 569,948             |
| Retail loans  | <b>4,337,193</b>        | 4,000,273           | 3,340,879           |
| Overseas and others   | <b>420,167</b>          | 385,252             | 440,562             |
| Allowance for impairment losses on loans  | <b>461,771</b>          | 404,300             | 400,275             |
| Loans and advances to customers, net  | <b>11,001,367</b>       | 10,316,311          | 9,319,364           |
| Investment in securities and<br>other financial assets, net                         | <b>6,425,606</b>        | 6,152,743           | 5,333,535           |
| Cash and balances with central banks  | <b>2,963,554</b>        | 2,896,619           | 2,811,653           |
| Deposits and placements with and<br>loans to banks and other financial institutions | <b>529,110</b>          | 635,514             | 1,203,614           |
| Financial assets held under resale agreements                                       | <b>367,812</b>          | 540,386             | 323,051             |
| Total liabilities   | <b>20,351,140</b>       | 19,623,985          | 18,248,470          |
| Deposits from customers   | <b>16,939,933</b>       | 16,194,279          | 15,038,001          |
| Corporate deposits  | <b>6,746,511</b>        | 6,379,447           | 5,599,743           |
| Retail deposits   | <b>9,564,218</b>        | 9,246,510           | 8,815,148           |
| Overseas and others   | <b>629,204</b>          | 568,322             | 623,110             |
| Deposits and placements from banks and<br>other financial institutions              | <b>1,366,688</b>        | 1,254,791           | 1,458,065           |
| Financial assets sold under repurchase<br>agreements                                | <b>113,410</b>          | 319,789             | 205,832             |
| Debt securities issued  | <b>668,187</b>          | 475,017             | 388,215             |
| Equity attributable to equity holders of the Bank                                   | <b>1,565,226</b>        | 1,426,415           | 1,318,193           |
| Net capital <sup>1</sup>  | <b>1,952,804</b>        | 1,731,946           | 1,546,500           |
| Common Equity Tier 1 (CET1) capital, net <sup>1</sup>                               | <b>1,478,881</b>        | 1,339,953           | 1,231,030           |
| Additional Tier 1 capital, net <sup>1</sup>   | <b>79,906</b>           | 79,906              | 79,904              |
| Tier 2 capital, net <sup>1</sup>  | <b>394,017</b>          | 312,087             | 235,566             |
| Risk-weighted assets <sup>1</sup>   | <b>13,219,219</b>       | 12,605,577          | 11,856,530          |

|  | <b>Six months<br/>ended 30<br/>June 2018</b> | Six months<br>ended 30<br>June 2017 | Six months<br>ended 30<br>June 2016 |
|--|--|-------------------------------------|-------------------------------------|
| <b>Interim operating results</b> (in millions of RMB)    |  |                                     |                                     |
| Operating income   | <b>307,950</b>                               | 279,319                             | 262,504                             |
| Net interest income                                      | <b>233,833</b>                               | 211,323                             | 198,957                             |
| Net fee and commission income                            | <b>43,637</b>                                | 42,465                              | 51,108                              |
| Operating expenses                                       | <b>100,999</b>                               | 101,414                             | 94,309                              |
| Impairment losses on assets                              | <b>65,405</b>                                | 44,697                              | 36,735                              |
| Total profit before tax                                  | <b>141,552</b>                               | 133,210                             | 131,457                             |
| Net profit   | <b>115,976</b>                               | 108,670                             | 105,051                             |
| Net profit attributable to equity holders of<br>the Bank | <b>115,789</b>                               | 108,593                             | 105,148                             |
| Net cash generated from operating activities             | <b>(221,452)</b>                             | 342,873                             | 534,769                             |

### Financial Indicators

|  | <b>Six months<br/>ended 30<br/>June 2018</b> | Six months<br>ended 30<br>June 2017 | Six months<br>ended 30<br>June 2016 |
|--|--|-------------------------------------|-------------------------------------|
| <b>Profitability (%)</b>                             |  |                                     |                                     |
| Return on average total assets <sup>2</sup>          | <b>1.08*</b>                                 | 1.08*                               | 1.15*                               |
| Return on weighted average net assets <sup>3</sup>   | <b>16.72*</b>                                | 16.74*                              | 17.63*                              |
| Net interest margin <sup>4</sup>                     | <b>2.35*</b>                                 | 2.24*                               | 2.31*                               |
| Net interest spread <sup>5</sup>                     | <b>2.24*</b>                                 | 2.11*                               | 2.16*                               |
| Return on risk-weighted assets <sup>1,6</sup>        | <b>1.75*</b>                                 | 1.81*                               | 1.80*                               |
| Net fee and commission income to<br>operating income | <b>14.17</b>                                 | 15.20                               | 19.47                               |
| Cost-to-income ratio <sup>7</sup>                    | <b>26.67</b>                                 | 28.31                               | 30.03                               |

### Data per share (RMB Yuan)

|   |               |      |      |
|---|---------------|------|------|
| Basic earnings per share <sup>3</sup>                     | <b>0.35</b>   | 0.33 | 0.32 |
| Diluted earnings per share <sup>3</sup>                   | <b>0.35</b>   | 0.33 | 0.32 |
| Net cash per share generated from<br>operating activities | <b>(0.63)</b> | 1.06 | 1.65 |

|   | <b>30 June<br/>2018</b> | 31 December<br>2017 | 31 December<br>2016 |
|---|-------------------------|---------------------|---------------------|
| <b>Asset Quality (%)</b>  |                         |                     |                     |
| Non-performing loan ratio <sup>8</sup>                          | <b>1.62</b>             | 1.81                | 2.37                |
| Allowance to non-performing loans <sup>9</sup>                  | <b>248.40</b>           | 208.37              | 173.40              |
| Allowance to total loans <sup>10</sup>                          | <b>4.03</b>             | 3.77                | 4.12                |
| <b>Capital adequacy (%)</b>                                     |                         |                     |                     |
| Common Equity Tier 1 (CET1) capital adequacy ratio <sup>1</sup> | <b>11.19</b>            | 10.63               | 10.38               |
| Tier 1 capital adequacy ratio <sup>1</sup>                      | <b>11.79</b>            | 11.26               | 11.06               |
| Capital adequacy ratio <sup>1</sup>                             | <b>14.77</b>            | 13.74               | 13.04               |
| Risk-weighted assets to total assets ratio <sup>1</sup>         | <b>60.30</b>            | 59.87               | 60.59               |
| Total equity to total assets ratio                              | <b>7.16</b>             | 6.79                | 6.75                |
| <b>Data per share (RMB Yuan)</b>                                |                         |                     |                     |
| Net assets per ordinary share <sup>11</sup>                     | <b>4.24</b>             | 4.15                | 3.81                |

- Notes: 1. Figures were calculated in accordance with the Capital Rules for Commercial Banks (Provisional) and other relevant regulations.
2. Calculated by dividing net profit by the average balances of total assets at the beginning and the end of the period.
3. 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 (2010 Revision) issued by the CSRC and International Accounting Standard 33 – Earnings per share.
4. Calculated by dividing net interest income by the average balances of interest-earning assets.
5. Calculated as the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.
6. Calculated by dividing net profit by risk-weighted assets at the end of the period. The risk-weighted assets are calculated in accordance with the relevant regulations of the CBIRC.
7. Calculated by dividing operating and administrative expenses by operating income in accordance with CASs, which is consistent with the corresponding figures as stated in the financial report of the Bank prepared in accordance with CASs.
8. Calculated by dividing the balance of non-performing loans by the balance of total loans and advances to customers.
9. Calculated by dividing the balance of allowance for impairment losses on loans by the balance of non-performing loans, among which, the balance of allowance for impairment losses on loans does not include the allowance for impairment losses on bills and forfeiting recognized in other comprehensive income.
10. Calculated by dividing the balance of allowance for impairment losses on loans by the balance of total loans and advances to customers, among which, the balance of allowance for impairment losses on loans does not include the allowance for impairment losses on bills and forfeiting recognized in other comprehensive income.
11. Calculated by dividing equity attributable to ordinary equity holders of the Bank after deduction of preference shares at the end of the reporting period by the total number of ordinary shares at the end of reporting period.
- \* Annualized figures.

## Other Financial Indicators

|  |                  | Regulatory<br>Standard | 30 June<br>2018 | 31 December<br>2017 | 31 December<br>2016 |
|--|------------------|------------------------|-----------------|---------------------|---------------------|
| <b>Liquidity ratio<sup>1</sup>(%)</b>                                    | RMB              | ≥25                    | <b>55.41</b>    | 50.95               | 46.74               |
|  | Foreign Currency | ≥25                    | <b>95.69</b>    | 106.74              | 82.24               |
| <b>Percentage of loans to the largest single customer<sup>2</sup>(%)</b> |                  | ≤10                    | <b>6.39</b>     | 7.26                | 6.98                |
| <b>Percentage of loans to the top ten customers<sup>3</sup>(%)</b>       |                  |                        | <b>16.84</b>    | 18.27               | 16.58               |
| <b>Loan migration ratio<sup>4</sup>(%)</b>                               | Normal           |                        | <b>1.24</b>     | 2.13                | 3.00                |
|  | Special mention  |                        | <b>11.68</b>    | 18.70               | 24.86               |
|  | Substandard      |                        | <b>61.14</b>    | 71.48               | 89.23               |
|  | Doubtful         |                        | <b>3.79</b>     | 6.94                | 9.55                |

- Notes: 1. Calculated by dividing current assets by current liabilities in accordance with the relevant regulations of the CBIRC.
2. Calculated by dividing total loans to the largest single customer by net capital.
3. Calculated by dividing total loans to the top ten customers by net capital.
4. Calculated in accordance with the relevant regulations of the CBIRC, reflecting domestic data only.

## **DISCUSSION AND ANALYSIS**

### **Environment and Prospects**

During the first half of 2018, the global economy generally continued its recovery with a positive trend. The US economy remained strong, with an increasing inflation rate and a continued low unemployment rate, prompting the Federal Reserve successively raise interest rates twice. In Europe, there was a slowdown in economic recovery, moderate inflation and low unemployment. Japan also experienced a weakening economic margin and a decrease in expansion of production end, while it still kept a low inflation level and a continuously decreasing unemployment rate. Despite a continuing trend of growth among emerging economies, certain countries, such as Argentina, Turkey and Brazil, encountered external effects that resulted in substantial currency depreciation and slowdown economic growth.

During the first half of 2018, fundamentals of China's economy remained robust, and growth in economy kept resilient with a solid 6.8% growth in GDP. The growth of fixed asset investment slowed, as a result of factors such as regulations on local government borrowing and PPP projects. Overall consumption maintained a steady growth, especially the continuous fast-growing trend of medium-high end consumption. Consumption contributed 78.5% of economic growth during the first half of 2018, representing an increase of 14.2 percentage points as compared to the corresponding period in 2017. The economy maintained rapid export growth, increasing 12.8% as compared to the corresponding period in 2017. The service sector played a more prominent role in driving economic growth, comprising 54.3% of GDP, increasing by 0.3 percentage point as compared to the corresponding period in 2017. The supply-side structural reform further advanced, structural elimination of overcapacity deepened and enterprises' leverage ratios decreased slightly. Also, the reforms to streamline administration, delegate powers and improve regulation and services were intensified, the development of entrepreneurship and innovation were accelerated and emerging drivers of economic progress were actively promoted.

In the first half of 2018, the government continued to adopt proactive fiscal policies as well as prudent and neutral monetary policies. The fiscal policies were intended to intensify efforts to improve efficiency, as well as to further reduce taxes and fees. Besides, local governments' financing was regulated to prevent local governmental debt risk. The PBOC implemented the combined policies of "higher interest rates + lower deposit reserve ratios" and maintained appropriately stable levels of liquidity, through the use of tools such as reverse repurchase, Medium-term Lending Facility, Standing Lending Facility. The M2 money supply maintained its medium to low growth, and the off-balance sheet financing was placed under more stringent control, so the growth of aggregate financing in the economy slowed down sharply. The risk-free interest rate experienced a drop in general and credit spreads were enlarged due to increasing bond defaults. Financial reforms continuously deepened, as a new regulation on asset management was promulgated and the opening-up of finance sector was accelerated.

Looking forward to the second half of the year, it is anticipated that the global economy will be maintained at a prosperous level. According to IMF July estimates, the global economic growth for 2018 will increase to 3.9%. However, the adverse impact upon the economy made by the tight monetary policy of the United States and the global trade conflict should not be ignored. It is anticipated that China's economy will remain steady growth as its consumption level will remain stable and infrastructure investments will slow down to a moderate speed. It is likely that the China's economic growth target for the year will be reached. Along with the continued issuance of local government bonds, there should be a slight increase in money supply. Against the increase of external interest rate, the risk-free interest rate will not unilaterally drop. As greater emphasis is being placed on the reduction of domestic taxes and the open-door policy, it is expected to see more tax cut measures and the faster opening-up of financial and manufacturing sectors. Other policies expected to be introduced, including the continuous deepening of financial system reform, the twin pillar adjustment framework of healthy monetary policy and macro-prudential policy, and the optimization of conduction channels of the monetary policy. Meanwhile, prudent monetary policies will be adopted continuously and reasonable liquidity will be remained to achieve the reasonable growth levels of monetary credit and social financing.

In the second half of the year, the Bank will incessantly adhere to the major principle of seeking progress while maintaining stability in an effort to focus on priorities, address inadequacies, and remediate weaknesses. The financial services for "Sannong" and the real economy must be strengthened while adhering to a strict approach to risk limitation. First of all, we will focus on key areas and weak sectors, and enhance the quality and effectiveness of our services for the real economy continuously. The Bank will further innovate financial products and service models, deepen the financial services for rural vitalization, and make breakthroughs in small- and micro-enterprise banking services and develop financial services for new economy and new areas. Second, we will strictly adhere to a strict approach to the limitation on risks and cases of violations, and drive the Bank's operations towards the higher level of quality. Any accumulation of potential risks, such as shadow banking, "zombie" enterprises, local government debts and Sino-US trade friction must be closely monitored. We will prevent credit risk and liquidity risk. Also, we will prevent the risk relating to the business of pledges of stocks, and reinforce the management of anti-money laundering compliance. Third, we will push forward an in-depth implementation of reforms and enhance our power of development. The reform of management framework for technology and product innovation will be expedited to support business innovation and development strategically. Besides, we will push the reform of asset management business for adapting to the new regulation on asset management as soon as possible. Also, our business process will be further optimized to improve the efficiency and effectiveness of the management of our businesses.

## Financial Statement Analysis

### *Income statement Analysis*

In the first half of 2018, we achieved a net profit of RMB115,976 million, representing an increase of RMB7,306 million, or 6.7%, compared to the corresponding period of the previous year.

### Changes of Significant Income Statement Items

*In millions of RMB, except for percentages*

| <b>Item</b>                                    | <b>Six months<br/>ended 30<br/>June 2018</b> | Six months<br>ended 30<br>June 2017 | Increase/<br>(decrease) | Growth<br>rate (%) |
|--|--|-------------------------------------|-------------------------|--------------------|
| Net interest income                            | <b>233,833</b>                               | 211,323                             | 22,510                  | 10.7               |
| Net fee and commission income                  | <b>43,637</b>                                | 42,465                              | 1,172                   | 2.8                |
| Other non-interest income                      | <b>30,480</b>                                | 25,531                              | 4,949                   | 19.4               |
| <b>Operating income</b>                        | <b>307,950</b>                               | 279,319                             | 28,631                  | 10.3               |
| Less: Operating expenses                       | <b>100,999</b>                               | 101,414                             | (415)                   | -0.4               |
| Impairment losses on assets                    | <b>65,405</b>                                | 44,697                              | 20,708                  | 46.3               |
| <b>Operating profit</b>                        | <b>141,546</b>                               | 133,208                             | 8,338                   | 6.3                |
| Share of result of associate                   | <b>6</b>                                     | 2                                   | 4                       | 200.0              |
| Profit before tax                              | <b>141,552</b>                               | 133,210                             | 8,342                   | 6.3                |
| Less: Income tax expense                       | <b>25,576</b>                                | 24,540                              | 1,036                   | 4.2                |
| <b>Net Profit</b>                              | <b>115,976</b>                               | 108,670                             | 7,306                   | 6.7                |
| Attributable to: Equity holders<br>of the Bank | <b>115,789</b>                               | 108,593                             | 7,196                   | 6.6                |
| Non-controlling<br>interests                   | <b>187</b>                                   | 77                                  | 110                     | 142.9              |

### *Net Interest Income*

Net interest income was the largest component of our operating income, accounting for 75.9% of the total operating income in the first half of 2018. Our net interest income was RMB233,833 million in the first half of 2018, representing an increase of RMB22,510 million compared to the corresponding period of the previous year, among which, changes in volume and interest rates resulted in increases of RMB11,468 million and RMB11,042 million in net interest income, respectively. In the first half of 2018, our net interest margin and net interest spread were 2.35% and 2.24%, respectively, representing increases of 11 basis points and 13 basis points compared to the corresponding period of the previous year. The increases in net interest margin and net interest spread were primarily due to: (1) we enhanced the pricing management for loans and continued optimizing the structure of credit assets, which resulted in an increase in the average yield of loans; (2) yields of non-restructuring-related debt securities and amounts due from banks and other financial institutions increased due to various factors including tightening liquidity in the market.

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

*In millions of RMB, except for percentages*

| Item   | Six months ended 30 June 2018 |                         |                                     | Six months ended 30 June 2017 |                         |                                     |
|--|-------------------------------|-------------------------|-------------------------------------|-------------------------------|-------------------------|-------------------------------------|
|  | Average balance               | Interest income/expense | Average yield/cost <sup>7</sup> (%) | Average balance               | Interest income/expense | Average yield/cost <sup>7</sup> (%) |
| <b>Assets</b>  |                               |                         |                                     |                               |                         |                                     |
| Loans and advances to customers                                      | 11,145,374                    | 242,422                 | 4.39                                | 10,135,085                    | 212,530                 | 4.23                                |
| Debt securities investments <sup>1</sup>                             | 5,541,621                     | 103,077                 | 3.75                                | 5,285,290                     | 94,272                  | 3.60                                |
| Non-restructuring-related debt securities                            | 5,175,942                     | 97,517                  | 3.80                                | 4,919,967                     | 88,718                  | 3.64                                |
| Restructuring-related debt securities <sup>2</sup>                   | 365,679                       | 5,560                   | 3.07                                | 365,323                       | 5,554                   | 3.07                                |
| Balances with central banks  | 2,626,701                     | 20,732                  | 1.59                                | 2,566,674                     | 20,172                  | 1.58                                |
| Amounts due from banks and other financial institutions <sup>3</sup> | 719,088                       | 12,063                  | 3.38                                | 1,079,508                     | 17,626                  | 3.29                                |
| <b>Total interest-earning assets</b>                                 | <b>20,032,784</b>             | <b>378,294</b>          | <b>3.81</b>                         | <b>19,066,557</b>             | <b>344,600</b>          | <b>3.64</b>                         |
| Allowance for impairment losses <sup>4</sup>                         | (438,004)                     |                         |                                     | (420,069)                     |                         |                                     |
| Non-interest-earning assets <sup>4</sup>                             | 1,230,965                     |                         |                                     | 1,193,432                     |                         |                                     |
| Total assets   | 20,825,745                    |                         |                                     | 19,839,920                    |                         |                                     |
| <b>Liabilities</b>   |                               |                         |                                     |                               |                         |                                     |
| Deposits from customers  | 16,182,316                    | 108,160                 | 1.35                                | 15,424,710                    | 104,112                 | 1.36                                |
| Amounts due to banks and other financial institutions <sup>5</sup>   | 1,368,611                     | 18,989                  | 2.80                                | 1,279,546                     | 16,550                  | 2.61                                |
| Other interest-bearing liabilities <sup>6</sup>                      | 1,002,375                     | 17,312                  | 3.48                                | 805,365                       | 12,615                  | 3.16                                |
| <b>Total interest-bearing liabilities</b>                            | <b>18,553,302</b>             | <b>144,461</b>          | <b>1.57</b>                         | <b>17,509,621</b>             | <b>133,277</b>          | <b>1.53</b>                         |
| Non-interest-bearing liabilities <sup>4</sup>                        | 1,007,178                     |                         |                                     | 993,933                       |                         |                                     |
| Total liabilities  | 19,560,480                    |                         |                                     | 18,503,554                    |                         |                                     |
| <b>Net interest income</b>   |                               | <b>233,833</b>          |                                     |                               | <b>211,323</b>          |                                     |
| <b>Net interest spread</b>   |                               |                         | <b>2.24</b>                         |                               |                         | <b>2.11</b>                         |
| <b>Net interest margin</b>   |                               |                         | <b>2.35</b>                         |                               |                         | <b>2.24</b>                         |



- Notes: 1. Debt securities investments include debt securities investments at fair value through other comprehensive income and financial investments at amortized cost.
2. Restructuring-related debt securities include receivable from the MOF and special government bond.
3. Amounts due from banks and other financial institutions primarily include deposits with banks and other financial institutions, placements with and loans to banks and other financial institutions, and 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 deposits and placements from banks and other financial institutions, as well as financial assets sold under repurchase agreements.
6. Other interest-bearing liabilities primarily include debt securities issued and borrowings from central banks.
7. Annualized figures.

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

|   | <i>In millions of RMB</i>         |                      |                      |
|---|-----------------------------------|----------------------|----------------------|
|   | <u>Increase/(decrease) due to</u> |                      | <u>Net increase/</u> |
|   | <u>Volume</u>                     | <u>Interest rate</u> | <u>(decrease)</u>    |
| <b>Assets</b>   |                                   |                      |                      |
| Loans and advances to customers                         | 21,975                            | 7,917                | 29,892               |
| Debt securities investments                             | 4,768                             | 4,037                | 8,805                |
| Balances with central banks                             | 474                               | 86                   | 560                  |
| Amounts due from banks and other financial institutions | (6,046)                           | 483                  | (5,563)              |
| Changes in interest income                              | 21,171                            | 12,523               | 33,694               |
| <b>Liabilities</b>                                      |                                   |                      |                      |
| Deposits from customers                                 | 5,064                             | (1,016)              | 4,048                |
| Amounts due to banks and other financial institutions   | 1,236                             | 1,203                | 2,439                |
| Other interest-bearing liabilities                      | 3,403                             | 1,294                | 4,697                |
| Changes in interest expense                             | 9,703                             | 1,481                | 11,184               |
| <b>Changes in net interest income</b>                   | <b>11,468</b>                     | <b>11,042</b>        | <b>22,510</b>        |

Note: Changes due to the effects of both volume and interest rate have been allocated to the changes due to volume.

## *Interest Income*

We achieved interest income of RMB378,294 million in the first half of 2018, representing an increase of RMB33,694 million over the corresponding period of the previous year, which was primarily due to an increase of RMB966,227 million in the average balance and an increase of 17 basis points in the average yield of interest-earning assets.

### *Interest Income from Loans and Advances to Customers*

Interest income from loans and advances to customers increased by RMB29,892 million, or 14.1%, over the corresponding period of the previous year to RMB242,422 million, which was primarily due to an increase of RMB1,010,289 million in the average balance.

The table below presents the average balance, interest income and average yield of loans and advances to customers by business type.

*In millions of RMB, except for percentages*

| Item   | Six months ended 30 June 2018 |                 |                                | Six months ended 30 June 2017 |                 |                                |
|--|-------------------------------|-----------------|--------------------------------|-------------------------------|-----------------|--------------------------------|
|  | Average balance               | Interest income | Average yield <sup>1</sup> (%) | Average balance               | Interest income | Average yield <sup>1</sup> (%) |
| Corporate loans                              | 6,422,227                     | 141,446         | 4.44                           | 5,796,574                     | 126,332         | 4.39                           |
| Short-term corporate loans                   | 2,359,292                     | 49,286          | 4.21                           | 2,286,503                     | 46,109          | 4.07                           |
| Medium- and long-term corporate loans        | 4,062,935                     | 92,160          | 4.57                           | 3,510,071                     | 80,223          | 4.61                           |
| Discounted bills                             | 144,947                       | 3,398           | 4.73                           | 379,824                       | 5,542           | 2.94                           |
| Retail loans                                 | 4,176,566                     | 91,436          | 4.41                           | 3,517,437                     | 75,338          | 4.32                           |
| Overseas and others                          | 401,634                       | 6,142           | 3.08                           | 441,250                       | 5,318           | 2.43                           |
| <b>Total loans and advances to customers</b> | <b>11,145,374</b>             | <b>242,422</b>  | <b>4.39</b>                    | <b>10,135,085</b>             | <b>212,530</b>  | <b>4.23</b>                    |

*Note: 1. Annualized figures.*

Interest income from corporate loans increased by RMB15,114 million, or 12.0%, to RMB141,446 million compared to the corresponding period of the previous year, which was primarily due to an increase of RMB625,653 million in the average balance and an increase of 5 basis points in the average yield. Interest income from retail loans increased by RMB16,098 million, or 21.4%, to RMB91,436 million compared to the corresponding period of the previous year, which was primarily due to an increase of RMB659,129 million in the average balance and an increase of 9 basis points in the average yield. The average yields increased primarily because we enhanced the pricing management for loans and continued to optimize the structure of credit assets, which resulted in an increase in the average yield of loans.

Interest income from discounted bills decreased by RMB2,144 million, or 38.7%, to RMB3,398 million compared to the corresponding period of the previous year, which was primarily due to a decrease of RMB234,877 million in the average balance, partially offset by an increase of 179 basis points in the average yield. The increase in the average yield was primarily due to the increase in the interest rate in the bills discount market.

Interest income from overseas and other loans increased by RMB824 million, or 15.5%, to RMB6,142 million compared to the corresponding period of the previous year, which was primarily due to an increase of 65 basis points in the average yield.

#### *Interest Income from Debt Securities Investments*

Interest income from debt securities investments was the second largest component of our interest income. In the first half of 2018, our interest income from debt securities investments increased by RMB8,805 million to RMB103,077 million compared to the corresponding period of the previous year, which was primarily due to an increase of RMB256,331 million in the average balance and an increase of 15 basis points in the average yield. The increase in the average yield was mainly due to the increase in yields of debt securities market compared to the corresponding period of the previous year as a result of tightening liquidity.

#### *Interest Income from Balances with Central Banks*

Interest income from balances with central banks increased by RMB560 million to RMB20,732 million compared to the corresponding period of the previous year, which was primarily due to an increase of RMB60,027 million in the average balance.

#### *Interest Income from Amounts Due from Banks and Other Financial Institutions*

Interest income from amounts due from banks and other financial institutions decreased by RMB5,563 million to RMB12,063 million compared to the corresponding period of the previous year, which was primarily due to a decrease of RMB360,420 million in the average balance, partially offset by an increase of 9 basis points in the average yield. The increase in the average yield was primarily due to the upward interest rate in the monetary market as a result of tightening liquidity.

#### *Interest Expense*

Interest expense increased by RMB11,184 million to RMB144,461 million compared to the corresponding period of the previous year, which was mainly due to an increase of RMB1,043,681 million in the average balance.

### Interest Expense on Deposits from Customers

Interest expense on deposits from customers increased by RMB4,048 million to RMB108,160 million compared to the corresponding period of the previous year, which was primarily due to an increase of RMB757,606 million in the average balance, partially offset by a decrease of 1 basis point in the average cost.

### Analysis of Average Cost of Deposits by Product

*In millions of RMB, except for percentages*

| Item                                 | Six months ended 30 June 2018 |                  |                               | Six months ended 30 June 2017 |                  |                               |
|--------------------------------------|-------------------------------|------------------|-------------------------------|-------------------------------|------------------|-------------------------------|
|                                      | Average balance               | Interest expense | Average cost <sup>1</sup> (%) | Average balance               | Interest expense | Average cost <sup>1</sup> (%) |
| <b>Corporate deposits</b>            |                               |                  |                               |                               |                  |                               |
| Time                                 | 2,226,510                     | 27,913           | 2.53                          | 2,245,492                     | 27,248           | 2.45                          |
| Demand                               | 4,480,579                     | 15,206           | 0.68                          | 4,074,763                     | 12,579           | 0.62                          |
| Sub-Total                            | 6,707,089                     | 43,119           | 1.30                          | 6,320,255                     | 39,827           | 1.27                          |
| <b>Retail deposits</b>               |                               |                  |                               |                               |                  |                               |
| Time                                 | 4,466,321                     | 54,076           | 2.44                          | 4,431,374                     | 55,331           | 2.52                          |
| Demand                               | 5,008,906                     | 10,965           | 0.44                          | 4,673,081                     | 8,954            | 0.39                          |
| Sub-Total                            | 9,475,227                     | 65,041           | 1.38                          | 9,104,455                     | 64,285           | 1.42                          |
| <b>Total deposits from customers</b> | <b>16,182,316</b>             | <b>108,160</b>   | <b>1.35</b>                   | <b>15,424,710</b>             | <b>104,112</b>   | <b>1.36</b>                   |

Note: 1. Annualized figures.

### Interest Expense on Amounts Due to Banks and Other Financial Institutions

Interest expense on amounts due to banks and other financial institutions increased by RMB2,439 million to RMB18,989 million compared to the corresponding period of the previous year, which was primarily due to an increase of RMB89,065 million in average balance and an increase of 19 basis points in average cost. The increase in average cost was primarily due to the upward monetary market interest rate as a result of tightening liquidity.

### Interest Expense on Other Interest-bearing Liabilities

Interest expense on other interest-bearing liabilities increased by RMB4,697 million to RMB17,312 million compared to the corresponding period of the previous year, primarily due to an increase of RMB197,010 million in the average balance and an increase of 32 basis points in the average cost. The increase in the average balance was mainly due to the issuances of RMB40 billion tier-2 capital bonds by the Bank in October 2017 and April 2018, respectively, and the interbank certificates of deposit issued by the Bank and the Bank's regular borrowing from the PBOC through Lending Facility. The increase in the average cost was primarily due to the higher interest rates of the tier-2 capital bonds and the interbank certificate of deposit newly issued by the Bank.

### Net Fee and Commission Income

In the first half of 2018, we generated net fee and commission income of RMB43,637 million, representing an increase of RMB1,172 million, or 2.8%, compared to the corresponding period of the previous year.

### Composition of Net Fee and Commission Income

*In millions of RMB, except for percentages*

| <b>Item</b>                                   | <b>Six months<br/>ended 30<br/>June 2018</b> | Six months<br>ended 30<br>June 2017 | Increase/<br>(decrease) | Growth<br>rate (%) |
|---|--|-------------------------------------|-------------------------|--------------------|
| Agency commissions                            | <b>12,231</b>                                | 14,776                              | (2,545)                 | -17.2              |
| Settlement and clearing fees                  | <b>5,831</b>                                 | 6,163                               | (332)                   | -5.4               |
| Bank card fees                                | <b>12,426</b>                                | 10,897                              | 1,529                   | 14.0               |
| Consultancy and advisory fees                 | <b>5,526</b>                                 | 5,595                               | (69)                    | -1.2               |
| Electronic banking service fees               | <b>9,081</b>                                 | 6,596                               | 2,485                   | 37.7               |
| Custodian and other fiduciary<br>service fees | <b>2,144</b>                                 | 1,970                               | 174                     | 8.8                |
| Credit commitment fees                        | <b>1,007</b>                                 | 1,151                               | (144)                   | -12.5              |
| Others  | <b>250</b>                                   | 114                                 | 136                     | 119.3              |
| <b>Fee and commission income</b>              | <b>48,496</b>                                | 47,262                              | 1,234                   | 2.6                |
| Less: Fee and commission expenses             | <b>4,859</b>                                 | 4,797                               | 62                      | 1.3                |
| <b>Net fee and commission income</b>          | <b>43,637</b>                                | 42,465                              | 1,172                   | 2.8                |

Agency commissions decreased by RMB2,545 million, or 17.2%, to RMB12,231 million compared to the corresponding period of the previous year, which was mainly due to a decrease in income from the wealth management business on behalf of customers.

Settlement and clearing fees decreased by RMB332 million, or 5.4%, to RMB5,831 million compared to the corresponding period of the previous year, which was mainly due to our reduction or exemption of certain service fees in response to government policies related to financial service charges.

Bank card fees increased by RMB1,529 million, or 14.0%, to RMB12,426 million compared to the corresponding period of the previous year, which was mainly due to the increase in income from credit card instalment business.

Consultancy and advisory fees decreased by RMB69 million, or 1.2%, to RMB5,526 million compared to the corresponding period of the previous year, which was primarily due to the decrease in the income from the consultancy services for financing.

Electronic banking service fees increased by RMB2,485 million, or 37.7%, to RMB9,081 million compared to the corresponding period of the previous year, which was primarily due to the growth in income from e-commerce banking services.

Custodian and other fiduciary service fees increased by RMB174 million, or 8.8%, to RMB2,144 million compared to the corresponding period of the previous year, which was mainly due to the increase in income from custodian service for specific funds.

Credit commitment fees decreased by RMB144 million, or 12.5%, to RMB1,007 million compared to the corresponding period of the previous year. The decrease was mainly due to the decrease in income from the businesses related to letter of guarantee.

#### *Other Non-interest Income*

In the first half of 2018, other non-interest income amounted to RMB30,480 million, representing an increase of RMB4,949 million compared to the corresponding period of the previous year.

Net trading gain increased by RMB9,176 million to RMB7,806 million compared to the corresponding period of the previous year, which was primarily because part of interest income from holding financial assets at fair value through profit or loss is recognized as net trading gain following the implementation of IFRS 9 – Financial Instruments.

Net gain on financial instruments designated at fair value through profit or loss amounted to RMB3,130 million, representing an increase of RMB2,523 million compared to the corresponding period of the previous year, which was primarily due to the increase in gain on principal guaranteed wealth management products.

Net gain on investment securities amounted to RMB948 million, representing an increase of RMB640 million compared to the corresponding period of the previous year, which was primarily because part of interest income from debt securities at fair value through profit or loss is recognized as net gain on investment securities following the implementation of IFRS 9 – Financial Instruments.

Other operating income decreased by RMB7,390 million to RMB18,596 million compared to the corresponding period of the previous year.

## Composition of Other Non-interest Income

*In millions of RMB*

| <b>Item</b>   | <b>Six months<br/>ended 30<br/>June 2018</b> | <b>Six months<br/>ended 30<br/>June 2017</b> |
|---|--|--|
| Net trading gain/(loss)   | <b>7,806</b>                                 | (1,370)                                      |
| Net gain on financial instruments designated at fair value through profit or loss | <b>3,130</b>                                 | 607  |
| Net gain on investment securities   | <b>948</b>                                   | 308  |
| Other operating income  | <b>18,596</b>                                | 25,986                                       |
| <b>Total</b>  | <b>30,480</b>                                | 25,531                                       |

### *Operating Expenses*

Our operating expenses decreased by RMB415 million to RMB100,999 million compared to the corresponding period of the previous year, among which, staff costs, general operating and administrative expenses and tax and surcharges amounted to RMB56,384 million, RMB17,079 million and RMB2,646 million, respectively, representing an increase of RMB2,906 million, RMB1,198 million and RMB235 million, respectively, compared to the corresponding period of the previous year. Insurance benefits and claims and depreciation and amortization amounted to RMB13,944 million and RMB8,236 million, respectively, representing an decrease of RMB4,518 million and RMB870 million, respectively, compared to the corresponding period of the previous year. Cost-to-income ratio decreased by 1.64 percentage points to 26.67% compared to the corresponding period of the previous year.

## Composition of Operating Expense

*In millions of RMB, except for percentages*

| <b>Item</b>                                      | <b>Six months<br/>ended 30<br/>June 2018</b> | Six months<br>ended 30<br>June 2017 | Increase/<br>(decrease) | Growth<br>rate (%) |
|--|--|-------------------------------------|-------------------------|--------------------|
| Staff costs                                      | <b>56,384</b>                                | 53,478                              | 2,906                   | 5.4                |
| General operating and administrative<br>expenses | <b>17,079</b>                                | 15,881                              | 1,198                   | 7.5                |
| Insurance benefits and claims                    | <b>13,944</b>                                | 18,462                              | (4,518)                 | -24.5              |
| Depreciation and amortization                    | <b>8,236</b>                                 | 9,106                               | (870)                   | -9.6               |
| Tax and surcharges                               | <b>2,646</b>                                 | 2,411                               | 235                     | 9.7                |
| Others   | <b>2,710</b>                                 | 2,076                               | 634                     | 30.5               |
| <b>Total</b>                                     | <b>100,999</b>                               | 101,414                             | (415)                   | -0.4               |

### *Impairment Losses on Assets*

In the first half of 2018, impairment losses on assets increased by RMB20,708 million to RMB65,405 million compared to the corresponding period of the previous year.

Impairment losses on loans increased by RMB25,200 million to RMB66,655 million compared to the corresponding period of the previous year, which was primarily due to the allowance for impairment losses on loans by the Bank with a prudent approach after full consideration of the uncertainties in the external environment.

### *Income Tax Expense*

In the first half of 2018, our income tax expense was RMB25,576 million. The effective tax rate was 18.07%, which was lower than the statutory tax rate of 25%. This was primarily because the interest income from the PRC treasury bonds and local government bonds held by the Bank was exempted from enterprise income tax by the relevant tax laws.

### *Segment Reports*

We assessed our performance and determined the allocation of resources based on the segment reports. The segment information below had been presented in a same manner with that of internal management and reporting. At present, we manage our segments from the aspects of business lines, geographical regions and the County Area Banking Business.



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

*In millions of RMB, except for percentages*

| Item                          | Six months ended<br>30 June 2018 |                | Six months ended<br>30 June 2017 |                |
|-------------------------------|----------------------------------|----------------|----------------------------------|----------------|
|                               | Amount                           | Percentage (%) | Amount                           | Percentage (%) |
| Corporate banking business    | 140,216                          | 45.5           | 121,649                          | 43.6           |
| Retail banking business       | 118,822                          | 38.6           | 105,358                          | 37.7           |
| Treasury operations           | 29,070                           | 9.4            | 29,163                           | 10.4           |
| Other business                | 19,842                           | 6.5            | 23,149                           | 8.3            |
| <b>Total operating income</b> | <b>307,950</b>                   | <b>100.0</b>   | <b>279,319</b>                   | <b>100.0</b>   |

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

*In millions of RMB, except for percentages*

| Item                          | Six months ended<br>30 June 2018 |                | Six months ended<br>30 June 2017 |                |
|-------------------------------|----------------------------------|----------------|----------------------------------|----------------|
|                               | Amount                           | Percentage (%) | Amount                           | Percentage (%) |
| Head Office                   | 15,494                           | 5.0            | 26,811                           | 9.6            |
| Yangtze River Delta           | 59,034                           | 19.2           | 50,203                           | 18.0           |
| Pearl River Delta             | 45,261                           | 14.7           | 35,351                           | 12.7           |
| Bohai Rim                     | 45,747                           | 14.9           | 38,743                           | 13.9           |
| Central China                 | 44,470                           | 14.4           | 36,741                           | 13.2           |
| Western China                 | 64,253                           | 20.9           | 55,997                           | 20.0           |
| Northeastern China            | 11,998                           | 3.9            | 10,068                           | 3.5            |
| Overseas and others           | 21,693                           | 7.0            | 25,405                           | 9.1            |
| <b>Total operating income</b> | <b>307,950</b>                   | <b>100.0</b>   | <b>279,319</b>                   | <b>100.0</b>   |

The table below presents the operating income from the County Area Banking Business and Urban Area Banking Business during the period indicated.

*In millions of RMB, except for percentages*

| Item                         | Six months ended<br>30 June 2018 |                | Six months ended<br>30 June 2017 |                |
|------------------------------|----------------------------------|----------------|----------------------------------|----------------|
|                              | Amount                           | Percentage (%) | Amount                           | Percentage (%) |
| County Area Banking Business | 114,801                          | 37.3           | 102,289                          | 36.6           |
| Urban Area Banking Business  | 193,149                          | 62.7           | 177,030                          | 63.4           |
| Total operating income       | <u>307,950</u>                   | <u>100.0</u>   | <u>279,319</u>                   | <u>100.0</u>   |

### ***Balance Sheet Analysis***

#### *Assets*

As at 30 June 2018, our total assets amounted to RMB21,920,851 million, representing an increase of RMB867,469 million, or 4.1%, compared to the end of the previous year. Net loans and advances to customers increased by RMB685,056 million, or 6.6%. Net investment in securities and other financial assets increased by RMB272,863 million, or 4.4%. Cash and balances with central banks increased by RMB66,935 million, or 2.3%. Deposits and placements with and loans to banks and other financial institutions decreased by RMB106,404 million, or 16.7%, primarily due to the decrease in cooperative deposits with banks and other financial institutions. Financial assets held under resale agreements decreased by RMB172,574 million, or 31.9%, primarily due to the decrease in debt securities held under resale agreements.

## Key Items of Assets

*In millions of RMB, except for percentages*

| Item   | 30 June 2018      |                | 31 December 2017  |                |
|--|-------------------|----------------|-------------------|----------------|
|  | Amount            | Percentage (%) | Amount            | Percentage (%) |
| Total loans and advances to customers  | 11,463,138        | –              | 10,720,611        | –              |
| Less: Allowance for impairment losses on loans                                   | 461,771           | –              | 404,300           | –              |
| Loans and advances to customers, net   | 11,001,367        | 50.2           | 10,316,311        | 49.0           |
| Investment in securities and other financial assets, net                         | 6,425,606         | 29.3           | 6,152,743         | 29.2           |
| Cash and balances with central banks   | 2,963,554         | 13.5           | 2,896,619         | 13.8           |
| Deposits and placements with and loans to banks and other financial institutions | 529,110           | 2.4            | 635,514           | 3.0            |
| Financial assets held under resale agreements                                    | 367,812           | 1.7            | 540,386           | 2.6            |
| Others   | 633,402           | 2.9            | 511,809           | 2.4            |
| <b>Total assets</b>  | <b>21,920,851</b> | <b>100.0</b>   | <b>21,053,382</b> | <b>100.0</b>   |

### Loans and Advances to Customers

As at 30 June 2018, our total loans and advances to customers amounted to RMB11,463,138 million, representing an increase of RMB742,527 million, or 6.9%, compared to the end of the previous year.

## Distribution of Loans and Advances to Customers by Business Type

*In millions of RMB, except for percentages*

| Item                               | 30 June 2018      |                | 31 December 2017 |                |
|------------------------------------|-------------------|----------------|------------------|----------------|
|                                    | Amount            | Percentage (%) | Amount           | Percentage (%) |
| Loans granted by domestic branches | <b>11,042,971</b> | <b>96.3</b>    | 10,335,359       | 96.4           |
| Corporate loans                    | <b>6,551,357</b>  | <b>57.2</b>    | 6,147,584        | 57.4           |
| Discounted bills                   | <b>154,421</b>    | <b>1.3</b>     | 187,502          | 1.7            |
| Retail loans                       | <b>4,337,193</b>  | <b>37.8</b>    | 4,000,273        | 37.3           |
| Overseas and others                | <b>420,167</b>    | <b>3.7</b>     | 385,252          | 3.6            |
| <b>Total</b>                       | <b>11,463,138</b> | <b>100.0</b>   | 10,720,611       | 100.0          |

Corporate loans amounted to RMB6,551,357 million, representing an increase of RMB403,773 million, or 6.6%, compared to the end of the previous year, primarily because we proactively served the supply-side structural reform and increased credit support to areas such as national key projects, urban infrastructure construction, transportation facilities and strategic emerging industries.

Retail loans amounted to RMB4,337,193 million, representing an increase of RMB336,920 million, or 8.4%, compared to the end of the previous year, primarily because we pushed forward transformation of our retail banking business and proactively satisfied the rational credit demands related to people's livelihood such as retail residential mortgage loans and retail comprehensive consumption loans.

Discounted bills amounted to RMB154,421 million, representing a decrease of RMB33,081 million, or 17.6%, compared to the end of the previous year, primarily because we adjusted our credit structure and reduced our bills financing to prioritize credit demand of the real economy.

Overseas and other loans amounted to RMB420,167 million, representing an increase of RMB34,915 million, or 9.1%, compared to the end of the previous year, primarily because the development of the trade financing business.

### Distribution of Corporate Loans by Maturity

*In millions of RMB, except for percentages*

| Item                                  | 30 June 2018     |                | 31 December 2017 |                |
|---------------------------------------|------------------|----------------|------------------|----------------|
|                                       | Amount           | Percentage (%) | Amount           | Percentage (%) |
| Short-term corporate loans            | 2,385,551        | 36.4           | 2,311,991        | 37.6           |
| Medium- and long-term corporate loans | 4,165,806        | 63.6           | 3,835,593        | 62.4           |
| <b>Total</b>                          | <b>6,551,357</b> | <b>100.0</b>   | <b>6,147,584</b> | <b>100.0</b>   |

As at 30 June 2018, short-term corporate loans increased by RMB73,560 million, or 3.2%, compared to the end of the previous year. Medium- and long-term corporate loans increased by RMB330,213 million, or 8.6%, with proportion to the total corporate loans increasing by 1.2 percentage points to 63.6% compared to the end of the previous year.

### Distribution of Corporate Loans by Industry

*In millions of RMB, except for percentages*

| Item  | 30 June 2018     |                | 31 December 2017 |                |
|---|------------------|----------------|------------------|----------------|
|   | Amount           | Percentage (%) | Amount           | Percentage (%) |
| Manufacturing                                       | 1,272,920        | 19.4           | 1,241,537        | 20.2           |
| Production and supply of power, heat, gas and water | 852,163          | 13.0           | 801,355          | 13.1           |
| Real estate   | 588,208          | 9.0            | 513,512          | 8.4            |
| Transportation, logistics and postal services       | 1,315,650        | 20.1           | 1,223,618        | 19.9           |
| Wholesale and retail                                | 354,643          | 5.4            | 356,353          | 5.8            |
| Water, environment and public utilities management  | 411,477          | 6.3            | 367,775          | 6.0            |
| Construction  | 261,238          | 4.0            | 223,058          | 3.6            |
| Mining  | 214,632          | 3.3            | 224,098          | 3.6            |
| Leasing and commercial services                     | 898,651          | 13.7           | 797,744          | 13.0           |
| Finance   | 132,931          | 2.0            | 137,590          | 2.2            |
| Information transmission, software and IT services  | 50,626           | 0.8            | 45,054           | 0.7            |
| Others  | 198,218          | 3.0            | 215,890          | 3.5            |
| <b>Total</b>  | <b>6,551,357</b> | <b>100.0</b>   | <b>6,147,584</b> | <b>100.0</b>   |

*Note: Classification of the loans in the above table is based on the industries in which the borrowers operate. Real estate loans include loans for the development of real estate projects granted to enterprises mainly engaged in the real estate industry, mortgage loans for operating properties and other non-real estate loans granted to enterprises in the real estate industry. Others mainly include agriculture, forestry, animal husbandry, fishery, education, hotels and catering industries.*

As at 30 June 2018, the five major industries of our corporate borrowers included: (1) transportation, logistics and postal services, (2) manufacturing, (3) leasing and commercial services, (4) production and supply of power, heat, gas and water, and (5) real estate. Aggregate loans to these five major industries accounted for 75.2% of our total corporate loans, representing an increase of 0.6 percentage point compared to the end of the previous year. Two industries with the largest increase in proportion to our total corporate loans were leasing and commercial services and real estate industry, while manufacturing industry recorded the largest decrease in proportion to our total corporate loans.

#### Distribution of Retail Loans by Product Type

*In millions of RMB, except for percentages*

| Item                       | 30 June 2018     |                | 31 December 2017 |                |
|----------------------------|------------------|----------------|------------------|----------------|
|                            | Amount           | Percentage (%) | Amount           | Percentage (%) |
| Residential mortgage loans | 3,400,993        | 78.4           | 3,133,474        | 78.4           |
| Personal consumption loans | 150,363          | 3.5            | 137,525          | 3.4            |
| Loans to private business  | 204,711          | 4.7            | 204,681          | 5.1            |
| Credit card balances       | 345,043          | 8.0            | 317,547          | 7.9            |
| Loans to rural households  | 235,222          | 5.4            | 206,044          | 5.2            |
| Others                     | 861              | –              | 1,002            | –              |
| <b>Total</b>               | <b>4,337,193</b> | <b>100.0</b>   | <b>4,000,273</b> | <b>100.0</b>   |

Residential mortgage loans amounted to RMB3,400,993 million, representing an increase of RMB267,519 million, or 8.5%, compared to the end of the previous year, primarily because we actively implemented the national macro-control policies for the real estate industry to support reasonable purchase needs of residential properties.

Personal consumption loans amounted to RMB150,363 million, representing an increase of RMB12,838 million, or 9.3%, compared to the end of the previous year. The increase was mainly due to rapid growth in our short- and medium-term internet consumption loans such as “Internet Quick Loan”<sup>1</sup> and “Self-service Pledge Loan” as we actively facilitated the transformation of our retail banking business.

<sup>1</sup> “Internet Quick Loan” refers to the small amount internet consumption loan of the Bank granted to retail customers of the Bank who meet specified conditions, which allow customers self-applying, instantaneously getting money and self-use.

Loans to private business amounted to RMB204,711 million, representing an increase of RMB30 million compared to the end of the previous year.

Credit card balances amounted to RMB345,043 million, representing an increase of RMB27,496 million, or 8.7%, compared to the end of the previous year, primarily due to the increase in both the number of credit cards issued and the transaction volume of credit cards.

Loans to rural households amounted to RMB235,222 million, increased by RMB29,178 million, or 14.2%, compared to the end of the previous year, mainly because we strengthened our support to new agricultural business entities.

*Distribution of Loans by Geographic Region*

*In millions of RMB, except for percentages*

| Item                | 30 June 2018      |                | 31 December 2017  |                |
|---------------------|-------------------|----------------|-------------------|----------------|
|                     | Amount            | Percentage (%) | Amount            | Percentage (%) |
| Head Office         | 295,815           | 2.6            | 246,197           | 2.3            |
| Yangtze River Delta | 2,569,634         | 22.4           | 2,415,289         | 22.5           |
| Pearl River Delta   | 1,745,564         | 15.2           | 1,635,306         | 15.2           |
| Bohai Rim           | 1,777,899         | 15.5           | 1,682,564         | 15.7           |
| Central China       | 1,651,968         | 14.4           | 1,519,322         | 14.2           |
| Northeastern China  | 452,828           | 4.0            | 428,538           | 4.0            |
| Western China       | 2,549,263         | 22.2           | 2,408,143         | 22.5           |
| Overseas and others | 420,167           | 3.7            | 385,252           | 3.6            |
| <b>Total</b>        | <b>11,463,138</b> | <b>100.0</b>   | <b>10,720,611</b> | <b>100.0</b>   |

During the reporting period, we further optimized the allocation of credits by geographic region. We allocated strategic credit resources to the construction of the “Belt and Road Initiative”, regions related to national key area development strategies, such as the coordinated development of the Beijing-Tianjin-Hebei Region, the Yangtze River Economic Belt and the Guangdong-Hong Kong-Macao Bay Region, and free trade zones. The Bank mainly supported industrial transfer to Central and Western China as well as Northeastern China and investment in infrastructure projects in Central and Western China, to facilitate balanced development of loans by geographic region.

## Investments

As at 30 June 2018, our net investment in securities and other financial assets amounted to RMB6,425,606 million, representing an increase of RMB272,863 million compared to the end of the previous year, among which, non-restructuring-related debt securities increased by RMB292,080 million compared to the end of the previous year, which was primarily due to the rational increase in our investment in debt securities.

### Distribution of Investments by Type of Instruments

*In millions of RMB, except for percentages*

| Item                                      | 30 June 2018     |                | 31 December 2017 |                |
|---|------------------|----------------|------------------|----------------|
|   | Amount           | Percentage (%) | Amount           | Percentage (%) |
| Non-restructuring-related debt securities | 5,782,884        | 90.0           | 5,490,804        | 89.2           |
| Restructuring-related debt securities     | 384,256          | 6.0            | 367,314          | 6.0            |
| Equity instruments                        | 8,558            | 0.1            | 19,025           | 0.3            |
| Others <sup>1</sup>                       | 249,908          | 3.9            | 275,600          | 4.5            |
| <b>Total</b>                              | <b>6,425,606</b> | <b>100.0</b>   | <b>6,152,743</b> | <b>100.0</b>   |

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

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

*In millions of RMB, except for percentages*

| Item   | 30 June 2018     |                | 31 December 2017 |                |
|--|------------------|----------------|------------------|----------------|
|  | Amount           | Percentage (%) | Amount           | Percentage (%) |
| Government bonds   | 2,688,506        | 46.5           | 2,485,220        | 45.3           |
| Bonds issued by policy banks                                     | 1,550,700        | 26.8           | 1,526,936        | 27.8           |
| Bonds issued by other banks and financial institutions           | 923,322          | 16.0           | 889,472          | 16.2           |
| Bonds issued by entities in public sectors and quasi-governments | 219,566          | 3.8            | 188,414          | 3.4            |
| Corporate bonds  | 400,790          | 6.9            | 400,762          | 7.3            |
| <b>Total</b>   | <b>5,782,884</b> | <b>100.0</b>   | <b>5,490,804</b> | <b>100.0</b>   |



In the first half of 2018, the Bank closely monitored the changes in debt securities market, controlled the pace of investment, strengthened risk control and moderately increased our investments in local government bonds.

*Distribution of Non-restructuring-related Debt Securities Investments by Remaining Maturity*

*In millions of RMB, except for percentages*

| <b>Remaining Maturity</b> | <b>30 June 2018</b> |                       | <b>31 December 2017</b> |                       |
|---------------------------|---------------------|-----------------------|-------------------------|-----------------------|
|                           | <b>Amount</b>       | <b>Percentage (%)</b> | <b>Amount</b>           | <b>Percentage (%)</b> |
| Overdue                   | –                   | –                     | –                       | –                     |
| Less than 3 months        | <b>343,887</b>      | <b>5.9</b>            | 489,001                 | 8.9                   |
| 3-12 months               | <b>780,740</b>      | <b>13.5</b>           | 515,278                 | 9.4                   |
| 1-5 years                 | <b>2,999,152</b>    | <b>51.9</b>           | 2,815,757               | 51.3                  |
| More than 5 years         | <b>1,659,105</b>    | <b>28.7</b>           | 1,670,768               | 30.4                  |
| <b>Total</b>              | <b>5,782,884</b>    | <b>100.0</b>          | <b>5,490,804</b>        | <b>100.0</b>          |

*Distribution of Non-restructuring-related Debt Securities Investments by Currency*

*In millions of RMB, except for percentages*

| <b>Item</b>              | <b>30 June 2018</b> |                       | <b>31 December 2017</b> |                       |
|--------------------------|---------------------|-----------------------|-------------------------|-----------------------|
|                          | <b>Amount</b>       | <b>Percentage (%)</b> | <b>Amount</b>           | <b>Percentage (%)</b> |
| RMB                      | <b>5,508,463</b>    | <b>95.2</b>           | 5,233,831               | 95.3                  |
| USD                      | <b>213,321</b>      | <b>3.7</b>            | 190,976                 | 3.5                   |
| Other foreign currencies | <b>61,100</b>       | <b>1.1</b>            | 65,997                  | 1.2                   |
| <b>Total</b>             | <b>5,782,884</b>    | <b>100.0</b>          | <b>5,490,804</b>        | <b>100.0</b>          |

*Distribution of Investment by Business Models and Contractual Cash Flow Characteristics*

*In millions of RMB, except for percentages*

| Item                                | 30 June 2018     |                | 31 December 2017 |                |
|-------------------------------------|------------------|----------------|------------------|----------------|
|                                     | Amount           | Percentage (%) | Amount           | Percentage (%) |
| Financial assets at fair value      |                  |                |                  |                |
| through profit or loss              | 647,628          | 10.1           | 577,965          | 9.4            |
| Available-for-sale financial assets | N/A              | N/A            | 1,426,420        | 23.2           |
| Held-to-maturity investments        | N/A              | N/A            | 3,489,135        | 56.7           |
| Debt securities classified          |                  |                |                  |                |
| as receivables                      | N/A              | N/A            | 659,223          | 10.7           |
| Financial investments at            |                  |                |                  |                |
| fair value through other            |                  |                |                  |                |
| comprehensive income                | 1,554,327        | 24.2           | N/A              | N/A            |
| Financial investments at            |                  |                |                  |                |
| amortized cost                      | 4,223,651        | 65.7           | N/A              | N/A            |
| <b>Total</b>                        | <b>6,425,606</b> | <b>100.0</b>   | <b>6,152,743</b> | <b>100.0</b>   |

*Investment in Financial Bonds*

Financial bonds refer to debt securities issued by the policy banks, commercial banks and other financial institutions, the principals and interests of which are to be repaid pursuant to a pre-determined schedule. As at 30 June 2018, the balance of financial bonds held by the Bank was RMB2,474,022 million.

The table below presents the top ten financial bonds held by the Bank in terms of face value as at 30 June 2018.

*In millions of RMB, except for percentages*

| Bond                  | Face value | Annual interest rate | Maturity date | Allowance <sup>1</sup> |
|-----------------------|------------|----------------------|---------------|------------------------|
| 2017 policy bank bond | 29,880     | 3.85%                | 2027/1/6      | —                      |
| 2017 policy bank bond | 26,070     | 3.83%                | 2024/1/6      | —                      |
| 2017 policy bank bond | 24,500     | 4.39%                | 2027/9/8      | —                      |
| 2017 policy bank bond | 21,190     | 4.11%                | 2027/3/20     | —                      |
| 2017 policy bank bond | 19,360     | 4.13%                | 2022/4/21     | —                      |
| 2017 policy bank bond | 18,380     | 4.30%                | 2024/8/21     | —                      |
| 2014 policy bank bond | 18,120     | 5.44%                | 2019/4/8      | —                      |
| 2017 policy bank bond | 17,700     | 3.70%                | 2022/1/6      | —                      |
| 2016 policy bank bond | 17,185     | 2.65%                | 2019/10/20    | —                      |
| 2015 policy bank bond | 16,860     | 3.97%                | 2025/2/27     | —                      |

Note: 1. Allowance in this table refers to impairment allowance in stage II and stage III, not including impairment allowance in stage I.

## *Liabilities*

As at 30 June 2018, our total liabilities increased by RMB727,155 million, or 3.7%, over the end of the previous year to RMB20,351,140 million. Deposits from customers increased by RMB745,654 million or 4.6%. Deposits and placements from banks and other financial institutions increased by RMB111,897 million, which was primarily due to an increase in deposits from other domestic financial institutions. Financial assets sold under repurchase agreements decreased by RMB206,379 million, primarily due to the decrease of financial assets sold under repurchase agreements with PBOC since PBOC withdrew funds. Debt securities issued increased by RMB193,170 million, or 40.7%, which was primarily due to the issuance of interbank certificates of deposit and tier-2 capital bonds during the reporting period.

### Key Items of Liabilities

*In millions of RMB, except for percentages*

| Item  | 30 June 2018      |                | 31 December 2017  |                |
|---|-------------------|----------------|-------------------|----------------|
|   | Amount            | Percentage (%) | Amount            | Percentage (%) |
| Deposits from customers   | 16,939,933        | 83.2           | 16,194,279        | 82.5           |
| Deposits and placements from banks and other financial institutions | 1,366,688         | 6.7            | 1,254,791         | 6.4            |
| Financial assets sold under repurchase agreements                   | 113,410           | 0.6            | 319,789           | 1.6            |
| Debt securities issued  | 668,187           | 3.3            | 475,017           | 2.4            |
| Financial liabilities at fair value through profit or loss          | 314,888           | 1.5            | 391,772           | 2.0            |
| Other liabilities   | 948,034           | 4.7            | 988,337           | 5.1            |
| <b>Total</b>  | <b>20,351,140</b> | <b>100.0</b>   | <b>19,623,985</b> | <b>100.0</b>   |

### Deposits from Customers

As at 30 June 2018, our balance of deposits from customers increased by RMB745,654 million, or 4.6%, over the end of the previous year to RMB16,939,933 million. In terms of customer structure, corporate deposits increased by RMB367,064 million, or 5.8%, over the end of the previous year, and retail deposits increased by RMB317,708 million, or 3.4%, over the end of the previous year. In terms of maturity of deposits, the proportion of demand deposits decreased by 0.3 percentage point over the end of the previous year to 58.0%.

### Distribution of Deposits from Customers by Business Lines

*In millions of RMB, except for percentages*

| Item                        | 30 June 2018      |                | 31 December 2017  |                |
|-----------------------------|-------------------|----------------|-------------------|----------------|
|                             | Amount            | Percentage (%) | Amount            | Percentage (%) |
| Domestic deposits           | 16,882,197        | 99.7           | 16,118,044        | 99.5           |
| Corporate deposits          | 6,746,511         | 39.8           | 6,379,447         | 39.4           |
| Time                        | 1,948,503         | 11.5           | 1,836,635         | 11.3           |
| Demand                      | 4,798,008         | 28.3           | 4,542,812         | 28.1           |
| Retail deposits             | 9,564,218         | 56.5           | 9,246,510         | 57.1           |
| Time                        | 4,541,090         | 26.8           | 4,351,017         | 26.9           |
| Demand                      | 5,023,128         | 29.7           | 4,895,493         | 30.2           |
| Other deposits <sup>1</sup> | 571,468           | 3.4            | 492,087           | 3.0            |
| Overseas and others         | 57,736            | 0.3            | 76,235            | 0.5            |
| <b>Total</b>                | <b>16,939,933</b> | <b>100.0</b>   | <b>16,194,279</b> | <b>100.0</b>   |

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

### Distribution of Deposits from Customers by Geographic Regions

*In millions of RMB, except for percentages*

| Item                | 30 June 2018      |                | 31 December 2017  |                |
|---------------------|-------------------|----------------|-------------------|----------------|
|                     | Amount            | Percentage (%) | Amount            | Percentage (%) |
| Head Office         | 83,202            | 0.5            | 72,960            | 0.5            |
| Yangtze River Delta | 3,751,189         | 22.1           | 3,612,588         | 22.3           |
| Pearl River Delta   | 2,391,372         | 14.1           | 2,250,015         | 13.9           |
| Bohai Rim           | 3,025,052         | 17.9           | 2,870,864         | 17.7           |
| Central             | 2,909,668         | 17.2           | 2,759,875         | 17.0           |
| Northeastern China  | 817,683           | 4.8            | 792,119           | 4.9            |
| Western China       | 3,904,031         | 23.0           | 3,759,623         | 23.2           |
| Overseas and others | 57,736            | 0.4            | 76,235            | 0.5            |
| <b>Total</b>        | <b>16,939,933</b> | <b>100.0</b>   | <b>16,194,279</b> | <b>100.0</b>   |

## Distribution of Deposits from Customers by Remaining Maturity

*In millions of RMB, except for percentages*

| Item               | 30 June 2018      |                | 31 December 2017  |                |
|--------------------|-------------------|----------------|-------------------|----------------|
|                    | Amount            | Percentage (%) | Amount            | Percentage (%) |
| Demand             | 10,486,369        | 61.9           | 10,030,752        | 61.9           |
| Less than 3 months | 1,385,886         | 8.2            | 1,785,447         | 11.0           |
| 3-12 months        | 2,992,396         | 17.6           | 2,551,584         | 15.8           |
| 1-5 years          | 2,075,161         | 12.3           | 1,826,342         | 11.3           |
| More than 5 years  | 121               | –              | 154               | –              |
| <b>Total</b>       | <b>16,939,933</b> | <b>100.0</b>   | <b>16,194,279</b> | <b>100.0</b>   |

## Shareholders' Equity

As at 30 June 2018, our shareholders' equity amounted to RMB1,569,711 million, comprised ordinary shares of RMB349,983 million, preference shares of RMB79,899 million, capital reserve of RMB173,573 million, investment revaluation reserve of negative RMB336 million, surplus reserve of RMB134,368 million, general reserve of RMB239,352 million and retained earnings of RMB588,077 million. Net assets per ordinary share were RMB4.24, representing an increase of RMB0.09 compared to the end of the previous year.

## Composition of Shareholders' Equity<sup>1</sup>

*In millions of RMB, except for percentages*

| Item                                 | 30 June 2018     |                | 31 December 2017 |                |
|--------------------------------------|------------------|----------------|------------------|----------------|
|                                      | Amount           | Percentage (%) | Amount           | Percentage (%) |
| Ordinary shares                      | 349,983          | 22.3           | 324,794          | 22.7           |
| Preference shares                    | 79,899           | 5.1            | 79,899           | 5.6            |
| Capital reserve                      | 173,573          | 11.0           | 98,773           | 7.0            |
| Investment revaluation reserve       | (336)            | –              | (19,690)         | (1.4)          |
| Surplus reserve                      | 134,368          | 8.6            | 134,348          | 9.4            |
| General reserve                      | 239,352          | 15.2           | 230,750          | 16.1           |
| Retained earnings                    | 588,077          | 37.5           | 577,573          | 40.4           |
| Foreign currency translation reserve | 310              | –              | (32)             | –              |
| Non-controlling interests            | 4,485            | 0.3            | 2,982            | 0.2            |
| <b>Total</b>                         | <b>1,569,711</b> | <b>100.0</b>   | <b>1,429,397</b> | <b>100.0</b>   |

<sup>1</sup> The capital verification of the proceeds of RMB100 billion of the private placement of A Shares was completed on 29 June 2018. The net proceeds after deducting the expenses related to the issuance amounted to RMB99,989,198,827. The net proceeds had been fully used to replenish the Common Equity Tier-1 capital of the Bank, among which, the ordinary share increased by RMB25,188,916,873 and the capital reserve increased by RMB74,800,281,954. The registration procedure for the issuance of new shares under the private placement had been completed on 2 July 2018.

## *Off-balance Sheet Items*

Our off-balance sheet items primarily include derivative financial instruments, contingent liabilities and commitments. We enter into derivative transactions related to exchange rates, interest rates and precious metals for the purposes of trading, assets and liabilities management and business on behalf of customers. Our contingent liabilities and commitments include credit commitments, capital expenditure commitments, operating and finance lease commitments, bond underwriting and redemption commitments, mortgaged and pledged assets, legal proceedings and other contingencies.

Credit commitments are the major components of the off-balance sheet items and comprised loan commitments, bank acceptances, guarantee and letters of guarantee, letters of credit and credit card commitments.

### Composition of Credit Commitments

*In millions of RMB, except for percentages*

| Item                                | 30 June 2018     |                | 31 December 2017 |                |
|-------------------------------------|------------------|----------------|------------------|----------------|
|                                     | Amount           | Percentage (%) | Amount           | Percentage (%) |
| Loan commitments                    | 763,114          | 42.1           | 727,562          | 41.6           |
| Bank acceptances                    | 210,995          | 11.6           | 233,788          | 13.4           |
| Guarantees and letters of guarantee | 216,065          | 11.9           | 220,826          | 12.6           |
| Letters of credit                   | 137,873          | 7.6            | 140,034          | 8.0            |
| Credit card commitments             | 485,344          | 26.8           | 426,668          | 24.4           |
| <b>Total</b>                        | <b>1,813,391</b> | <b>100.0</b>   | <b>1,748,878</b> | <b>100.0</b>   |

### *Other Financial Information*

#### *Changes in Accounting Policies*

The International Accounting Standards Board (“IASB”) issued the IFRS 9 – Financial Instruments in 2014. The Bank has implemented the above new accounting standard since 1 January 2018 pursuant to the requirement on the implementation date of the above standard. For the key impacts of the implementation of the new standard on the Bank, please refer to “Appendix IV: Interim Financial Information”.

#### *Differences between the Consolidated Interim Financial Statements prepared under IFRSs and those prepared in accordance with CASs*

There were no differences between the net profit or shareholder’s equity in the Consolidated Interim Financial Statements prepared under IFRSs and the corresponding figures prepared in accordance with CASs by the Bank.

## **Business Review**

### ***Corporate Banking***

In the first half of 2018, we actively served the real economy, accelerated corporate banking business transformation, and continued improving our capability for integrated financial services.

By fully leveraging on the advantage of the integrated services of the Group, we continued to improve the quality of financial services. We actively supported the major national key strategies including the “Belt and Road Initiative”, the coordinated development of Beijing-Tianjin-Hebei Region, the Yangtze River Economic Belt and the Guangdong-Hong Kong-Macao Bay Region. We continued to improve our financial services to Xiong’an New Area by entering into a strategic cooperation agreement with the administrative committee of Xiong’an New Area. We comprehensively served for mixed ownership reform of state-owned enterprises and offered the financial service solutions to 377 state-owned enterprises. We actively provided services to the new economy and the emerging drivers. Along with differentiated policies and resources, loans in the key areas of strategic emerging industries, new economy and green finance achieved rapid growth. To actively serve people’s livelihood, we increased the credit support to the government-subsidized housing projects and rebuilding of shanty areas. We actively applied Fintech and accelerated innovation of areas of debt products, supply chain finance and mobile payment. We deepened the application of the marketing management system for corporate customers, and fully leveraged on new technologies such as big data and cloud computing to effectively improve our capabilities in targeted marketing and efficient management, resulting in progress in the transformation of our corporate banking business.

As at the end of June 2018, we had 5,046.6 thousand corporate banking customers<sup>1</sup>, of which 58.0 thousand customers had outstanding loan balances.

### ***Corporate Loans and Deposits***

During the reporting period, we enhanced marketing for corporate deposits, and focused on promotion of flow management of fund to improve the fund utilization efficiency within the Bank. Through accelerating product optimization and innovation and leveraging on deposit products which is actively managed, such as certificate of deposits, structural deposits and “Huoli Feng” for corporate customers, we improved the market competitiveness and our corporate deposits achieved a steady growth. As at 30 June 2018, the balance of the domestic corporate deposits amounted to RMB6,746,511 million, representing an increase of RMB367,064 million or 5.8% over the end of the previous year.

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<sup>1</sup> *The Bank had changed the criteria for corporate banking customers to “corporate customers with accounts in normal status during the reporting period”.*

We continued to enhance financial support to national key industries and regions, upgrade of industries, new economy and emerging driver. We continued to promote the marketing and granted loans to projects in major marketing projects pool. As at 30 June 2018, the balance of the domestic corporate loans and discounted bills amounted to RMB6,705,778 million, representing an increase of RMB370,692 million or 5.9% over the end of the previous year. 10,782 projects were included in our major marketing projects pool, representing an increase of 2,359 projects compared to the end of the previous year. The loans granted amounted to RMB294,850 million in the first half of 2018.

We continued to optimize our business structures in terms of customer, region and product and strengthen post-disbursement management, in order to facilitate the healthy development of our corporate real estate business. In terms of regions, we focused on supporting housing projects in the first-tier cities based on the principle of adopting different policies in different cities as appropriate to their local conditions. In terms of customers, we primarily granted loans to customers admitted by the Head Office. In terms of products, we primarily granted loans to projects such as rebuilding of shanty areas and government-subsidized housing projects, and tightly controlled real estate loans related to hotels, commercial properties and circulation market of commodities. As at 30 June 2018, the balance of real estate loans to corporate customers amounted to RMB294,452 million, representing an increase of RMB56,381 million over the end of the previous year. The balance of loans for rebuilding of shanty areas amounted to RMB419,544 million, representing an increase of RMB92,422 million over the end of the previous year.

### *Institutional Banking*

During the first half of 2018, the Bank actively responded to the reform of public sector system and changes in financial industries, strengthened directly marketing by the Head Office and tier-1 branches, and developed new cooperation with institutional customers with three-dimensional and platform marketing approaches according customer circles, capital chains and product pools.

First, significant progress had been made in marketing institutions in terms of customers and accounts. As at 30 June 2018, we have 342.9 thousand institutional customers and 453.5 thousand accounts. Second, encouraging results had been achieved in product innovation and business transformation. In terms of services to the government, we ranked first among the four major banks for consecutive three years in the comprehensive assessment on agency banks by MOF as our agency of payment business authorized by the central government developed steadily. In terms of services to army, we developed and launched the specific products system under the brand of “Supporting Our Army” and accelerated the brandization of our financial products for the army. In terms of services with respect to people’s livelihood relying on products including “the Connection between the Bank and Hospitals” and “the Connection between the Bank and Schools”, the capacity of serving the construction of smart hospital and smart campus improved significantly. In terms of services to financial industries, we developed and launched the product of “Tonglifeng”, which amounted to over RMB30 billion during the promoting period. The contracted customers for third-party depository services exceeded 38 million. In terms of services to bankassurance, regular premium business and group insurance business with higher premium as percentages of our bankassurance business were increased. In the first half of 2018, we continued to rank first among the four major banks in terms of income from bankassurance business, and our market share in the four major banks recorded the highest level compared to the corresponding periods in the last three years.



## *Transaction Banking*

During the reporting period, the Bank continued to promote the construction of a transaction banking system, which was based on our accounts and payment settlement and mainly developing cash management business and supply chain financing, in order to effectively facilitate the development of our transaction banking business.

During the first half of 2018, the Bank strengthened the efforts in propagating and promotion of account-opening and actively marketed to new enterprises. We optimized the process of account-opening, innovated functions of settlement products, explored new channels of our settlement business and continuously improved our services for corporate settlement account. As at 30 June 2018, our corporate RMB-denominated settlement accounts reached 5,384.6 thousand, representing an increase of 343.6 thousand compared to the end of the previous year. We actively expand the application of products such as guaranteed payment, agency cross-bank collection, online bill pool discounting and global cash management, so as to provide our customers with global, comprehensive and high intelligent cash management services, which integrated RMB and foreign currency, domestic and overseas. As at 30 June 2018, the Bank had 2,064.3 thousand active cash management customers.

During the reporting period, the Bank won the 2018 New Star – Cash Management by *The Asset*.

## *Investment Banking*

During the first half of 2018, we promoted the transformation and upgrading of our key products and continued to enhance our comprehensive service capabilities in investment banking business, which achieved a total income of RMB4,456 million from the investment banking business and a further increase in market share.

During the reporting period, the proceeds of our bond underwriting business amounted to RMB157,274 million, representing an increase of 41.7% compared to corresponding period of the previous year. The proceeds of RMB66.5 billion were applied for supporting high-end manufacturing industries and key state-owned enterprises. We issued debt financing instruments of RMB27 billion in serving the major regional strategies including the “Belt and Road Initiative”, the Yangtze River Economic Belt and the Guangdong-Hong Kong-Macao Bay Region. We have implemented the innovative projects of medium-term notes under the “Bond Connect”, “Panda Bonds” and medium-term notes for long-term rental apartments. The balance of merger and acquisition financing amounted to RMB85,394 million and we implemented the first acquisition and merger project of house leasing in the market. We steadily advanced our asset backed securitization business and issued asset backed securitization products of RMB8,447 million in aggregate. We successfully issued our first green asset backed notes (ABN). We further strengthened the capability of syndication business in raising funds with a balance of RMB903.9 billion, representing an increase of 12.7% compared to the end of the previous year and maintained leading position among the peers.

During the reporting period, the Bank won the “2018 JunDing Prize for Comprehensive Investors” by *Securities Times*, the “Most Innovative Green Bank” by *Asiamoney*, and the “Outstanding Institution of Securitization Business for the Year” by the Shanghai Stock Exchange.

## ***Retail Banking***

During the first half of 2018, responding to the changes in customer demands and the development of Fintech, we further promoted an in-depth application of new technologies, new concepts and new business models in retail banking business. We comprehensively carried out the strategic transformation of our retail banking business in a new era. At the end of the reporting period, we ranked first among the peers in terms of number of retail banking customers and accounts. By mining and analysing big data, we refined client profiles and unified view, enriched three-dimensional labels of customers, and better catered diversified and tailor-made financial demands of our customers. Accordingly, the capabilities of our branch outlets attracting customers actively and online channels attracting customers in batch were both improved. We accelerated the intelligent transformation of our retail banking business to develop our smart marketing platform, smart operation platform, smart credit platform and smart risk management platform. We continued to refine and promote our marketing management system for retail customers with strengthening management on classification and grouping of customers and enhancing online intelligent marketing capabilities. We optimized the innovation system for our retail banking products by launching new products such as projects of sales by ordering of physical precious metals and *Yinliduo*. Accordingly, the coverage of our retail banking products has been expanding steadily. We strengthened the training of product managers, data analysts and wealth management planners for our retail banking business, and further improved the professional capabilities of our marketing teams.

## ***Retail Loans***

As at 30 June 2018, the balance of retail loans of the Bank amounted to RMB4,337,193 million, representing an increase of RMB336,920 million over the end of the previous year. During the reporting period, we strictly implemented the regulatory requirements and differentiated policies on retail residential mortgage loans. As at 30 June 2018, the balance of retail residential mortgage loans amounted to RMB3,400,993 million, representing an increase of RMB267,519 million over the end of the previous year. We promoted the project of the expansion of customers for retail consumption loans, and steadily improved competitiveness of the consumption loans. We also implemented policies to support the real economy and inclusive finance and formulated differentiated product and credit policies according to various regions and market demands for excellent merchants and individual and private business owners, innovated models of financing so as to promote healthy development of loans to private business.

## *Retail Deposits*

The Bank actively responded to changes in the market and enhanced product innovation. Our retail deposits maintained a steady growth. As at 30 June 2018, the balance of retail deposits amounted to RMB9,564,218 million, representing an increase of RMB317,708 million over the end of the previous year. Both the average daily balance and the increment of the average daily balance of retail deposits continued ranking the first among the peers.

## *Bank Cards*

As at 30 June 2018, the number of debit cards cumulatively issued by the Bank amounted to 947 million, representing an increase of 37 million over the end of the previous year, and the Bank ranked the first among the four major banks in terms of cumulative number of debit cards issued. Among them, the cumulative number of issued debit IC cards amounted to 609 million, representing an increase of 41 million compared to the end of the previous year. We strengthened collaboration with enterprises such as car-hailing platforms and chain stores, and carried out various marketing activities such as consumption by debit cards and Cloud Quick Pay, in order to provide customers with diversified services which were benefiting and convenient for people.

As at 30 June 2018, the number of credit cards cumulatively issued reached 93.33 million with newly issued credit cards amounted to 8.52 million. We launched Flaming Dream card, ChinaTelecom co-branded card, World Cup card, Small Playing card and other new products. We continued to proceed with the marketing with various themed promotion activities such as Happy Saturday and Happy World. We promoted the transformation of mobile convenient payment and accelerated the application in smart acquiring business and the promotion of QR code payment in County Area. The transaction volume of credit cards in the first half of the year amounted to RMB842.2 billion, representing an increase of 22.2% compared to the corresponding period of the previous year.

| <b>Item</b>   | <b>30 June<br/>2018</b>    | 31 December<br>2017 | Growth rate<br>(%) |
|---|----------------------------|---------------------|--------------------|
| Number of debit cards issued (unit: 10,000)             | <b>94,695.08</b>           | 90,964.16           | 4.1                |
| Number of credit cards issued (unit: 10,000)            | <b>9,332.74</b>            | 8,480.89            | 10.0               |
|   | <b>Jan – June<br/>2018</b> | Jan – June<br>2017  | Growth rate<br>(%) |
| Transaction volume for debit cards<br>(RMB100 million)  | <b>28,967.79</b>           | 31,154.77           | -7.0               |
| Transaction volume for credit cards<br>(RMB100 million) | <b>8,422.47</b>            | 6,894.05            | 22.2               |

### *Private Banking Business*

As at 30 June 2018, the number of our private banking customers was 102 thousand and the balance of their assets under our management amounted to RMB1,070.9 billion, representing an increase of 12.8%<sup>1</sup> as compared to the end of the previous year. During the reporting period, the Bank enhanced the sophisticated management and upgraded maintenance with private banking customers to constantly improve our professional services. The Bank enhanced our integrated services for ultra high net worth customers, and accelerated the development of our family trusts business. The Bank strengthened its efforts in R&D and marketing of exclusive products and continued to enrich the types of products to meet diversified demand of customers for asset allocation. At the end of the reporting period, the existing scale of exclusive products amounted to RMB222.4 billion, representing an increase of RMB34.8 billion over the end of the previous year.

<sup>1</sup> *The Bank has adjusted the standards for private banking customers to “customers with monthly average financial assets of RMB6 million and above for at least one month during the last six months”.*

## *Treasury Operations*

The treasury operations of the Bank include money market activities and investment portfolio management activities. Adhering to the principles of prudent operations while flexibly adapting to changes in the domestic and foreign financial markets, we made timely adjustments to our investment strategies, and continuously enhanced our risk management. Our investment return on assets remained at a relatively high level among the peers.

### *Money Market Activities*

Based on research on monetary policies and forecast of market liquidity, we expanded our financing channels by using various financial instruments to secure our liquidity while improving the efficiency of fund utilization. During the first half of 2018, our RMB-denominated financing transactions amounted to RMB13,142,110 million, representing an increase of 43.8% compared to the corresponding period of the previous year.

### *Investment Portfolio Management*

As at 30 June 2018, our net investment in securities and other financial assets amounted to RMB6,425,606 million, representing an increase of RMB272,863 million, compared to the end of the previous year.

### *Trading Activities*

During the first half of 2018, the escalating Sino-US trade friction led to an increase in demand for risk aversion in the market. The demand for bond market has significantly increased as compared to the second half of last year, with a decline in yields from the peak at the beginning of the year. The Bank flexibly adjusts the maturities and types of trading portfolios in light of changes in market conditions. Accordingly, there is a significant increase in total income from the trading portfolios. We conducted more active trading, which made us ranked the leading position in the bond market in terms of transaction activeness. Meanwhile, there was an increase in the proportion of capital gains to the total income.

### *Banking Book Activities*

By rationally seizing investment opportunities, we increased investment when the yield was high. We moderately increased investment in local government debts and there was a significant increase in the proportion of investment in local government debts to the total amount of investment in debts. To serve the real economy, we invested in high-quality credit bonds. We dynamically adjusted our investment structure to reduce risk of portfolios and increase the yield of portfolios.

Adhering to a foreign currency investment strategy of making progress while maintaining stability, we further strengthened the research with the anticipation of the raising of interest rates and balance sheet normalization by U.S. Federal Reserve and the trend of monetary policies by the ECB. We adjusted the duration of portfolios, strictly controlled credit risk, and improved liquidity of the portfolios, so that the structure of our foreign currency investment portfolios was optimized continuously.

## *Asset Management*

### *Wealth Management*

Responding to new asset management regulations, we steadily advanced the transformation of our asset management business. We facilitated structural adjustments for wealth management products and advanced the R&D, upgrading of systems and optimization of our investment models, to enhance the core competitiveness of our asset management business. In accordance with the standards under the new asset management regulations, we conducted public offerings to issue close-ended net worth wealth management products under the series of “Anxindeli·Linglong”, and to the public open-ended net worth wealth management products under the series of “Anxinkuaixian·Shishifu”, as well as conducted private placing to issue to the qualified investors close-ended net worth wealth management products under the series of “Nongyinsihang·Anxindeli” to qualified investors.

In the first half of 2018, the average daily balance of wealth management of the Bank amounted to RMB1,846,523 million, representing an increase of 5.4% as compared to the previous year.

### *Custody Service*

We actively responded to changes in market conditions and promoted the synergistic marketing across the Head Office and branches, to enhance its custody service continuously. At the end of June 2018, we had RMB9,948,177 million of assets under custody. Our commission income from custody service and other fiduciary services amounted to RMB2,144 million during the first half of 2018, representing an increase of 8.8% over the corresponding period of the previous year.

### *Pension*

We promoted the development of our pension business and obtained the qualification of trustee for enterprise annuity fund management. At the end of June 2018, pension funds under our custody amounted to RMB471,636 million, representing an increase of 8.8% over the end of the previous year.

### *Precious Metals*

We rationally seized investment opportunities and steadily advanced our business of account-based precious metals and other trading precious metals. During the first half of 2018, we traded 2,776.53 tons of gold for our own account as well as on behalf of customers, representing an increase of 44.2% compared to the corresponding period of the previous year, and 39,244.47 tons of silver for our own account as well as on behalf of customers, representing an increase of 24.5% compared to the corresponding period of the previous year.

### *Treasury Transactions on Behalf of Customers*

We actively expanded high-quality customers and steadily advanced our business of foreign exchange transactions on behalf of customers. During the reporting period, the transaction volume of foreign exchange sales and settlements as well as foreign exchange trading on behalf of customers amounted to USD180 billion, representing an increase of 17.5% over the corresponding period of the previous year. Fully leveraging its advantages in RMB asset pricing and a market-maker in foreign exchange derivatives, we actively engaged in opening of Chinese bond market to the world. During the first half of 2018, we ranked first among our peers in terms of the number of counterparties and the amount of transactions for “Bond Connect”. We were awarded the first “Best Participating Dealers of Bond Connect”. We developed “Zhaishibao”, a bond investment platform of medium and small investors. During the first half of 2018, bonds of “Zhaishibao” of the Bank amounting to RMB48.6 billion were distributed at the primary market, ranked first among our peers.

During the reporting period, we were awarded the “Best Market-maker in 2017” and the “Best Market-making Practice in 2017” by China Foreign Exchange Trade System.

#### *Agency Distribution of Fund Products*

We closely co-operated with a number of outstanding fund companies, and put great efforts into research and development of products to cater customers’ needs for personalized and diversified products. We improved our investment research teams. We developed our brands with a focus on our selected products. We optimized our IT systems and launched our healthcare consultancy fund to improve our capability of asset allocation services to our customers. The distributing fund products accumulated to RMB325.3 billion throughout the first half of 2018, representing an increase of 147.3% compared to the corresponding period of the previous year.

#### *Agency Sales of PRC Government Bonds*

During the first half of 2018, as an agent to the PRC Government, we distributed 8 tranches of savings treasury bonds in the amount of RMB20.99 billion, including 4 tranches of savings treasury bonds (in electronic form) of RMB10.73 billion and 4 tranches of treasury bonds (in certificate form) of RMB10.26 billion.

#### *Internet Finance*

During the reporting period, adhering to the two key strategies of “Strengthen Business-end Business” and “Revitalize Consumer-end Business”, we accelerated the innovation of our products and scene-sensitive financing, strengthened the core competitiveness of our internet finance business.

#### *Strengthen Business-end Business*

We continued to improve scene-sensitive financial services of the “Huinong e-Tong”<sup>1</sup> platform by innovating and refining five service interfaces, including ERP, specialized market, supply chain, Huinongtong and rural households, to develop an integrated model for rural financial services through online and offline channels. Accordingly, we strengthened our scene-sensitive financial service capabilities in production, daily life and social activities in rural areas.

We optimized the corporate financial services platform and improved comprehensive service capability of the platform. We continued to develop new products and new functions on the platform. We launched the “investment bank information” service and a product named “insurance supermarket”, and upgraded e-bills. We optimized our payroll services to realize large amount of inter-bank payroll transactions and appointment for payroll services. The online coverage rate of our wealth management products for corporate customers and other key products accounted for 89.1%.

<sup>1</sup> “Huinong e-Tong” is a new platform providing internet financial service for Sannong, based on the “ABC e-steward” platform.

### Revitalize Consumer-end Business

We adhered to the strategy of “giving priority to developing mobile banking” and focused on “FinTech+”. We developed an open, integrated and personalized online platform that provided comprehensive financial services targeted at retail customers, with mobile banking as the core. With smart services as the core, we developed six themed-products for our new generation of mobile banking services, namely “Smart Transfer”, “Smart Investment”, “Smart Interaction”, “Smart Assistant”, “Smart Travel” and “Smart Safety”, which comprised the functions of smart investment consultancy services, monthly statement, asset profile, voice navigation, face recognition and accounts free of verification, providing customers with more safe, convenient and personalized mobile financial services. The online coverage rate of our fund and wealth management products targeted at retail customers accounted for 95%, representing an increase of nearly 10 percentage points compared to the corresponding period of the previous year.

We actively explored the scenes of consumption e-commerce, with focus on key transaction scenes such as payments, travel and commercial zones, developing a one-stop, scene-sensitive and comprehensive “smart lifestyle” ecosystem. As at the end of the reporting period, our total number of bill payment merchants reached 24,644, representing an increase of 144% from the end of the previous year. In the first half of 2018, the total transaction amount reached RMB19.2 billion, representing an increase of 80% over the corresponding period of the previous year. Our Consumption Mall received widespread attention which recorded a daily average page view of over one million.

Through the online marketing platform with social interaction between customer managers and customers, we achieved marketing activities among all departments through online and offline channels in providing smart and tailor-made financial services exclusively for our customers.

We optimized our WeChat banking services through refining our comprehensive services that comprised debit card, credit card, e-accounts, special offers and daily payments. On the other hand, new scenarios such as credit card application and coupon redemption were enable in WeChat mini program.

### Strengthen Supporting System

We optimized the “customer-oriented” R&D process of our products by incorporating user experiences including experience-based design, usability testing and review. We regulated the design of internet financial products and established the post-evaluation mechanism for internet financial products. We mined and analyzed the big data of our customers, which was comprised of their information, labels, preferences, behaviours and transaction data, and developed the targeted marketing services to dozen types of customers. “Finance Brain”, our strategic cooperative project with Baidu Group, was put into operation, which fully supported the smart services of our new mobile banking business. The “Finance Brain” platform integrated a number of core AI techniques and was the first product in the industry that provided AI financial platform solutions for enterprises.

For details of customers and transaction volume of our Internet banking business and mobile banking business, please refer to “Discussion and Analysis – Business Review – Distribution Channels”.



## *Inclusive Finance*

During the first half of 2018, we continued to advance the development of our inclusive finance system and strengthened innovation in respect of product, service and business model, to continuously improve the coverage rate, availability and satisfaction of inclusive finance services.

We continued to improve the inclusive finance service system supported by “County Areas Banking Division+Inclusive Banking Division”. For the organizational structure, the inclusive finance service system further extended to all foundation-level branches. At the end of June 2018, all tier-2 branches had established inclusive Finance Banking Divisions, and 799 specialized institutions for inclusive finance banking business have also been established. We also developed small and micro enterprise financial services demonstration branches at demonstration bases of entrepreneurship and innovation, industrial parks, professional markets and featured commercial zones where small and micro enterprises located. For operating mechanism, we continued to promote the “Five Specialties” management mechanism of inclusive finance, which includes integrated service mechanism, statistical and accounting mechanism, risk management mechanism, resource allocation mechanism and assessment mechanism. We developed a separate credit plan to small and micro enterprise and delegated the power of approval for loans. We implemented the discount mechanism for economic capital evaluation of at small and micro enterprises, and established strategic expenses and fixed asset investment plan for special incentive.

We continued to increase credit to small and micro enterprises to solve their financing difficulties. With the internet financing business as the core, we promoted successful experience of the “No.1 Project” for Providing Internet Financial Service for Sannong to small and micro enterprises. We also focused on promoting the internet loans based on big data and the total number of internet loans based on big data reached 14 thousand. With regard to small and micro enterprises who individually obtained our credit granting at an amount of less than RMB5 million, we launched “Weiyidai”, a product with revolving credit lines and online lending and repayment. We strengthened the co-operation with local governments and tax authorities through the development of product related to easy tax, loans with credit enhancement by government and other featured products for small and micro enterprises. We strictly implemented the provision related to reduction or exemption of certain fees to reduce the burden on small and micro enterprises. At the end of June 2018, the balance of loans to small and micro enterprises amounted to RMB1.41 trillion, representing an increase of RMB48,666 million over the end of the previous year. The number of our small and micro corporate customers was 439.8 thousand, representing an increase of 52.2 thousand over the end of the previous year. New loans granted to small and micro corporate customers in the first half of 2018 amounted to RMB322.2 billion, and the average yield was 5.14%. Both the balance of non-performing loans and the non-performing loan ratio declined. Accordingly, we maintained our assets quality stable with a favourable trend.

For details of the County Area Banking Division and County Area Banking service, please refer to “Discussion and Analysis – County Area Banking Business”.

## *Green Finance*

### *Green Credit*

During the reporting period, following the national industrial policies, environmental policies and financial regulatory requirements, we continued to increase green credit, improved our management system on green credit, and diverted financial resources to ecological environment industries, in order to make financial contribution to our country with blue sky, clean water and green mountains.

We continued to increase green credit, with a focus on green projects in the respect of protection and restoration of ecosystem, water pollution control, disposal of solid waste and garbage under planning of national and provinces. We actively carried out environmental rights mortgage and pledged financing based on carbon emission permit and emission right. At the end of June 2018, the balance of loans related to our green credits business amounted to RMB872,074 million, representing an increase of 16.6% compared to the end of the previous year.

Continuous improvements were made in green credit policies. We formulated the industry-specific credit policies related to solar power and timely modified the industry-specific credit policies for various industries including ship building and steel, to facilitate the integration of green credit indicators and industry-specific credit policies.

Risk management capabilities were continuously strengthened. We resolutely refused customers associated with environmental and social risks. We continued to control the credit to overcapacity industries, through actively reducing credit to customers in the overcapacity industries and withdrawing loans from high pollution enterprises. Accordingly, as at the end of June 2018, the percentage of loans to overcapacity industries to the total loans to corporate customers fell by 0.42 percentage point compared to the end of the previous year.

### *Green Investment Banking Business*

We further promoted our green investment banking business into more regular, systematic and large-sale, developing us to the leading bank in the green investment banking business. We continued to improve our product portfolio related to green investment banking business, with a focus on the development of loans for green merger and acquisition, securitization of green asset and other green investment banking projects. During the reporting period, we granted loans for green acquisition and merger of RMB236 million and successfully issued green asset-backed notes of 2018 First Tranch for China Resources Leasing Company Limited that amounted to RMB1,347 million.

### *Cross-border Financial Service*

During the first half of 2018, we proactively served China's economic and diplomatic strategies and steadily advanced the institutional layout and development outside China. During the reporting period, our branches in Macao, Hanoi and London and representative office in Sao Paulo commenced operation. At the end of June 2018, we established 22 overseas institutions and a bank through equity joint venture in 17 countries and regions, forming an overseas network covering Asia, Europe, America, Oceania and Africa. At the end of June 2018, the total assets of our overseas branches and subsidiaries reached USD130.57 billion, representing an increase of 6.9% compared to the end of the previous year. Net profit for the first half of 2018 was USD429 million.

We proactively supported national strategies, such as the "Belt and Road Initiative", "Going Global" of enterprises and internationalization of RMB. Actively responding to diversified demands of our customers, we continued to optimize our integrated cross-border financial service. We were among the first batch banks listed on the RMB Cross-border Interbank Payment System (CIPS) II. We promoted our business in the pilot free trade zones. During the first half of 2018, the total volume of our cross-border RMB settlement reached RMB557,654 million, representing an increase of 49% compared to the corresponding period of the previous year. During the reporting period, the total volume of international trade financing (including finance with domestic letter of credit) conducted by the domestic branches reached USD61,924 million. The total volume of international settlement conducted by the domestic branches reached USD497,708 million. The foreign guarantees issued by the domestic branches amounted to USD9.55 billion. We were honoured with the "Best International Settlement Bank" at a trade finance award ceremony launched by China Banking Association.

### *Integrated Operation*

During the first half of 2018, our five subsidiaries of integrated operation (namely ABC-CA Fund Management Co., Ltd., ABC International Holdings Limited, ABC Financial Leasing Co., Ltd., ABC Life Insurance Co., Ltd. and ABC Financial Asset Investment Co., Ltd.) focused on main businesses, delved into respective professional territory and operated prudently, in alignment with the Group's development strategy. Their market competitiveness steadily improved and synergy of the Group's integrated operation was achieved gradually. The total assets managed by ABC-CA Fund Management Co., Ltd. amounted to over RMB562.8 billion, representing an increase of RMB25.1 billion compared to the end of the previous year. The core investment banking business of ABC International Holdings Limited expanded with a stable increase in size. Concurrently, ABC Financial Leasing Co., Ltd. advanced its business transformation and promoted the adjustment of asset structure. The industry competitiveness of ABC Life Insurance Co., Ltd. improved with total premium income of RMB14,371 million. By exploring a diversified business model, ABC Financial Asset Investment Co., Ltd. became the first bank in the industry that made investment in debt-to-equity swap projects with its own fund and fund raised from public offering. At the end of June 2018, ABC Financial Asset Investment Co., Ltd. signed debt-to-equity swap framework agreements with 34 companies and implemented debt-to-equity swap business amounted to a total of over RMB53.1 billion, ranking second among the peers.

At the end of June 2018, total assets of our five subsidiaries of integrated operations amounted to RMB179.0 billion, net profit for the first half of 2018 amounted to RMB685 million.

## *Distribution Channels*

### *Offline Channels*

During the reporting period, responding to the development trend of Fintech and the changes in customer demands, we started the new round of strategic transformation of our branch outlets, which transformed our branch outlets towards intelligent, light, as well as integrated online and offline ones, in order to enhance the capabilities of our branch outlets in marketing and service, risk management, value-creation and market competitiveness. First, With the support of Fintech, we facilitated the transformation of our branch outlets towards light and intelligent ones in terms of light assets, light cost and light operation. We accelerated the transformation of our counter services to electronic ones, and promoted our next generation of super counters, and reduced manual-dealing and authorization to further improve our customer experience. We optimized our operating procedure to enhance operating efficiency and reduce operating costs. Second, we promoted training operating staff at branch outlets to marketing and service staff, to enhance capabilities of our branch outlets in marketing and service. Based on the principles of “releasing staff with Fintech” and “releasing staff with operating procedure”, we released the human resources to position such as customer guiders and marketers, in order to further enhance the profitability of our branch outlets. Third, we put technology monitoring risk in practice so that our capability of risk management on branch outlets was strengthened thoroughly. We improved the risk management functions of our core system at branch outlets and achieved centralized detection, analysis and handling of the operation of the branch outlets. We also accelerated the development of our back office supporting system for the branch outlets. Forth, we maintained the percentage of branch outlets in County Areas, while developing branch outlets in County Areas with a focus on featured operations, special customers and professional services, in order to improve our competitiveness in the network of branch outlets covering the Urban and County Areas.

### *Online Channels*

We speeded up to guide our customers and businesses to our online channels. Accordingly, the number of customers on online channels has been increasing and the transaction volume has been expanding steadily. During the reporting period, we recorded 25,815 million financial transactions through electronic channels, representing an increase of 28.8% over the corresponding period of the previous year, while their transaction volume reached 493.83 trillion, representing an increase of 21.22% over the corresponding period of the previous year.

### *Internet Banking*

As at the end of the reporting period, we had a total of 243 million registered customers on retail internet banking, representing an increase of 9% compared to the end of the previous year, and achieved a transaction volume of RMB28.02 trillion for the first half of 2018, representing an increase of 15.3% compared to the corresponding period of the previous year. As at the end of the reporting period, we had 5,813 thousand corporate internet banking customers, representing an increase of 9.3% compared to the end of the previous year, and recorded a transaction volume<sup>1</sup> of RMB85.4 trillion for the first half of 2018, representing an increase of 22% compared to the corresponding period of the previous year.

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<sup>1</sup> We newly incorporated the transaction volume through the platform of “the Connection between the Bank and Enterprises” into the transaction volume of our corporate internet banking business.

### Mobile Banking

As at the end of the reporting period, we had a total of 226 million retail mobile banking customers, representing an increase of 9.7% as compared to the end of the previous year, and achieved a transaction volume of RMB22.62 trillion for the first half of 2018, representing an increase of 68.44% compared to the corresponding period of the previous year. We had a total of 635 thousand corporate mobile banking customers, representing a net increase of 0.34 million as compared to the end of the previous year, and achieved a transaction volume of RMB34.44 billion for the first half of 2018.

### Telephone Banking

During the first half of 2018, we continued to improve call-answering and self-service audio of the telephone banking to enhance our smart services and customer experience. In the first half of 2018, we had received 216 million calls from customers, among which 53 million calls were transferred to customer service center and 49 million calls were handled by customer service staff with the completion rate and the satisfactory rate of 93.01% and 99.16%, respectively.

### Self-service Banking

We widely promoted the unified development platform and new generation of business management system related to our self-service banking facilities. We developed a multi-language menu and voice prompt functions for our self-service banking facilities in areas minorities live in and border areas, which include Uyghur, Tibetan, Inner Mongolian, Korean, Mongolian and Russian. We developed 10 featured businesses in our self-service banking facilities such as cash instalment and activation the debit card by face-recognition authentication after debit card opening in batch. At the end of June 2018, we had 115.1 thousand units of cash-related self-service banking facilities, and 49.1 thousand units of self-service banking facilities in service. The daily transaction volume reached 24 million. We maintained the first among the four major banks in China in terms of the number of cash-related self-service banking facilities as at the end of the reporting period, and the number and amount of financial transactions from cash-related self-service banking facilities during the reporting period.

### Information Technology

We stepped up innovation in FinTech and provided strong technical support for our operation and management. We researched and advanced transformation in respect of innovative mechanism of technologies and products to further improve the efficiency of innovating products. We formulated the three-year action plan of Fintech innovation and specified major tasks and ways of implementation in order to facilitate digital transformation.

### *Substantially Promoting FinTech Innovation*

Regarding application of mobile internet technology, phase I of our new mobile banking service has been put into operation with new functions including QR code payment and “Quick E Pay” password-free small payment, smart services including ABC smart investment, voice search and monthly statement. We also conducted advertising and promotion activities based on locations and product recommendations based on customer groups.

Regarding application of artificial intelligence technology, the engine sensor in phase I of “Finance Brain”, our artificial intelligence platform, has been put into operation. It supported biometrics including face recognition, voice recognition and semantic recognition, enabling new generation of smart mobile banking business to provide smart services such as voice navigation, semantic recognition and face verification.

Regarding application of big data technology, we consolidated the foundation for our big data platform, and continued to expand the sources of data, advanced data modeling, in order to enhance quality of data. We improved our capabilities of data extraction and the efficiency of the related services. We also optimized our data analysis and mining platform adapting to more types of users and more complicated scenes.

Regarding application of cloud computing technology, we improved our new generation of infrastructure related to cloud platform and realized centralized management on heterogeneous resources including computing, storage and network. We also advanced the construction of our IT infrastructure to allow flexible adjustment, flexible scheduling and flexible scalability according to demands.

Regarding application of cyber security technologies, we developed the quantum communication network and completed the connection of quantum cryptography between our Data Center in Shanghai and PBOC. We also commenced the construction of platform related to situation awareness of threat intelligence and cyber security.

### *Improvement of Technological Level of Our Operation and Management*

We promoted “No. 1 Project” for Providing Internet Financial Service for Sannong. We improved the “Huinong e-Tong” platform and advanced the development of new products and functions of “Huinong e-loan”, “Huinong e-payment” and “Huinong e-commerce”. We completed our promotion for phase I of our new generation of super counter. We also completed the construction of phase I and phase II of our smart fund investment platform, enabling the fund business to provide smart purchase, redemption and rebalancing services. The project of securitization has been put in operation, in which the function of screening and packaging retail assets was optimized. We developed a unified view for online and offline acquiring merchants that supported the centralized management on merchants and the development of the acquiring business. We continued to advance the comprehensive reform in counter services and completed the construction of our authorization platform for counter services at Head Office level. We advanced the the project of systems integration and procedure optimization in relation to international business, in order to enhance cross-border financial service capability. We optimized the “Three Lines and One Grid” management system and promoted the application of employees’ behavior management model. We completed the switching of our new generation of platform for anti-money laundering. Phase I of cloud project related to on-site inspection for anti-money laundering from PBOC has been put in operation.

## *The Safe Running of Information System*

We co-ordinated and promoted the construction of “two cities and three centers” project. We upgraded database in our host in stages, optimized the core systems and advanced field trainings for switch in respect of the open platform system, in order to further enhance stable operation. During the reporting period, our transaction volume generated by our operation system increased rapidly. The working daily average of transactions being handled by our core operation system and the highest daily transaction volume reached 505 million, 619 million, respectively. Therefore, our information system was sustainable in providing continuous stable services.

## ***Human Resources Management and Organization Management***

### *Human Resources Management*

#### *Human Resources Reform*

During the reporting period, persisting with a market-oriented approach, we continued to deepen the reform of human resources, so as to refine the personnel development system and structure of employees and improve efficiency of our human resources continuously. We adjusted the management of outlets and realized centralized management on operation of all outlets and self-service facilities of the Bank. We completed the reform of internal audit control and optimized the functions of audit department and internal control and compliance department. We optimized the layout of our branch outlets at branch or sub-branch level, established Xiong’an branch in Hebei and renamed all branches in provincial capital cities. We strengthened the duties of departments at the Head Office in relation to risk compliance management and established our responsibility system for risk control on cases of violation. To meet the requirement of reforms to streamline administration, delegate powers and improve regulation and services, we implemented reasonable and flexible management polices for allocation of institutions. Based on the performance-oriented principle, we launched flexible assessment and incentive measures in encouraging employees to undertake the task of innovation.

During the reporting period, we accelerated the “Four Major Projects” of talent development to inspire our employees with enthusiasm, initiative and creativity. In light of the requirements of quality and professional services, we innovated the approach of selecting leading managers to accelerate selection of young leaders, so as to rejuvenate the leadership. We implemented the talent retention program by promoting the selection of high-level professionals and expansion of their career path. As refining the allocation of human resources during the process of operation transformation, we optimized the staffing structure in branch outlets by guiding tellers to transfer to new posts, so as to vitalize human resources in foundation-level branches.

### Development and Cultivation of Human Resources

Focusing on the trend of informatization, integration and globalization in financial industry, we actively cultivated Fintech talents, accelerated the introduction and training of talents for emerging business, developed the compliance team in respect of anti-money laundering and motivated international talents by overseas institutions and subsidiaries. In line with our market positioning of serving Sannong, we launched the young talents development program V2.0 in County Areas and commenced another cycle of talent selection.

We made solid efforts in implementing training by levels and categories. We completed the rotating training for leaders in accordance with the spirit put forward by the 19th National Congress of the Communist Party of China and for presidents of the branches in relation to Fintech. We conducted internal transfer trainings for counter managers and trainings for talents providing internet financial services for Sannong, while exploring overseas trainings. We strengthened our efforts in developing training models through the establishment of ABC Smart College and mobile internet colleges, and employees at the Head Office could select the courses through a menu system.

### *Information on Employees*

As at the end of June 2018, we had 477,040 employees (and 8,218 dispatched employees) representing a decrease of 10,267 compared to the end of the previous year. Among our employees, 468,160 persons were employed at our domestic branch outlets and 8,880 persons were employees at overseas and other institutions.

### Distribution of Our Employees by Regions

|  | <b>30 June 2018</b>        |                       |
|--|----------------------------|-----------------------|
|  | <b>Number of Employees</b> | <b>Percentage (%)</b> |
| Head Office  | 9,317                      | 2.0                   |
| Yangtze River Delta                                | 64,889                     | 13.6                  |
| Pearl River Delta                                  | 51,749                     | 10.9                  |
| Bohai Rim  | 68,573                     | 14.4                  |
| Central China                                      | 99,803                     | 20.9                  |
| Northeastern China                                 | 49,094                     | 10.3                  |
| Western China                                      | 124,735                    | 26.1                  |
| Subtotal of Domestic Branch Outlets                | 468,160                    | 98.2                  |
| Overseas branch outlets and representative offices | 608                        | 0.1                   |
| Subsidiaries under integrated business platform    | 8,188                      | 1.7                   |
| Rural Banks  | 84                         | 0.0                   |
| <b>Total</b>                                       | <b>477,040</b>             | <b>100.0</b>          |



## *Management of Branch Outlets*

### *Domestic Branch Outlets*

As at the end of June 2018, we had 23,652 domestic branch outlets, including the Head Office, seven business units directly managed by the Head Office, seven units directly managed by the Head Office, 37 tier-1 branches (including five branches directly managed by the Head Office), 378 tier-2 branches (including branches in provincial capital cities), 3,472 tier-1 sub-branches (including business departments in municipalities, business departments of branches directly managed by the Head Office and business departments of tier-2 branches), 19,698 foundation-level branch outlets (including 13,288 tier-2 sub-branches) and 52 other establishments.

### *Number of Domestic Branches and Branch Outlets by Regions*

|   | <b>30 June 2018</b>                              |                       |
|---|--|-----------------------|
|   | <b>Number of<br/>Domestic<br/>Branch Outlets</b> | <b>Percentage (%)</b> |
| Head Office <sup>1</sup>                | 15   | –                     |
| Yangtze River Delta                     | 3,088  | 13.0                  |
| Pearl River Delta                       | 2,549  | 10.8                  |
| Bohai Rim                               | 3,398  | 14.4                  |
| Central China                           | 5,271  | 22.3                  |
| Northeastern China                      | 2,284  | 9.7                   |
| Western China                           | 7,047  | 29.8                  |
| <b>Total of Domestic Branch Outlets</b> | <b>23,652</b>                                    | <b>100.0</b>          |

*Note: 1. Including the Head Office, Big Client Department, Financial Market Department, Investment Banking Department, Private Banking Department, Credit Card Center, Custodian Department, Assets Management Department, Software Research and Development Center, Data Center, Customer Service Center, Beijing Advanced Training Institute, Changchun Training Institute, Tianjin Training Institute and Wuhan Training Institute*

### *Overseas branch outlets*

As at the end of June 2018, we had 13 overseas branches and 4 overseas representative offices, namely Hong Kong branch, Singapore branch, Seoul branch, New York branch, Dubai International Financial Centre (DIFC) branch, Tokyo branch, Frankfurt branch, Sydney branch, Luxemburg branch, Dubai branch, London branch, Macao branch and Hanoi branch, and Vancouver representative office, Hanoi representative office, Taipei representative office and Sao Paulo representative office.

## *Major Subsidiaries*

### *ABC-CA Fund Management Co., Ltd.*

ABC-CA Fund Management Co., Ltd. was established in March 2008 and its registered capital was RMB1,750 million, 51.67% of which was held by the Bank. Its businesses include fund-raising, sales of fund and asset management, and the major products include stock funds, mixed funds, bond funds and monetary market funds.

As at 30 June 2018, the total assets and net assets of ABC-CA Fund Management Co., Ltd. amounted to RMB2,980 million and RMB2,739 million, respectively. It recorded a net profit of RMB277 million for the first half of 2018.

### *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 HKD4,113 million, 100% of which was held by the Bank. ABC International Holdings Limited is eligible to engage in providing comprehensive and integrated financial services including sponsorship and underwriting for listing, issuance and underwriting of bonds, financial consultation, asset management, direct investment, institutional sales, securities brokerage and securities consultation in Hong Kong, and is also eligible to engage in various capital market businesses in mainland, except as the sponsor of A-share listing.

As at 30 June 2018, the total assets and net assets of ABC International Holdings Limited amounted to HKD41,107 million and HKD7,149 million, respectively. It recorded a net profit of HKD147 million for the first half of 2018.

### *ABC Financial Leasing Co., Ltd.*

ABC Financial Leasing Co., Ltd. was established in September 2010 and its registered capital was RMB3 billion, 100% of which was held by the Bank. The principal scope of business includes financial leasing, transfer and accept of financing and leasing finance lease assets, fixed-income securities investments business, acceptance of lease deposit from lessee, absorbing time deposit with a term no less than three months from non-bank shareholders, interbank lending, borrowing from financial institutions, overseas loan, selling of disposal of leased items, financial consultation, establish project companies in domestic bonded zones to carry out financial leasing business, provide guarantee for external facilities to subsidiaries and project companies and other business approved by the CBIRC.

As at 30 June 2018, the total assets and net assets of ABC Financial Leasing Co., Ltd. amounted to RMB47,679 million and RMB4,199 million, respectively. It recorded a net profit of RMB69,383.2 thousand for the first half of 2018.

### ABC Life Insurance Co., Ltd.

The registered capital of ABC Life Insurance Co., Ltd. was RMB2.95 billion, 51% of which was held by the Bank. ABC Life Insurance Co., Ltd. primarily engages in the 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 CBIRC.

As at 30 June 2018, ABC Life Insurance Co., Ltd. had total assets of RMB82,311 million, net assets of RMB4,902 million and a net profit for the first half of 2018 of RMB98,823.5 thousand.

### 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 Financial Asset Investment Company Limited

The registered capital of ABC Financial Asset Investment Company Limited is RMB10 billion, 100% of which was held by the Bank. The principal scope of business of ABC Financial Asset Investment Company Limited includes: focusing on debt-to-equity conversion and ancillary supporting business, conducting public fund raising from qualified public investors for debt-to-equity conversion in accordance with relevant laws and regulations, issuance of financial bonds specifically for debt-to-equity conversion, as well as other businesses as approved by the CBIRC.

As at 30 June 2018, ABC Financial Asset Investment Company Limited had total assets of RMB11,345 million, net assets of RMB10,230 million and a net profit for the first half of 2018 of RMB117 million.

### Agricultural Bank of China (UK) Limited

Agricultural Bank of China (UK) Limited is a wholly-owned subsidiary of the Bank incorporated in the United Kingdom, with a registered capital of USD100 million. It engages in the corporate financing business, including corporate deposits, bilateral loans, syndicated loans, trade financing, international settlement, foreign exchange and derivatives.

As at 30 June 2018, Agricultural Bank of China (UK) Limited had total assets of USD127 million. It recorded a net profit of USD4,120.8 thousand for the first half of 2018.

### Agricultural Bank of China (Luxembourg) Limited

Agricultural Bank of China (Luxembourg) Limited is a wholly-owned subsidiary of the Bank incorporated in Luxembourg, with a registered capital of EUR20 million. Its scope of business includes financing businesses such as retails, wholesales and treasury transactions.

As at 30 June 2018, Agricultural Bank of China (Luxembourg) Limited had total assets of USD23 million. It recorded a net profit of USD128.4 thousand for the first half of 2018.

*Agricultural Bank of China (Moscow) Limited*

Agricultural Bank of China (Moscow) Limited is a wholly-owned subsidiary of the Bank incorporated in Russia, with a registered capital of RUB1.4 billion. It engages in wholesale banking businesses including international settlements, corporate deposits, syndicated loan, bilateral loans, trade financing and exchange transactions.

As at 30 June 2018, Agricultural Bank of China (Moscow) Limited had total assets of USD101 million.

*ABC Hubei Hanchuan Rural Bank Limited Liability Company*

ABC Hubei Hanchuan Rural Bank Limited Liability Company was established in August 2008 in Hanchuan, Hubei Province with registered capital of RMB31 million, 50% of which was held by the Bank. As at 30 June 2018, ABC Hubei Hanchuan Rural Bank Limited Liability Company had total assets of RMB278 million, net assets of RMB64 million and a net profit for the year of RMB1,777.7 thousand.

*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 registered capital of RMB19.60 million, 51.02% of which was held by the Bank. As at 30 June 2018, ABC Hexigten Rural Bank Limited Liability Company had total assets of RMB192 million, net assets of RMB36 million and a net loss for the first half of 2018 of RMB2,492.9 thousand.

*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 registered capital of RMB40.00 million, 51% of which was held by the Bank. As at 30 June 2018, ABC Ansai Rural Bank Limited Liability Company had total assets of RMB718 million, net assets of RMB62 million and a net profit for the first half of 2018 of RMB5,182.9 thousand.

*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 registered capital of RMB29.40 million, 51.02% of which was held by the Bank. As at 30 June 2018, ABC Jixi Rural Bank Limited Liability Company had total assets of RMB210 million, net assets of RMB41 million and a net loss for the first half of 2018 of RMB700.1 thousand.

*ABC Zhejiang Yongkang Rural Bank Limited Liability Company*

ABC Zhejiang Yongkang Rural Bank Limited Liability Company was established in June 2012 in Yongkang City, Jinhua City, Zhejiang Province with registered capital of RMB210 million, 51% of which was held by the Bank. As at 30 June 2018, ABC Zhejiang Yongkang Rural Bank Limited Liability Company had total assets of RMB586 million, net assets of RMB250 million and a net profit for the first half of 2018 of RMB5,739.5 thousand.

## ABC Xiamen Tong'an Rural Bank Limited Liability Company

ABC Xiamen Tong'an Rural Bank Limited Liability Company was established in June 2012 in Tong'an District, Xiamen City, Fujian Province with registered capital of RMB100 million, 51% of which was held by the Bank. As at 30 June 2018, ABC Xiamen Tong'an Rural Bank Limited Liability Company had total assets of RMB944 million, net assets of RMB151 million and a net profit for the first half of 2018 of RMB8,311.2 thousand.

### *Major Investee*

Sino-Congolese Bank for Africa was established by the Bank in the Republic of Congo, in which the Bank invested Franc CFA26,671.40 million, with a shareholding of 50%.

### **County Area Banking Business**

We provide customers in County Areas with comprehensive financial services through all our branch outlets in County Areas in China. We refer to such banking business as the County Area Banking Business or Sannong Banking Business. During the reporting period, following our business positioning of serving Sannong and promoting businesses in County Areas, we commenced the “Seven Major Actions” regarding rural revitalization<sup>1</sup>, financial poverty alleviation and the “No.1 Project” for Providing Internet Financial Service for Sannong. Accordingly, we enhanced service capabilities and market competitiveness of our County Area Banking Business.

### *County Area Corporate Banking Business*

During the reporting period, we commenced the “Seven Campaigns” regarding rural revitalization and actively implemented the “Eight Marketing Campaigns”<sup>2</sup>. We increased credit, advanced innovation of businesses and strengthened co-operation with other parties as part of our efforts in enhancing the comprehensive financial service capabilities related to our County Area Corporate Banking Business.

We continued to enhance financial support to key areas of rural vitalization. As at the end of June 2018, the balance of loans for urbanization in County Areas amounted to RMB618.8 billion, representing an increase of RMB56.3 billion compared to the end of the previous year. The balance of loans for water conservancy in County Areas amounted to RMB349.0 billion, representing an increase of RMB13.7 billion compared to the end of the previous year. The balance of loans for tourism and other happiness industries in County Areas amounted to RMB56.1 billion, representing an increase of RMB8.5 billion compared to the end of the previous year. The balance of green loans in County Areas amounted to RMB351.0 billion, representing an increase of RMB40.2 billion compared to the end of the previous year.

<sup>1</sup> The “Seven Campaigns” regarding rural vitalization refer to the seven campaigns taken by the Bank with focus on key areas of rural revitalization, which include the campaign that services the integrated development of rural industries, the campaign that services the reform of the rural property rights system, the campaign that services the China's food security strategy, the campaign that services the fight against poverty, the campaign that services the constructions of beautiful and inhabitable rural areas, the campaign that services the happiness industries in County Areas and the campaign that services the green development in County Areas.

<sup>2</sup> The “Eight Marketing Campaigns” refer to the “Ten Billion Financing for a Hundred Companies” that support the leading agricultural industrialization enterprises, the “Deepening Promotion of 10 Thousand Cooperatives” campaign that supports specialized agricultural cooperatives, the “Hundred Cities and Thousands Towns” that supports new-type urbanization, the “Top 100 Markets” campaign that supports merchants in the commodity market of the County Areas, the “100 Tourism Counties” campaign that supports the development of tourism industry in County Areas, the specialized marketing campaign that supports major water conservancy projects, the “Top 100 featured agriculture production areas” campaign that supports the featured agriculture and the “New National Industrialization Demonstration Base” campaign that supports new industrialization in the County Areas.

We actively innovated corporate financial products and models for Sannong. We launched the loans for pension institutions in the County Areas, the supporting loans for rural complex, the loans for construction of urban-rural integration and the loans for the featured industries, developing a series of lightspots and brands that serve Sannong. As for key customers, we optimized integrated financial service solutions, and promoted the services of underwriting super&short-term commercial paper (SCP), financial consultancy and internet loans based on big data, thus we catered customers' diversified needs for financial services. We strengthened the co-operation with All China Federation of Supply and Marketing Cooperatives and developed a number of effective models of co-operation between us and the Federation, with focus on key enterprises in the Supply and Marketing Cooperatives, rural e-commerce and rural inclusive finance.

At the end of June 2018, the balance of corporate customer deposits in County Areas amounted to RMB2,148.0 billion, representing an increase of RMB88.9 billion compared to the end of the previous year. Loans for corporate customers (excluding discount) in County Areas amounted to RMB2,272.4 billion, representing an increase of RMB143.2 billion compared to the end of the previous year.

### ***County Area Retail Banking Business***

During the reporting period, we continued to promote “No.1 Project” for providing Internet financial services for Sannong and strengthen innovation in product and service models, so that County Area retail banking business developed healthy and rapidly.

We have made progress in the “Jinsui Huinongtong” project. With a focus on QR code payment in rural areas, we provided the service stations in the “Huinongtong” project with QR code payment, which improved the convenience of payment in the rural areas. We strengthened the development of IT system and promoted the connection between the service stations in the “Huinongtong” project and the “Huinong e-Tong” platform, in order to effectively promote internet-based upgrades of “Huinongtong” project. At the end of June 2018, 371.2 thousand service stations completed upgrades, representing an increase of 130.2 thousand compared to the end of the previous year.

The service capability of the County Area retail banking business was further enhanced. We launched the loans for entrepreneurship and innovation to people returning to rural area and strengthened the related financial services to them. We supported the development of modern agricultural industry by increasing credit to new agricultural business entities. At the end of June 2018, the balance of loans extended to new agricultural business entities including large-scale professional operators and family farmers amounted to RMB77.5 billion, representing an increase of RMB11.9 billion compared to the end of the previous year. We steadily advanced in the loans pledged with “Two Rights” in rural areas (rural land contractual operation rights and property rights of rural households' houses) in line with the requirement of deepening rural land reform. At the end of June 2018, the loans pledged with rural land contractual operation rights and the loans pledged with property rights of rural households' houses were RMB2,469 million and RMB1,240 million, respectively. We supported the development of agritourism and rural tourism. We also strengthened efforts in the marketing of Nongjiale loans. At the end of June 2018, the balance of Nongjiale loans for rural households amounted to RMB0.94 billion, representing an increase of RMB0.37 billion compared to the end of the previous year.

At the end of June 2018, the balance of retail customer deposits in County Areas amounted to RMB4,920.3 billion, representing an increase of RMB197.7 billion compared to the end of previous year. Loans for retail customers in County Areas amounted to RMB1,529.1 billion, representing an increase of RMB123.3 billion compared to the end of the previous year.

### **“No.1 Project” for Providing Internet Financial Services for Sannong Achieved Breakthroughs and Improvements**

The Bank proactively served the rural vitalization strategy. By fully leveraging on mobile internet, big data and other technologies, we established the unified platform of “Huinong e-Tong” related to providing internet financial services for Sannong, to develop featured products and service related to providing internet financial services for Sannong with our own feature. In the platform of “Huinong e-Tong”, we built three models of “Huinong e-loan”, “Huinong e-payment” and “Huinong e-commerce”, and provided customers in all the links of agriculture industrial chain(including production, circulation and consumption), with the comprehensive services for supply, sales and operation, integrated online and offline payment methods, targeted e-commerce poverty alleviation services and innovative internet finance services, realizing an in-depth integration of customers, scenes, channels and products.

“Huinong e-loan”: At the end of June 2018, the balance of “Huinong e-loan” reached RMB51.7 billion, representing an increase of RMB36.5 billion or 240.58% compared to the end of the previous year. The number of loan customers was 0.57 million, representing an increase of 425 thousand compared to the end of the previous year.

“Huinong e-payment”: We developed online payment methods including QR code payment and quick payments with various types of bank cards. We also launched the “smart terminal + APP” service model to effectively improve the conditions of payment in rural areas.

“Huinong e-commerce”: We developed differentiated service interfaces for different customers in the agriculture industrial chain. Based on scenes of services in respect of agriculture-related policies, financial subsidies, inclusive finance and convenient lifestyles, the “Rural Household” interface met rural households’ needs for production and social purposes in daily life. Based on scenes of high frequency trading by merchants in specialized market, the “Specialized Market” interface provided convenient payment and settlement methods, clear financial statements and user-friendly booth management functions, which met the needs of merchants and management for financial and business purposes. The “Huinongtong” interface primarily provided rural supermarkets related to “Huinongtong” service stations with APP service channels that enriched the function of sales and collection/payment of merchants. It also strengthened the interaction between service stations and rural households, facilitating comprehensive internet-based upgrade of “Huinongtong” service stations in channels, services and management. Focused on merchants in consumer goods and brand chain industries, the “Supply Chain” interface provided them with exclusive services that based on scenes of daily operation in upstream and downstream enterprises. To meet the needs of key enterprises for payment and settlement, order processing and upgrading of ERP system, the “ERP” interface provided the Payment channels interface, Order Data interface and Customized Interface Tailored to Industry, which were used in enterprises engaged in farming and animal husbandry, consumer goods, home and food industries. At the end of June 2018, the number of merchants related to “Huinong e-commerce” was 2.14 million, representing an increase of 0.58 million compared to the end of the previous year. The transaction amount for the first half of 2018 amounted to RMB226.7 billion, representing an increase of 143% compared to the corresponding period of the previous year.

## ***Financial Poverty Alleviation***

With a focus on poor people and areas of extreme poverty, we continued to increase credit and make efforts in prioritize resources to them, in order to improve the targeted financial poverty alleviation. We supported a number of major engineerings, key enterprises and poverty alleviation projects to benefit poverty alleviation, livelihood and economic growth in poor areas. We promoted a number of innovative and sustainable models for poverty alleviation, including credit enhancement through government arrangement, supporting featured industry, supporting tourism and supporting key enterprise. Through supporting featured industries, leading enterprises, rural bellwether of becoming rich and poor people who have capacities and eager to increase income, which altogether represent a leading function, we assisted poor people to fight against poverty and increase income. We accelerated the “Jinsui Huinongtong” project and its internet-based upgrades in poor areas, so as to expand the coverage and enrich functions of basic financial services, which provided poor people in poor areas with more convenient and comprehensive financial services.

Since 2016, our loans accumulatively extended for targeted poverty alleviation amounted to 362.4 billion and 9.03 million ratified and registered poor people accumulatively were supported by these loans. At the end of June 2018, our balance of loans to 832 key counties of national poverty alleviation reached RMB877.1 billion, representing an increase of 7.6% over the end of previous year; the balance of loans for targeted poverty alleviation amounted to RMB319,699 million, representing an increase of 11.1% over the end of previous year.

### *Statistics of targeted financial poverty alleviation for the first half of 2018*

#### **I. Loans for targeted financial poverty alleviation**

|   |                 |
|---|-----------------|
| <b>(balance at the end of the period, in hundred millions of RMB)</b> | <b>3,196.99</b> |
| 1.1 Retail loans for targeted poverty alleviation                     | 301.92          |
| 1.1.1 Loans for ratified and registered poor people                   | 250.85          |
| 1.1.2 Other retail loans for targeted poverty alleviation             | 51.07           |
| 1.2 Corporate loans for targeted poverty alleviation                  | 2,895.07        |
| 1.2.1 Loans related to industry-targeted poverty alleviation          | 849.55          |
| 1.2.2 Loans related to projects for targeted poverty alleviation      | 2,045.52        |
| Of which: Loans for improving ecological environment                  | 65.52           |
| Loans for improving rural infrastructure                              | 1,961.18        |



## Financial Position

### Assets and Liabilities

At 30 June 2018, the total assets of the County Area Banking Business reached RMB7,941,946 million, representing an increase of 4.7% compared to the end of the previous year. The total loans and advances to customers reached RMB3,820,256 million, representing an increase of 7.1% compared to the end of the previous year. The balance of deposits from customers reached RMB7,251,010 million, representing an increase of 4.8% compared to the end of the previous year.

The table below presents 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*

| Item                                     | 30 June 2018     |                | 31 December 2017 |                |
|--|------------------|----------------|------------------|----------------|
|  | Amount           | Percentage (%) | Amount           | Percentage (%) |
| Total loans and advances to customers    | 3,820,256        | –              | 3,568,363        | –              |
| Allowance for impairment losses on loans | (195,288)        | –              | (163,246)        | –              |
| Loans and advances to customers, net     | 3,624,968        | 45.6           | 3,405,117        | 44.9           |
| Intra-bank balances <sup>1</sup>         | 3,645,073        | 45.9           | 3,561,280        | 46.9           |
| Other assets                             | 671,905          | 8.5            | 619,246          | 8.2            |
| <b>Total assets</b>                      | <b>7,941,946</b> | <b>100.0</b>   | <b>7,585,643</b> | <b>100.0</b>   |
| Deposits from customers                  | 7,251,010        | 97.3           | 6,915,672        | 97.4           |
| Other liabilities                        | 202,801          | 2.7            | 182,302          | 2.6            |
| <b>Total liabilities</b>                 | <b>7,453,811</b> | <b>100.0</b>   | <b>7,097,974</b> | <b>100.0</b>   |

Note: 1. *Intra-bank balances refers to funds provided by our County Area Banking Business to other business segments within the Bank through internal funds transfers.*

### Profit

In the first half of 2018, the profit before tax of our County Area banking business decreased by 0.2% to RMB42,452 million compared to the corresponding period of the previous year, primarily because the impairment losses on assets increased by RMB11,462 million compared to the corresponding period of the previous year.

The table below presents the major items of income items of the County Area Banking Business as of the dates indicated.

*In millions of RMB, except for percentages*

|  | <b>Six months<br/>ended 30<br/>June 2018</b> | Six months<br>ended 30<br>June 2017 | Increase/<br>(decrease) | Growth Rate<br>(%) |
|--|--|-------------------------------------|-------------------------|--------------------|
| External interest income                                 | <b>84,584</b>                                | 76,052                              | 8,532                   | 11.2               |
| Less: External interest expense                          | <b>44,575</b>                                | 43,054                              | 1,521                   | 3.5                |
| Interest income from intra-bank<br>balances <sup>1</sup> | <b>56,149</b>                                | 50,408                              | 5,741                   | 11.4               |
| <b>Net interest income</b>                               | <b>96,158</b>                                | 83,406                              | 12,752                  | 15.3               |
| <b>Net fee and commission income</b>                     | <b>16,656</b>                                | 16,453                              | 203                     | 1.2                |
| Other non-interest income                                | <b>1,987</b>                                 | 2,430                               | (443)                   | -18.2              |
| <b>Operating income</b>                                  | <b>114,801</b>                               | 102,289                             | 12,512                  | 12.2               |
| Less: Operating expenses                                 | <b>38,219</b>                                | 37,094                              | 1,125                   | 3.0                |
| Impairment losses on assets                              | <b>34,130</b>                                | 22,668                              | 11,462                  | 50.6               |
| <b>Total profit before tax</b>                           | <b>42,452</b>                                | 42,527                              | (75)                    | -0.2               |

*Note: 1. Interest income from intra-bank balances represents the interest income earned on funds provided by our County Area Banking Division to our other divisions at internal funds transfer pricing, which is determined based on the market interest rate.*

### *Key Financial Indicators*

In the first half of 2018, the return on average total assets of the County Area Banking Business was 0.90%, representing a decrease of 6 basis points compared to the same period of the previous year. The interest spread between deposits and loans was 3.32%, 28 basis points higher than that of the Bank. At 30 June 2018, the non-performing loan ratio of the County Area Banking Business was 2.01%, representing a decrease of 0.16 percentage point compared to the end of the previous year. The allowance to non-performing loans was 254.01% and the allowance to total loans was 5.11%.

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

|   | <i>Unit: %</i>                               |                                     |
|---|--|-------------------------------------|
| <b>Item</b>                                       | <b>Six months<br/>ended 30<br/>June 2018</b> | Six months<br>ended 30<br>June 2017 |
| Return on average total assets                    | <b>0.90*</b>                                 | 0.96*                               |
| Average yield of loans                            | <b>4.59*</b>                                 | 4.52*                               |
| Average cost of deposits                          | <b>1.27*</b>                                 | 1.30*                               |
| Net fee and commission income to operating income | <b>14.51</b>                                 | 16.08                               |
| Cost-to-income ratio                              | <b>33.14</b>                                 | 36.25                               |
|   | <b>30 June<br/>2018</b>                      | 31 December<br>2017                 |
| <b>Item</b>                                       |  |                                     |
| Loan-to-deposit ratio                             | <b>52.69</b>                                 | 51.60                               |
| Non-performing loan ratio                         | <b>2.01</b>                                  | 2.17                                |
| Allowance to non-performing loans                 | <b>254.01</b>                                | 211.30                              |
| Allowance to total loans                          | <b>5.11</b>                                  | 4.57                                |

\* *Annualized figures.*

## **RISK MANAGEMENT AND INTERNAL CONTROL**

### **Risk Management**

#### ***Comprehensive Risk Management System***

During the reporting period, we continued to advance the construction of our comprehensive risk management system, with a focus on risk prevention and control in key areas. For continuous optimization of our credit structure, we continued to reduce credit to overcapacity industries and strengthened the collection and disposal of non-performing loans. Accordingly, the balance of non-performing loans and the non-performing loan ratio decreased over the end of the previous year and our allowance to non-performing loans increased over the end of the previous year, thereby further strengthening our risk resistibility. We further improved our market risk management systems and strengthened management over derivative transaction business. We strengthened operational risk management and control on risk relating to cases of violations. We formulated proposal for business continuity of the Bank to ensure the continuous and stable operation of our core operation system. We encouraged and provided guidance for the subsidiaries under our integrated business platform and our overseas institutions to establish and improve management framework covering risk appetite, in order to improve the effectiveness of our risk management.

#### ***Credit Risk***

Credit risk is the risk of economic loss arising from a counterparty's failure to fulfill its obligations under an agreed covenant. 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***

During the reporting period, the Bank focused on optimizing the credit business structure and preventing and mitigating risks, in an effort to promote the high-quality development of the credit business of the Bank. We strengthened our risk management and control on industries with overcapacity or high risks, and promoted risk mitigation in an orderly manner. We also intensified the disposal of non-performing loans and significantly improved the asset quality.

#### ***Risk Management of Corporate Banking Business***

We refined the policy system for risk management. We formulated credit policies for the solar power generation industry, reviewed and optimized credit management policies at group level.

We strictly adhered to our limitation of risk tolerance. We strengthened our effort in reducing the credit exposures of customers with risks and strictly controlled the risk exposures of the steel and coal industries. We strengthened the management of off-balance-sheet businesses and prevented risk transmission across markets rigorously. We put great effort in the risk monitoring of credit-like businesses such as debt securities investments, underwriting of debt financing instruments, wealth management and financing, so as to prevent the cross-transmission between risks of credit and credit-like businesses. We pushed forward risk mitigation in an orderly manner through differentiated management on customers who required different types of risk mitigation.

We strengthened the post-disbursement management and the collection and disposal of non-performing assets. We carried out risk investigations on key industries such as steel, coal and real estate, and put great efforts into risk warning and mitigation. We focused on monitoring the risks of key customers and strengthened post-disbursement management of groups with large credit exposures. We strengthened self-collection and enhanced the collection and disposal of non-performing loans by actively applying various market-oriented approaches including transferring out non-performing loans in batches, securitization and debt-to-equity swaps.

### Risk Management of Retail Banking Business

We pushed forward the construction of the retail loan operation center, implemented the management philosophy of “being professional and specialized” and enhanced the sophisticated management of the retail loan business. We built an intelligent risk control platform for the retail loan business, which monitored fund flows and captured suspicious leads automatically, so that we conducted risk inspections and disposals in a timely manner. We established a management mechanism for accounts with a large amount of non-performing loans, which greatly facilitated the effectiveness of risk mitigation. By strengthening our effort in collection in person or collection through legal process, combined with various measures such as write-offs and disposals, we further reduced the amount of non-performing loans of the retail loan business.

### Risk Management of Credit Card Business

We modified the policies related to credit card business including card issuance, credit approval, in order to further strengthen our customer entry management. We enhanced control on flows and uses of funds and imposed restrictions on transferring credit card funds to areas including third-party deposit and funds. Moreover, we exerted control over transaction limits of merchants in the real estate and limited the performance of instalment payment for consumption, bills and general merchants. We developed an early warning model regarding merchants with instalments and devised an early risk warning for merchants. We also optimized the credit card collection system to enhance collection management. We strengthened our effort in the disposal and promoted the securitization of non-performing assets.

### Risk Management of Treasury Operations

We strengthened the management on approval process of treasury operations and kept on monitoring the risks related to our customers and their transaction counterparties of the existing treasury business. The list of customers paid attention was to be updated in a timely manner and the measures in response to risks were dynamically adjusted. We improved our management before, during and after credit debt investments and continued to optimize our customer structure.

### Loan Risk Classification

We formulated and refined relevant regulations on loan risk classification in accordance with the *Guidelines of Loan Credit Risk Classification* issued by the CBIRC. We comprehensively assessed the recoverability of loans and classified the loans by taking into 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 management systems for loans: (1) the five-category classification system and (2) the 12-category classification system. Corporate loans were mainly managed with 12-category classification system. 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 were managed with the five-category classification system. The system automatically classified the loans based on the length of period by which payments of principal or interest were overdue and the types of collateral, allowing for a more objective risk assessment. Large retail loans for production and operation over RMB5 million were classified manually on semi-annual basis to enhance risk sensitivity. In addition, the classification was timely adjusted based on the information collected in the credit management to reflect loan quality objectively.

## Credit Risk Analysis

### Distribution of Loans by Collaterals

*In millions of RMB, except for percentages*

| Item                       | 30 June 2018      |                               | 31 December 2017  |                               |
|----------------------------|-------------------|-------------------------------|-------------------|-------------------------------|
|                            | Amount            | Percentage of total loans (%) | Amount            | Percentage of total loans (%) |
| Loans secured by mortgages | 5,219,684         | 45.6                          | 4,945,683         | 46.1                          |
| Loans secured by pledges   | 1,494,134         | 13.0                          | 1,499,489         | 14.0                          |
| Guaranteed loans           | 1,380,280         | 12.0                          | 1,359,512         | 12.7                          |
| Unsecured loans            | 3,369,040         | 29.4                          | 2,915,927         | 27.2                          |
| <b>Total</b>               | <b>11,463,138</b> | <b>100.0</b>                  | <b>10,720,611</b> | <b>100.0</b>                  |

### Distribution of Overdue Loans by Overdue Period

*In millions of RMB, except for percentages*

| Item   | 30 June 2018   |                               | 31 December 2017 |                               |
|--|----------------|-------------------------------|------------------|-------------------------------|
|  | Amount         | Percentage of total loans (%) | Amount           | Percentage of total loans (%) |
| Overdue for less than 90 days<br>(including 90 days)   | 75,016         | 0.6                           | 91,100           | 0.8                           |
| Overdue for 91 to 360 days                             | 65,564         | 0.6                           | 49,520           | 0.5                           |
| Overdue for 361 days to 3 years<br>(including 3 years) | 53,966         | 0.5                           | 65,325           | 0.6                           |
| Overdue for more than 3 years                          | 15,438         | 0.1                           | 18,121           | 0.2                           |
| <b>Total</b>   | <b>209,984</b> | <b>1.8</b>                    | <b>224,066</b>   | <b>2.1</b>                    |

## Loan Concentration

*In millions of RMB, except for percentages*

| <b>Top ten single borrowers</b> | <b>Industry</b>                                     | <b>Amount</b>  | <b>Percentage of total loans (%)</b> |
|---------------------------------|---|----------------|--------------------------------------|
| Borrower A                      | Transportation, logistics and postal services       | 124,856        | 1.09                                 |
| Borrower B                      | Finance   | 28,000         | 0.25                                 |
| Borrower C                      | Others  | 27,760         | 0.24                                 |
| Borrower D                      | Transportation, logistics and postal services       | 27,218         | 0.24                                 |
| Borrower E                      | Transportation, logistics and postal services       | 22,413         | 0.20                                 |
| Borrower F                      | Transportation, logistics and postal services       | 20,367         | 0.18                                 |
| Borrower G                      | Transportation, logistics and postal services       | 19,875         | 0.17                                 |
| Borrower H                      | Production and supply of power, heat, gas and water | 19,814         | 0.17                                 |
| Borrower I                      | Transportation, logistics and postal services       | 19,749         | 0.17                                 |
| Borrower J                      | Transportation, logistics and postal services       | 18,872         | 0.16                                 |
| <b>Total</b>                    |   | <b>328,924</b> | <b>2.87</b>                          |

As at 30 June 2018, we fulfilled the regulatory requirements that total loans to our largest single borrower represented 6.39% of our net capital and total loans to our ten largest single borrowers represented 16.84% of our net capital.

## Distribution of Loans by Five-category Classification

*In millions of RMB, except for percentages*

| <b>Item</b>          | <b>30 June 2018</b> |                                      | <b>31 December 2017</b> |                                      |
|----------------------|---------------------|--------------------------------------|-------------------------|--------------------------------------|
|                      | <b>Amount</b>       | <b>Percentage of total loans (%)</b> | <b>Amount</b>           | <b>Percentage of total loans (%)</b> |
| Normal               | <b>10,921,977</b>   | <b>95.28</b>                         | 10,175,764              | 94.92                                |
| Special mention      | <b>355,266</b>      | <b>3.10</b>                          | 350,815                 | 3.27                                 |
| Non-performing loans | <b>185,895</b>      | <b>1.62</b>                          | 194,032                 | 1.81                                 |
| Substandard          | <b>44,949</b>       | <b>0.39</b>                          | 38,877                  | 0.36                                 |
| Doubtful             | <b>121,982</b>      | <b>1.06</b>                          | 131,479                 | 1.23                                 |
| Loss                 | <b>18,964</b>       | <b>0.17</b>                          | 23,676                  | 0.22                                 |
| <b>Total</b>         | <b>11,463,138</b>   | <b>100.00</b>                        | <b>10,720,611</b>       | <b>100.00</b>                        |

During the reporting period, we continued to strengthen the management of credit risk and optimize credit structure, and effectively mitigated existing risk by creating tailored solutions for different problems to maintain our assets quality stable with a favourable trend. (1) Focusing on the supply-side structural reform, we supported the initiative to deleverage for state-owned enterprises and strengthened risk management on overcapacity enterprises and high-risk industries. We also conducted strict limitation management of specific industries to reduce the exposures to industries with high risk. (2) We optimized our credit risk monitoring system, strengthened the daily monitoring and analyzed of key industries, regions and clients, as well as enhanced the risk pre-warning. (3) We implemented credit risk mitigation and governance through different management policies for customers for the mitigation of various risk. We adopted various measures simultaneously in preventing the risk of excessive financing of customers at the group level. We also continued to strengthened our management on loans to local governments and conducted collection and disposal of existing business. (4) We pushed forward the “clean-up plans”, strengthened our effort in self-collection, extended channels of and enhanced our effort on the collection and the disposal of non-performing loans.

As at 30 June 2018, the balance of non-performing loans of the Bank was RMB185,895 million, representing a decrease of RMB8,137 million compared to the end of the previous year. The non-performing loan ratio decreased by 0.19 percentage point to 1.62% compared to the end of the previous year. The balance of special mention loans was RMB355,266 million, representing an increase of RMB4,451 million compared to the end of the previous year. Special mention loans accounted for 3.10% of total loans, representing a decrease of 0.17 percentage point compared to the end of the previous year.

#### Distribution of Non-Performing Loans by Product Type

*In millions of RMB, except for percentages*

| Item                                  | 30 June 2018   |                |                               | 31 December 2017 |                |                               |
|---------------------------------------|----------------|----------------|-------------------------------|------------------|----------------|-------------------------------|
|                                       | Amount         | Percentage (%) | Non-performing loan ratio (%) | Amount           | Percentage (%) | Non-performing loan ratio (%) |
| <b>Corporate loans</b>                | <b>153,482</b> | <b>82.6</b>    | <b>2.34</b>                   | 156,380          | 80.6           | 2.54                          |
| Short-term corporate loans            | 108,729        | 58.5           | 4.56                          | 113,076          | 58.3           | 4.89                          |
| Medium- and long-term corporate loans | 44,753         | 24.1           | 1.07                          | 43,304           | 22.3           | 1.13                          |
| <b>Discounted bills</b>               | -              | -              | -                             | -                | -              | -                             |
| <b>Retail loans</b>                   | <b>31,138</b>  | <b>16.7</b>    | <b>0.72</b>                   | 34,204           | 17.6           | 0.86                          |
| Residential mortgage loans            | 10,011         | 5.4            | 0.29                          | 11,268           | 5.8            | 0.36                          |
| Credit card balances                  | 6,773          | 3.6            | 1.96                          | 6,335            | 3.3            | 1.99                          |
| Personal consumption loans            | 1,438          | 0.8            | 0.96                          | 1,732            | 0.9            | 1.26                          |
| Loans to private business             | 7,153          | 3.8            | 3.49                          | 8,753            | 4.5            | 4.28                          |
| Loans to rural households             | 5,707          | 3.1            | 2.43                          | 6,044            | 3.1            | 2.93                          |
| Others                                | 56             | -              | 6.50                          | 72               | -              | 7.19                          |
| <b>Overseas and others</b>            | <b>1,275</b>   | <b>0.7</b>     | <b>0.30</b>                   | 3,448            | 1.8            | 0.89                          |
| <b>Total</b>                          | <b>185,895</b> | <b>100.0</b>   | <b>1.62</b>                   | <b>194,032</b>   | <b>100.0</b>   | <b>1.81</b>                   |

As at 30 June 2018, the balance of corporate non-performing loans of the Bank was RMB153,482 million, representing a decrease of RMB2,898 million over the end of the previous year. The non-performing corporate loan ratio decreased by 0.2 percentage point compared to the end of the previous year to 2.34%. The balance of retail non-performing loans decreased by RMB3,066 million to RMB31,138 million over the end of the previous year, and the non-performing loan ratio decreased by 0.14 percentage point compared to the end of the previous year to 0.72%.



*Distribution of Non-Performing Loans by Geographic Region*

*In millions of RMB, except for percentages*

| Item                | 30 June 2018   |                |                               | 31 December 2017 |                |                               |
|---------------------|----------------|----------------|-------------------------------|------------------|----------------|-------------------------------|
|                     | Amount         | Percentage (%) | Non-performing loan ratio (%) | Amount           | Percentage (%) | Non-performing loan ratio (%) |
| Head Office         | 7              | -              | -                             | 7                | -              | -                             |
| Yangtze River Delta | 27,601         | 14.9           | 1.07                          | 29,460           | 15.2           | 1.22                          |
| Pearl River Delta   | 17,313         | 9.3            | 0.99                          | 26,957           | 13.9           | 1.65                          |
| Bohai Rim           | 47,292         | 25.4           | 2.66                          | 39,031           | 20.1           | 2.32                          |
| Central China       | 27,618         | 14.9           | 1.67                          | 27,377           | 14.1           | 1.80                          |
| Northeast China     | 9,117          | 4.9            | 2.01                          | 8,438            | 4.3            | 1.97                          |
| Western China       | 55,672         | 29.9           | 2.18                          | 59,314           | 30.6           | 2.46                          |
| Overseas and others | 1,275          | 0.7            | 0.30                          | 3,448            | 1.8            | 0.89                          |
| <b>Total</b>        | <b>185,895</b> | <b>100.0</b>   | <b>1.62</b>                   | <b>194,032</b>   | <b>100.0</b>   | <b>1.81</b>                   |

As at 30 June 2018, the balance of non-performing loan of the Bank increased largely in Bohai Rum, by RMB8,261 million compared to the end of the previous year. The balance of non-performing loan decreased largely in Pearl River Delta, by RMB9,644 million compared to the end of the previous year.

*Distribution of Corporate Non-Performing Loans by Industry*

*In millions of RMB, except for percentages*

| Item  | 30 June 2018   |                |                               | 31 December 2017 |                |                               |
|---|----------------|----------------|-------------------------------|------------------|----------------|-------------------------------|
|   | Amount         | Percentage (%) | Non-performing loan ratio (%) | Amount           | Percentage (%) | Non-performing loan ratio (%) |
| Manufacturing                                       | 71,006         | 46.3           | 5.58                          | 70,771           | 45.3           | 5.70                          |
| Production and supply of power, heat, gas and water | 4,044          | 2.6            | 0.47                          | 4,234            | 2.7            | 0.53                          |
| Real estate   | 8,539          | 5.6            | 1.45                          | 5,789            | 3.7            | 1.13                          |
| Transportation, logistics and postal services       | 4,979          | 3.2            | 0.38                          | 4,734            | 3.0            | 0.39                          |
| Wholesale and retail                                | 36,463         | 23.8           | 10.28                         | 42,925           | 27.4           | 12.05                         |
| Water, environment and public utilities management  | 990            | 0.6            | 0.24                          | 1,051            | 0.7            | 0.29                          |
| Construction  | 5,173          | 3.4            | 1.98                          | 5,674            | 3.6            | 2.54                          |
| Mining  | 9,822          | 6.4            | 4.58                          | 10,348           | 6.7            | 4.62                          |
| Leasing and commercial services                     | 6,311          | 4.1            | 0.70                          | 5,502            | 3.5            | 0.69                          |
| Finance   | 181            | 0.1            | 0.14                          | 224              | 0.1            | 0.16                          |
| Information transmission, software and IT service   | 99             | 0.1            | 0.20                          | 147              | 0.1            | 0.33                          |
| Others  | 5,875          | 3.8            | 2.96                          | 4,981            | 3.2            | 2.31                          |
| <b>Total</b>  | <b>153,482</b> | <b>100.0</b>   | <b>2.34</b>                   | <b>156,380</b>   | <b>100.0</b>   | <b>2.54</b>                   |

During the reporting period, the non-performing loan ratio of the Bank decreased most in wholesale and retail industry and construction industry, by 1.77 percentage points and 0.56 percentage point, respectively, compared to the end of the previous year.

Changes to the Allowance for Impairment Losses on Loans

*In millions of RMB*

| Item   | Six months ended 30 June 2018                       |               |                | Total          |
|--|---|---------------|----------------|----------------|
|  | Stage 1<br>12-month<br>Expected<br>Credit<br>Losses | Stage 2       | Stage 3        |                |
| <b>Balance at the beginning of the period</b>                | 214,802   | 56,749        | 154,772        | 426,323        |
| Impairment allowance on Loans charged                        | 83,634  | 21,461        | 35,531         | 140,626        |
| Reversal of impairment allowance                             | (38,037)  | (14,744)      | (19,650)       | (72,431)       |
| Write-offs and transfer out                                  | (8)   | –             | (39,559)       | (39,567)       |
| Recovery of loans and advances written off in previous years | –   | –             | 7,753          | 7,753          |
| Unwinding of discount on allowance                           | –   | –             | (993)          | (993)          |
| Exchange difference  | 51  | 1             | 8              | 60             |
| <b>Balance at the end of the period</b>                      | <b>260,442</b>                                      | <b>63,467</b> | <b>137,862</b> | <b>461,771</b> |

**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 risks, primarily including interest rate risk and exchange rate risk.

During the reporting period, the Bank formulated the 2018 market risk management policies, thereby further improving its market risk management system. The Bank continued to enhance various functions of its market risk management system including limit computation, capital measurement and parameter management. The Bank also continued to carry out comprehensive validation of Internal Model Approach. The Bank strengthened its management over derivative transactions and secured customers' performance of derivative transaction contracts. Moreover, the Bank appropriately controlled the volume and duration of financial investments measured at fair value through other comprehensive income (FVOCI), keeping exposures from different transactions on our own account at a relatively low level. As a result, the Bank's exposures to market risk were under control.

### *Market Risk Exposure Limit Management*

Our market risk exposure limits are classified into directive limits and indicative limits based on different effects.

In the first half of 2018, the Bank further enhanced market risk exposure limit management, and refined the categorization of limits by setting different market risk exposure limits based on the types of products and risks. The Bank also measured, monitored and reported risk exposure limit automatically through the systems. During the reporting period, the market risk exposure limits of the Bank were all kept within the designated ranges.

### *Segregation 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 either the trading book or banking book. The trading book includes the financial instruments and commodity positions held for trading or hedging purposes. Any other positions are classified into the banking book.

### *Market Risk Management for Trading Book*

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

The Bank adopted a historical simulation method with a confidence interval of 99% based on a holding period of 1 day and historical data for 250 days to measure the VaR for the trading book of the Head Office and domestic and overseas branches of the Bank. Based on the differences between domestic and overseas markets, the Bank selected applicable parameters for the models and risk factors in order to reflect the actual levels of market risks. The Bank verified the accuracy and reliability of the risk measurement models through data analysis, parallel modeling and back-testing.

## VaR Analysis for the Trading Book

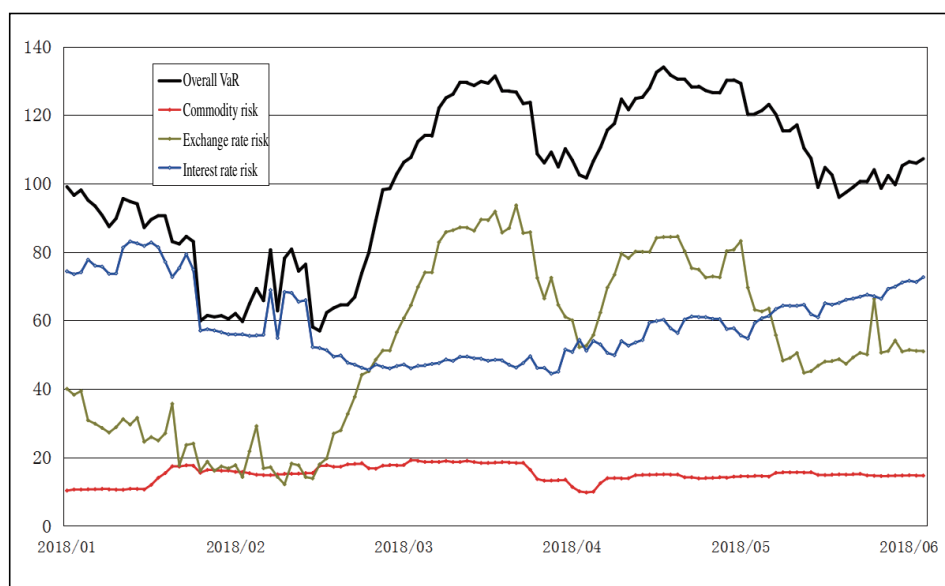
*In millions of RMB*

| Item                            | Six months ended 30 June 2018 |         |         |         | Six months ended 30 June 2017 |         |         |         |
|---------------------------------|-------------------------------|---------|---------|---------|-------------------------------|---------|---------|---------|
|                                 | At the end of the period      | Average | Maximum | Minimum | At the end of the period      | Average | Maximum | Minimum |
| Interest rate risk              | 73                            | 59      | 83      | 44      | 50                            | 47      | 72      | 40      |
| Exchange rate risk <sup>1</sup> | 51                            | 52      | 94      | 12      | 64                            | 52      | 105     | 19      |
| Commodity risk                  | 15                            | 15      | 19      | 10      | 17                            | 11      | 69      | 6       |
| Overall VaR                     | 107                           | 102     | 134     | 57      | 93                            | 79      | 153     | 40      |

Note: 1. According to the Capital Rules for Commercial Banks (Provisional), VaR relating to gold was reflected in exchange rate risk.

### Change in VaR of Trading Book in the First Half of 2018

*In millions of RMB*



During the reporting period, the average balance of the bond portfolio decreased and the duration of the bond portfolio increased slightly. Coupled with changes in extreme scenarios, the Bank's VaR of interest rate risk increased. Foreign exchange position remained stable and the VaR of foreign exchange remained the same compared with the corresponding period of last year. The size of silver portfolio increased steadily, which resulted in a slight increase in the VaR of commodity risk over the corresponding period of last year.

### *Market Risk Management for Banking Book*

The Bank managed market risk of the banking book through comprehensive use of technical measures such as exposure limit management, stress testing, scenario analysis and gap analysis.

### Interest Rate Risk Management

The interest rate risk of the banking book refers to risk of losses in the banking book's economic value or overall gain arising from adverse changes of the interest rate level, duration structure, etc. The interest rate risk of the banking book of the Bank primarily arises from the 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 interest-rate-sensitive assets and liabilities are based.

During the reporting period, the CBIRC issued the *Guidelines on the Management of the Interest Rate Risk of the Banking Book of Commercial Banks (amended)* which enhanced the relevant regulatory requirements. The Bank responded to regulatory changes proactively by amending and improving the relevant procedures and measures on the management of the interest rate risk of the banking book. The Bank closely monitored the changes in the macroeconomic environment and the interest rates, adjusted internal funds transfer pricing (FTP) dynamically, as well as initiated the FTP system upgraded project, so as to enhance the effectiveness of FTP on reflecting fund value, optimization of resources allocation, guidance for external pricing, strengthening risk management and other aspects.

### Exchange Rate Risk Management

Exchange rate risk refers to the risk arising from currency mismatches of assets and liabilities. Exchange rate risk mainly consists the trading exchange rate risk that could be hedged, and the exchange rate risk caused by non-transactional assets and liabilities (the "non-transactional exchange rate risk"), which are difficult to be avoided in operations.

During the reporting period, the Bank performed exchange rate risk exposure monitoring and sensitivity analysis regularly, refined exchange rate risk measurement and strengthened the construction of relevant systems. Through proper matching of foreign currency exposures, the Bank flexibly adjusted the trading exchange rate risk exposure, while maintaining the structural exchange rate risk exposure stable. Therefore, the risk exposure of exchange rate of the Bank was controlled within a reasonable range.

### Interest Rate Risk Analysis

As at 30 June 2018, the accumulative negative gap with interest rate sensitivity due within one year amounted to RMB1,851,622 million, representing a decrease of RMB8,561 million in absolute terms compared to the end of the previous year.

### Interest Rate Risk Gap

*In millions of RMB*

|                  | Within<br>1 month | 1-3<br>Months | 3-12<br>Months | Sub-total of<br>1 year and<br>below | 1-5 years | Over 5<br>years | Noninterest<br>earning |
|------------------|-------------------|---------------|----------------|-------------------------------------|-----------|-----------------|------------------------|
| 30 June 2018     | (6,963,224)       | 375,538       | 4,736,064      | (1,851,622)                         | 1,423,543 | 1,757,749       | (26,399)               |
| 31 December 2017 | (3,415,357)       | 430,009       | 1,125,165      | (1,860,183)                         | 1,141,827 | 2,040,189       | (123,398)              |

*Note: Please refer to "Note 54.3 Financial Risk Management: Market Risk" to the Condensed Consolidated Interim Financial Statements for more details.*

## Interest Rate Sensitivity Analysis

*In millions of RMB*

| <b>Movements in basis points</b> | <b>30 June 2018</b>                             |  | <b>31 December 2017</b>                         |  |
|----------------------------------|---|--|---|--|
|                                  | <b>Movements<br/>in net interest<br/>income</b> | <b>Movements<br/>in other<br/>comprehensive<br/>income</b> | <b>Movements<br/>in net interest<br/>income</b> | <b>Movements<br/>in other<br/>comprehensive<br/>income</b> |
| Increased by 100 basis points    | <b>(45,841)</b>                                 | <b>(32,287)</b>  | (24,928)  | (37,095)   |
| Decreased by 100 basis points    | <b>45,841</b>                                   | <b>32,287</b>  | 24,928  | 37,095   |

The interest rate sensitivity analysis above indicates the movements within the next twelve months in net interest income and other comprehensive income under various interest rate conditions, 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 the composition of our assets and liabilities on 30 June 2018, if the interest rates instantaneously increase (or decrease) by 100 basis points, our net interest income and other comprehensive income would decrease (or increase) by RMB45,841 million and RMB32,287 million, respectively.

## Exchange Rate Risk Analysis

Our exchange rate risk is mainly the exposure risk arising from the exchange rate of USD against RMB. In the first half of 2018, the mid-point rate of RMB against USD depreciated accumulatively by 824 basis points or 1.26%. As at 30 June 2018, our foreign exchange positive exposure of on-and off-balance sheet was USD3,298 million, representing a decrease of USD150 million in absolute terms compared to the end of the previous year.

## Foreign Exchange Exposure

|   | <b>30 June 2018</b> |                           | <b>31 December 2017</b> |                           |
|---|---------------------|---------------------------|-------------------------|---------------------------|
|   | <b>RMB</b>          | <b>USD<br/>equivalent</b> | <b>RMB</b>              | <b>USD<br/>equivalent</b> |
| Net foreign exchange exposure<br>of on-balance sheet financial<br>assets/liabilities  | <b>12,191</b>       | <b>1,842</b>              | (40,320)                | (6,171)                   |
| Net foreign exchange exposure<br>of off-balance sheet financial<br>assets/liabilities | <b>9,635</b>        | <b>1,456</b>              | 62,851                  | 9,619                     |

*Note: Please refer to "Note 54.3 Financial Risk Management: Market Risk" to the Condensed Consolidated Interim Financial Statements for more details.*

## Exchange Rate Sensitivity Analysis

*In millions of RMB*

| Currency | Increase/decrease<br>in Exchange rate<br>of foreign Currency<br>against RMB | Impact on profit before tax |                     |
|----------|---|-----------------------------|---------------------|
|          |   | 30 June<br>2018             | 31 December<br>2017 |
| USD      | +5%   | 216                         | (122)               |
|          | -5%   | (216)                       | 122                 |
| HKD      | +5%   | 721                         | 673                 |
|          | -5%   | (721)                       | (673)               |

Non-RMB denominated assets and liabilities of the Bank were primarily denominated in USD and HKD. Based on the exchange exposure of on-and off-balance sheet at the end of the reporting period, the profit before tax would increase (or decrease) by RMB216 million if USD appreciates (or depreciates) by 5% against RMB.

### ***Liquidity Risk***

Liquidity risk refers to the risk of being unable to timely acquire sufficient funds at a reasonable cost to settle amounts due, fulfill other payment obligations and satisfy other funding needs during the ordinary course of business. Major factors affecting liquidity risk include: negative impacts of market liquidity, deposit withdrawal by customers, loans withdrawal by customers, imbalance between asset and liability structure, debtor's default, difficulty in asset realization, weakening in financing ability, etc.

### ***Liquidity Risk Management***

The liquidity risk management governance structure of the Bank consists the decision-making system, the execution system and the supervision system, among which, the decision-making system consists the Board of Directors and the Risk Management Committee under the Board of Directors, and Senior Management and the Asset and Liability Management Committee and Risk Management Committee under Senior Management; the execution system consists all liquidity management departments and asset and liability business department of the Bank; and the supervision system consists the Board of Supervisors and two functional departments, namely the Audit Office, the Internal Control and Legal Compliance Department. The above systems conduct decision-making, execution and supervision functions, respectively, in accordance with the division of responsibilities.

The Bank adhered to a prudent liquidity management strategy and stipulated the general goals and management mode of liquidity management. Based on regulatory requirements, external macroeconomic environment and business development, the Bank formulated its liquidity risk management policy, which effectively maintained balance between liquidity, security and profitability, provided that the security of liquidity was guaranteed.

The aims of the Bank's liquidity risk management are to ensure that the Bank, in normal operating conditions or under pressure, is able to fulfill the liquidity needs of assets, liabilities and off-balance sheet businesses on a timely basis, to perform the payment obligations, and to effectively balance both capital efficiency and security of its liquidity and, based on the aforesaid, to strengthen the liquidity risk management and monitoring of its branches, subsidiaries and all business lines so as to effectively prevent the overall liquidity risk of the Group, by effective identification, measurement, monitoring and reporting on the liquidity risk through the establishment a scientific and comprehensive liquidity risk management system.

The Bank developed monitoring and early-warning indicators that are sensitive to the changes in liquidity of market and the Bank, and continued to monitor the operation and liquidity of asset and liability businesses across the Bank. The Bank refined its asset and liability structure, managed cash flows due to be paid in a reasonable manner and mitigated risk related to mismatch of maturity. With a view to expanding sources of funding, we secured the sources of core deposits, and facilitated the use of initiative liabilities such as tier-2 capital bonds and interbank certificate of deposit. By improving the mechanism for branches forecasting transactions with large amount and the liquidity management and assessment mechanism, strengthening the real-time monitoring, early warning and flexible allocation of fund, we ensure smooth access to financing resource in market and maintain reasonable reserve, in order to satisfy various payment demands. In addition, the Bank continued to refine the liquidity management IT system, improve the effectiveness of monitoring, warning and control, and constantly enhance the sophisticated management.

Based on the market condition and actual business operation, the Bank optimized stress scenarios on liquidity risk after full consideration of various risk factors which may affect liquidity. The Bank conducted stress testing quarterly. According to the test results, the Bank has passed the shortest survival period testing under the prescribed stress scenarios as required by regulatory authorities.

### *Liquidity Risk Analysis*

During the first half of 2018, commercial banks were faced with more complicated liquidity risk. As the deepening deleverage and tightening regulation, the balance sheet normalization accelerated, the constraints of funds for business development became more apparent. As liberalization of interest rate accelerated, the risk of debts owed by commercial banks increased, resulting in higher pressure of managing the mismatching risk of maturity. With adoption of tightening monetary policies by major economics, the impact on the liquidity of the domestic market will become more significant.

During the reporting period, the Bank managed cash flows due to be paid properly and the overall liquidity of the Bank was sufficient, secured and under control. As at 30 June 2018, the Bank fulfilled the regulatory requirements with liquidity ratio for RMB and foreign currency of 55.41% and 95.69%, respectively. The average of the liquidity coverage ratio over the second quarter in 2018 decreased by 7.3 percentage points to 117.5% compared to the first quarter. As at the end of June 2018, the net stable funding ratio was 130.2%, with available net stable fund of RMB15,349.8 billion in numerator and the total net stable fund required of RMB11,789.8 billion in denominator.



## Liquidity Gap Analysis

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

*In millions of RMB*

|                  | Past due | On demand    | Within<br>1 month | 1 to 3<br>months | 3 to 12<br>months | 1 to 5<br>years | Over<br>5 years | Undated   | Total     |
|------------------|----------|--------------|-------------------|------------------|-------------------|-----------------|-----------------|-----------|-----------|
| 30 June 2018     | 34,451   | (10,777,384) | 223,091           | (723,285)        | (135,976)         | 3,457,969       | 6,567,469       | 2,656,936 | 1,303,271 |
| 31 December 2017 | 29,774   | (10,417,627) | 169,469           | (689,320)        | (155,304)         | 3,009,691       | 6,494,599       | 2,757,153 | 1,198,435 |

*Note: Please refer to “Note 54.2 Financial Risk Management: Liquidity Risk” to the Condensed Consolidated Interim Financial Statements for more details.*

The Bank evaluates its liquidity risk through liquidity gap analysis. For details of liquidity coverage ratio information of the Bank, please refer to “Appendix II: Liquidity Coverage Ratio Information”.

## Operational Risk

### Operational Risk Management

Operational risk refers to the risk of 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.

During the reporting period, the Bank improved its operational risk management system, optimized its incentive mechanism and continued to strengthen operational risk management. The Bank integrated the use of operational risk management tools and performed the operational risk assessment properly, which enhanced the initiative and foreseeability of risk prevention and control. By conducting the monitoring, analysis, tracking and supervision of major operational risk events, the Bank reinforced the pertinence and effectiveness of operational risk management. Moreover, the Bank optimized the economic capital measurement policies for operational risk and put focused efforts in the measurement of cases of violations and regulatory compliance risk. The Bank also conducted a risk assessment on IT function outsourcing, formulated the annual strategy for management of information technology risk and the proposal for business continuity plan across the Bank, and revised the administrative measures on business continuity. Lastly, we continued to promote construction of the “two cities and three centers” project and ensured the stable operation of core systems.

### Legal Risk Management

Legal risk refers to any risk of banks 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 the first half of 2018, the Bank accelerated to promote the construction of “Governing Agricultural Bank of China according to the Law”. Trains in respect of the constitution and the learning and applying the laws were fully carried out which positively created a good legal atmosphere. The Bank strengthened its management responsibility and pushed forward the development of standardized review on rules and regulations, completed reviewing all the regulations and continued to improve the system of the rules and regulations of the Bank. With respect to business innovation and key projects, the Bank provided stronger legal support in order to safeguard business transformation and development. The Bank explored and optimized contract management mechanism, launched contract management and conducted appraisals and researches on the texts of contracts already made and formulated the contract management operating manual for the Head Office. In addition, the Bank enhanced its effort in applying for intellectual property rights, conducted risk monitoring and key points investigations, so as to protect the Bank’s intangible assets in accordance with laws and strictly controlled risk associated with infringement. The Bank enhanced its management on lawsuits comprehensively through issuing guiding opinions on litigation management services and work on collection and safeguarding legal rights. The Bank also strengthened the management of lawsuits, managed well key lawsuits and protected the Bank’s legal interests to the largest extent. Lastly, the Bank strived to improve the professionalism of legal personnel across the Bank by launching qualification examination for legal personnel positions and providing special training on legal risk management at different levels.

### ***Reputation Risk***

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.

The Bank continuously improved the mechanism for reputation risk management, and prevented reputation risk and responded to reputation events in a proactive and effective manner. As such, the losses caused to and negative impacts on the Bank was minimized. In the first half of 2018, the Bank put greater efforts on monitoring negative public opinion, organized the investigation of reputation risk, established a public opinion management account, and promoted the establishment of a public opinion management system. In addition, the Bank made emergency plan to control material reputation events, and actively and positively responded to public concerns.

### ***Country Risk***

Country risk represents risk due to changes and incidents occurred in the economy, politics and society of a specific country or region, which results in the borrowers or debtors in that country or region incapable of or unwilling to pay their debts owed to the Bank or otherwise leads to business losses or other losses to the Bank in that country or region.

In the first half of 2018, the Bank continuously enhanced its country risk management standard by improving country risk management system, optimizing work processes and strengthening system development. The Bank constantly monitored and reported country risk, and also managed country risk effectively through different approaches and tools such as country risk rating, risk limit approval, risk exposure calculation, market research analysis, monitoring of risk factors, stress testing, etc.

## ***Consolidated Risk Management***

During the reporting period, the Bank guided its subsidiaries to formulate their own risk appetite and risk management policies based on the unified risk appetite framework of the Group, so as to specify the bottom-line requirements of risk management and the key points of risk management work. The Bank continued to monitor the risk exposures of its subsidiaries, alert and warn them in respect of the risk information detected during the monitoring process, and propose specific management recommendations and urged them to improve. In addition, the Bank carried out quarterly risk appraisal on subsidiaries, optimized risk compliance evaluation indicators and weights and provided guidance on strengthening risk control in key areas. The Bank improved the Group's concentration and limit management and included subsidiaries in the scope of credit concentration risk assessment, and set the limit of restrictive industries for each subsidiary separately. At the Group level, the Bank conducted the internal capital adequacy assessment process and assessed the effectiveness of risk management system of subsidiaries. We definituded the administrative requirements of business continuity of subsidiaries.

## **Internal Control**

### ***Construction of Internal Control***

The Bank diligently implemented government's directives and plans of striving for prevention and resolving of significant risks, and actively responded to the trend of strong, strict and deep supervision. With an aim to make the risks and cases controllable, the Bank optimized the system and mechanism for internal control and compliance, as well as intensified the key works such as rectification over market disorder and development of anti-money laundering compliance system. Also, more technological support was provided for the sustainable and healthy development of business.

First, the Bank improved the management level of internal control in a proactive manner. The Board of Directors, the Board of Supervisors and the Senior Management diligently performed their management and supervision duties for internal control, and continued to optimized the system and mechanism for internal control. The Bank amended the basic rules of internal control and measures as well as test templates for internal control appraisal in order to strengthen the construction of internal control system. The Bank conducted in-depth evaluation on the effectiveness of internal control to further identify flaws and management loopholes in respect of the internal control.

Second, the Bank defined the main responsibilities of risk compliance. The Bank issued opinions which strengthened the risk compliance responsibilities of departments under the Head Office, clarified the core functions and function boundaries of various departments and the management responsibilities of department business lines. The Bank adjusted the internal units of departments such as internal control compliance, audit, etc. and clarified the boundaries of economic responsibilities audit duties.

Third, the Bank deepened the rectification over market disorder. The Bank modified and improved a number of systems, as well as optimized and upgraded the relevant business systems. The Bank adhered to the principle of addressing both symptoms and root causes by fully rectifying problems discovered in various examinations. The Bank amended the measures on rectification management, accelerated the rectification progress, conducted audit rectification verification and improved the "examination-rectification-verification" evaluation mechanism. The rectification efforts achieved significant results.

Forth, the Bank coordinated the implementation of domestic and international onsite inspection plans and continued to enhance our capability on offsite risk monitoring. The Bank utilized data mart and compliance risk monitoring platform to enhance the accuracy on offsite clue retrieval. The Bank commenced the development of platform for preventing, monitoring and early-warning of cases of violations, in order to achieve sharing of internal and external data and connecting various monitoring systems across the Bank. The Bank implemented the research and development of a model for prevention of cases of violations and control of risks in respect of “compliance+technology+business”, and continued to enhance the foresight, pertinence and effectiveness of model research and development and improved the supporting capacity on prevention of cases of violations by means of technology.

### *Anti-money Laundering*

In the first half of 2018, the Bank conscientiously implemented a risk-based anti-money laundering approach and comprehensively improved the capabilities of global anti-money laundering compliance management. The Bank actively responded to the new domestic and abroad situation of anti-money laundering supervision, and strictly followed new regulatory rules such as identification of anti-money laundering customers. As the first line of defense, operational manual in respect of anti-money laundering compliance was formulated, and the suspicious transaction detection model was optimized incessantly. The Bank strictly implemented the sanction policies of the PRC government and the United Nations, and concentrated on assessment of money laundering risk as well as risk management and control of high-risk customers and businesses. Moreover, the Bank applied cutting-edge technology such as big data, artificial intelligence and cloud computing to facilitate the iterative upgrade of its anti-money laundering system, thereby continuously enhancing the effectiveness of the anti-money laundering compliance management work.

### **Capital Management**

During the reporting period, the Bank implemented its Capital Plan for 2016-2018 and Capital Adequacy Ratio Plan for 2013-2018 in accordance with the requirements of the *Capital Rules for Commercial Banks (Provisional)*, so as to continue to leverage on the role of capital in restricting and guiding the business, enhance internal and external capital replenishment capabilities, maintain a stable capital adequacy ratio, and improve the long-term mechanism for capital management. Moreover, the Bank implemented the advanced approach of capital management, and calculated the capital adequacy ratios by the advanced approach and other approaches during the parallel run period as required by the CBIRC.

During the reporting period, the Bank focused on the optimization of the total amount and structure of assets and control growth of risk assets, and strived to promote intensive capital development. The Bank continued to improve the sophisticated management of capital and continued to optimize the allocation system of economic capital. Emphasizing on requirement of strategic objectives, value creation and structural optimization, the Bank strengthened the in-progress monitoring and post-evaluation of economic capital to improve the efficiency of resource allocation. Besides, with the implementation of capital conservation measures, the Bank strengthened the management of risk mitigation. The Bank continued to consolidate our capital, prioritized capital replenishment through internal accumulation, and then also used various capital instruments in a reasonable manner to optimize capital structure.

On 27 April 2018, the Bank successfully issued RMB40 billion tier-2 capital bonds in the inter-bank bond market of China. In June 2018, the Bank issued 25,188,916,873 A Shares to specified investors by way of private placement with proceeds of RMB100,000,000,000. The Bank’s capital strength was significantly enhanced.

For details of the capital adequacy ratio and leverage ratio of the Bank, please refer to “Appendix I: Capital Adequacy Ratio Information” and “Appendix III: Leverage Ratio Information”, respectively.

## CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

### Changes in Share Capital of Ordinary Shares

#### Details of Changes in Registered Share Capital

Unit: Share

|   | 31 December 2017       |                             | Increase/decrease during the reporting period (+, -) |          |          | 30 June 2018 <sup>1</sup> |                             |
|---|------------------------|-----------------------------|--|----------|----------|---------------------------|-----------------------------|
|   | Number of Shares       | Percentage <sup>4</sup> (%) | New Shares Issued                                    | Others   | Subtotal | Number of Shares          | Percentage <sup>4</sup> (%) |
| 1) Shares subject to restrictions on sales <sup>2</sup> | -                      | -                           | -  | -        | -        | -                         | -                           |
| 2) Shares not subject to restrictions on sales          | 324,794,117,000        | 100.00                      | -  | -        | -        | 324,794,117,000           | 100.00                      |
| 1. RMB-dominated ordinary shares                        | 294,055,293,904        | 90.54                       | -  | -        | -        | 294,055,293,904           | 90.54                       |
| 2. Foreign-invested shares listed overseas <sup>3</sup> | 30,738,823,096         | 9.46                        | -  | -        | -        | 30,738,823,096            | 9.46                        |
| 3) Total number of shares                               | <u>324,794,117,000</u> | <u>100.00</u>               | <u>-</u>   | <u>-</u> | <u>-</u> | <u>324,794,117,000</u>    | <u>100.00</u>               |

#### Notes:

1. Prepared based on the number of shares as recorded in the register maintained by the Shanghai Branch of China Securities Depository and Clearing Corporation Limited and Computershare Hong Kong Investor Services Limited as at 30 June 2018.
2. "Shares subject to restrictions on sales" refer to the shares held by shareholders who are subject to restrictions on sales in accordance with laws, regulations, rules or undertakings.
3. "Foreign-invested shares listed overseas" refer to the H shares as defined in the 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 Shareholding (Revision 2007) of the CSRC.
4. Rounding errors may arise in the "Percentage" column of the table above as the figures are rounded to the nearest decimal number.

## *Details of Share Capital before and after the Private Placement of A Shares*

|   | Before the Private Placement |                             | Number of New Shares Issued | After the Private Placement |                             |
|---|------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
|   | Number of Shares             | Percentage <sup>2</sup> (%) |                             | Number of Shares            | Percentage <sup>2</sup> (%) |
| 1) Shares subject to restrictions on sales <sup>1</sup> | –                            | –                           | 25,188,916,873              | 25,188,916,873              | 7.20                        |
| 2) Shares not subject to restrictions on sales          | 324,794,117,000              | 100.00                      | –                           | 324,794,117,000             | 92.80                       |
| 3) Total number of shares                               | <u>324,794,117,000</u>       | <u>100.00</u>               | <u>25,188,916,873</u>       | <u>349,983,033,873</u>      | <u>100.00</u>               |

### *Notes:*

1. “Shares subject to restrictions on sales” refer to the shares held by shareholders who are subject to restrictions on sales in accordance with laws, regulations, rules or undertakings.
2. Rounding errors may arise in the “Percentage” column of the table above as the figures are rounded to the nearest decimal number.

The lock-up period for the shares subscribed for by Huijin and the MOF under the private placement is five years from the date on which they obtained the equity interests. The lock-up period for the shares subscribed for by China National Tobacco Corporation, Shanghai Haiyan Investment Management Company Limited, Zhongwei Capital Holding Company Limited, China National Tobacco Corporation Hubei Province Company and New China Life Insurance Company Limited under the private placement is 36 months from the date of completion of the private placement.

## **Details of Issuance and Listing of Securities**

In order to sustainably fulfill regulatory standards in respect of capital for commercial banks and promote steady and healthy development of the Bank’s business, the Bank issued 25,188,916,873 A share ordinary shares of RMB1.00 each by way of private placement to seven specified subscribers, namely Huijin, the MOF, China National Tobacco Corporation, Shanghai Haiyan Investment Management Company Limited, Zhongwei Capital Holding Company Limited, China National Tobacco Corporation Hubei Province Company and New China Life Insurance Company Limited, at the issuance price of RMB3.97 per share (closing price of the A Shares at the date of entering into the subscription agreements, i.e. 12 March 2018: RMB4.03 per share) with a total proceeds of RMB100,000,000,000 raised. The net proceeds amounted to RMB99,989,198,827 after deducting expenses in relation to the issuance. As at 30 June 2018, the net proceeds were fully used to replenish the CET 1 capital of the Bank as stated in the announcement of the Bank dated 12 March 2018.

Following the completion of the private placement, the total number of shares of the Bank is 349,983,033,873, comprising 319,244,210,777 A Shares and 30,738,823,096 H Shares. For details of the private placement, please refer to the relevant announcements published on the websites of Shanghai Stock Exchange ([www.sse.com.cn](http://www.sse.com.cn)) and the Hong Kong Stock Exchange ([www.hkex.news.hk](http://www.hkex.news.hk)).

For issuance of other securities of the Bank during the reporting period, please refer to “Note 40 Debt Securities Issued” to the Condensed Consolidated Interim Financial Statements for details.

## Particulars of Shareholders of Ordinary Shares

### *Number of Shareholders and Particulars of Shareholding*

As at 30 June 2018, the Bank had a total of 456,952 shareholders, including 23,294 holders of H Shares and 433,658 holders of A Shares.

**Particulars of shareholding of the top 10 shareholders** (the shareholding of holders of H Shares is based on the numbers of shares as set out in the register of members of the Bank maintained in its H Share registrar)

*Unit: Share*

**Total number of shareholders** **456,952** (as set out in the registers of shareholders of A Shares and H Shares as at 30 June 2018)

**Particulars of shareholding of the top 10 shareholders** (the information below is based on the registers of shareholders as at 30 June 2018)

| 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 held subject to restrictions on sales | Number of shares subject to pledge or locked-up |
|--|--------------------------|----------------|--|-----------------------------|-----------------------------|--|---|
| Huijin   | State-owned              | A Shares       | -  | 40.03                       | 130,005,103,782             | -  | None  |
| MOF  | State-owned              | A Shares       | -  | 39.21                       | 127,361,764,737             | -  | None  |
| HKSCC Nominees Limited   | Overseas legal entity    | H Shares       | +23,816,520  | 9.41                        | 30,563,312,291              | -  | Unknown   |
| SSF  | State-owned              | A Shares       | -  | 3.02                        | 9,797,058,826               | -  | None  |
| China Securities Finance Corporation Limited   | State-owned legal entity | A Shares       | -4,209,975,521                                       | 0.53                        | 1,731,756,286               | -  | None  |
| Central Huijin Asset Management Ltd.   | State-owned legal entity | A Shares       | -  | 0.39                        | 1,255,434,700               | -  | None  |
| Wutongshu Investment Platform Co., Ltd.  | State-owned legal entity | A Shares       | -  | 0.30                        | 980,723,700                 | -  | None  |
| China Life Insurance Company Limited – Dividend distribution – Individual dividend – 005L – FH002 Hu | Other                    | A Shares       | +301,133,976   | 0.29                        | 930,356,465                 | -  | None  |
| China Shuangwei Investment Corporation Limited   | State-owned legal entity | A Shares       | -  | 0.23                        | 746,268,000                 | -  | None  |
| China Railway Construction Investment Corporation Limited  | State-owned legal entity | A Shares       | -  | 0.23                        | 742,974,000                 | -  | None  |

#### *Notes:*

- The total number of shares held by HKSCC Nominees Limited represents the number of H Shares held by it in aggregate as a nominee on behalf of all institutional and individual investors registered with it as at 30 June 2018.*
- Central Huijin Asset Management Ltd. is a wholly-owned subsidiary of Huijin. Apart from this, the Bank is not aware of any connections between the shareholders above or whether they are parties acting in concert. The number of shares held by Huijin and Central Huijin Asset Management Ltd., a wholly-owned subsidiary of Huijin, accounted to 131,260,538,482 in aggregate, accounting for 40.41% of the total share capital of the Bank.*
- The top 10 shareholders of ordinary shares of the Bank not subject to restrictions on sales are the same as the top 10 shareholders of ordinary shares of the Bank.*

Particulars of shareholding of the top 10 shareholders as at 2 July 2018 are as follows:

*Unit: Share*

| Name of shareholders                                  | Nature of shareholders   | Type of shares | Shareholding percentage (%) | Total number of shares held | Number of Shares held subject to restrictions on sales | Number of shares subject to pledge or locked-up |
|---|--------------------------|----------------|-----------------------------|-----------------------------|--|---|
| Huijin  | State-owned              | A Shares       | 40.03                       | 140,087,446,351             | 10,082,342,569   | None  |
| MOF   | State-owned              | A Shares       | 39.21                       | 137,239,094,711             | 9,877,329,974  | None  |
| HKSCC Nominees Limited                                | Overseas legal entity    | H Shares       | 8.73                        | 30,563,312,291              | –  | Unknown   |
| SSF   | State-owned              | A Shares       | 2.80                        | 9,797,058,826               | –  | None  |
| China National Tobacco Corporation                    | Other                    | A Shares       | 0.72                        | 2,518,891,687               | 2,518,891,687  | None  |
| China Securities Finance Corporation Limited          | State-owned legal entity | A Shares       | 0.50                        | 1,736,916,286               | –  | None  |
| Shanghai Haiyan Investment Management Company Limited | State-owned legal entity | A Shares       | 0.36                        | 1,259,445,843               | 1,259,445,843  | None  |
| Central Huijin Asset Management Ltd.                  | State-owned legal entity | A Shares       | 0.36                        | 1,255,434,700               | –  | None  |
| Wutongshu Investment Platform Co., Ltd.               | State-owned legal entity | A Shares       | 0.28                        | 980,723,700                 | –  | None  |
| China Life Insurance Company Limited                  | Other                    | A Shares       | 0.27                        | 930,356,465                 | –  | None  |
| – Dividend distribution – Individual dividend         |                          |                |                             |                             |  |   |
| – 005L – FH002 Hu                                     |                          |                |                             |                             |  |   |

**Notes:**

1. The total number of shares held by HKSCC Nominees Limited represents the number of H Shares held by it in aggregate as a nominee on behalf of all institutional and individual investors registered with it as at 2 July 2018.
2. Central Huijin Asset Management Ltd. is a wholly-owned subsidiary of Huijin. China National Tobacco Corporation is the de facto controller of Shanghai Haiyan Investment Management Company Limited. Apart from these, the Bank is not aware of any connections between the shareholders above or whether they are parties acting in concert. The number of shares held by Huijin and Central Huijin Asset Management Ltd., a wholly-owned subsidiary of Huijin, accounted to 141,342,881,051 in aggregate, accounting for 40.39% of the total share capital of the Bank. The number of shares held by China National Tobacco Corporation and Shanghai Haiyan Investment Management Company Limited accounted to 3,778,337,530 in aggregate, accounting for 1.08% of the total share capital of the Bank.

**Particulars of Substantial Shareholders**

***Change in Substantial Shareholders and De Facto Controller***

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



## ***Interests and Short Positions Held by Substantial Shareholders and Other Persons***

As at 30 June 2018, 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 (%) |
|---|--|---|----------------|---------------------------------------|---------------------------------------|
| Huijin                                  | Beneficial owner/Interest of controlled entity | 142,256,939,580 (A Shares) <sup>1</sup> | Long position  | 48.38%                                | 43.80%                                |
| MOF                                     | Beneficial owner/Nominee <sup>2</sup>          | 138,682,352,926 (A Shares) <sup>3</sup> | Long position  | 47.16%                                | 42.70%                                |
| Qatar Investment Authority              | Interest of controlled entity                  | 2,448,859,255 (H Shares) <sup>4</sup>   | Long position  | 7.97%                                 | 0.75%                                 |
| Qatar Holding LLC                       | Beneficial owner                               | 2,408,696,255 (H Shares) <sup>4</sup>   | Long position  | 7.84%                                 | 0.74%                                 |
| QSMA1 LLC                               | Beneficial owner                               | 40,163,000 (H Shares) <sup>4</sup>      | Long position  | 0.13%                                 | 0.01%                                 |
| The Bank of New York Mellon Corporation | Interest of controlled entity                  | 2,379,952,872 (H Shares)                | Long position  | 7.74%                                 | 0.73%                                 |
| BlackRock, Inc.                         | Interest of controlled entity                  | 2,336,689,517 (H Shares)                | Lending Pool   | 7.60%                                 | 0.72%                                 |
|   |  | 2,147,022,568 (H Shares)                | Long position  | 6.98%                                 | 0.66%                                 |
| The Capital Group Companies, Inc.       | Interest of controlled entity                  | 3,642,000 (H Shares)                    | Short Position | 0.01%                                 | 0.00%                                 |
|   |  | 1,877,379,000 (H Shares)                | Long position  | 6.11%                                 | 0.58%                                 |

### *Notes:*

- According to the register of shareholders of the Bank as at 30 June 2018, Huijin held 130,005,103,782 A Shares of the Bank, accounting for 44.21% and 40.03% of the issued A Shares and the total issued shares of the Bank, respectively.*
- 9,797,058,826 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 issued by the MOF on 5 May 2010.*
- According to the register of shareholders of the Bank as at 30 June 2018, 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.*
- Qatar Investment Authority is deemed to be interested in 2,448,859,255 H Shares in aggregate held by Qatar Holding LLC and QSMA1 LLC, both of which are the wholly owned subsidiaries of Qatar Investment Authority.*

## DETAILS OF PREFERENCE SHARES

### Issuance and Listing of Preference Shares

During the reporting period, the Bank did not issue or list any preference shares.

### Number of Holders of Preference Shares and their Shareholdings

As at 30 June 2018, the Bank had a total of 25 holders<sup>1</sup> of the preference shares “農行優1”.

*Particulars of Shareholding of the Top 10 Shareholders of Preference Shares “農行優1” (Stock Code: 360001) (the information below is based on the registers of shareholders as at 30 June 2018)*

| Name of shareholders <sup>1</sup>                         | Nature of shareholders | Type of shares             | Increase/decrease during the reporting period (+,-) | Total number of shares held | Shareholding percentage <sup>2</sup> (%) | Number of preference shares subject to pledge or lock-up |
|---|------------------------|----------------------------|---|-----------------------------|--|--|
| Bank of Communications Schroder Fund Management Co., Ltd. | Other                  | Domestic preference shares | -   | 60,000,000                  | 15.00                                    | None   |
| China Merchants Fund Management Co., Ltd.                 | Other                  | Domestic preference shares | -   | 49,000,000                  | 12.25                                    | None   |
| Beijing Tiandi Fangzhong Asset Management Co., Ltd.       | Other                  | Domestic preference shares | -   | 35,000,000                  | 8.75                                     | None   |
| Anbang Insurance Group Co., Ltd.                          | Other                  | Domestic preference shares | -   | 30,000,000                  | 7.50                                     | None   |
| Ping An Life Insurance Co., Ltd.                          | Other                  | Domestic preference shares | -   | 30,000,000                  | 7.50                                     | None   |
| PICC Life Insurance Company Limited                       | Other                  | Domestic preference shares | -   | 30,000,000                  | 7.50                                     | None   |
| Beijing International Trust Co., Ltd.                     | Other                  | Domestic preference shares | -   | 30,000,000                  | 7.50                                     | None   |
| Zhonghai Trust Co., Ltd.                                  | Other                  | Domestic preference shares | -   | 20,000,000                  | 5.00                                     | None   |
| Bank of Ningbo Co., Ltd.                                  | Other                  | Domestic preference shares | -   | 15,000,000                  | 3.75                                     | None   |
| Bank of Beijing Scotiabank Asset Management Co., Ltd.     | Other                  | Domestic preference shares | -   | 12,000,000                  | 3.00                                     | None   |

#### Notes:

1. The Bank is not aware of any connections between the above shareholders of preference shares, or between the above shareholders of preference shares and the top 10 shareholders of ordinary shares, or whether they are parties acting in concert.
2. “Shareholding percentage” refers to the percentage of “農行優1” held by the shareholders of preference shares to the total number of “農行優1” (i.e. 400 million shares).

<sup>1</sup> The number of the shareholders of preference shares is calculated based on the number of qualified investors that hold such preference shares. When calculating the number of qualified investors, an asset management institution that purchases the preference shares through two or more products under its control will be counted as one.

As at 30 June 2018, the Bank had a total of 28 holders of preference shares “農行優2”.

Particulars of Shareholding of the Top 10 Shareholders of Preference Shares “農行優2” (Stock Code: 360009) (the information below is based on the registers of shareholders as at 30 June 2018)

| Name of shareholders <sup>1</sup>                           | Nature of shareholders | Type of shares             | Increase/decrease during the reporting period (+,-) | Total number of shares held | Shareholding percentage <sup>2</sup> (%) | Number of preference shares subject to pledge or lock-up |
|---|------------------------|----------------------------|---|-----------------------------|--|--|
| China Life Insurance Company Limited                        | Other                  | Domestic preference shares | -   | 50,000,000                  | 12.50                                    | None   |
| China National Tobacco Corporation                          | Other                  | Domestic preference shares | -   | 50,000,000                  | 12.50                                    | None   |
| Beijing Chance Capital Management Co., Ltd.                 | Other                  | Domestic preference shares | -   | 25,000,000                  | 6.25                                     | None   |
| Maxwealth Fund Management Co., Ltd.                         | Other                  | Domestic preference shares | -   | 25,000,000                  | 6.25                                     | None   |
| China Mobile Communications Group Co. Ltd                   | Other                  | Domestic preference shares | -   | 20,000,000                  | 5.00                                     | None   |
| Shanghai Wisdom Asset Management Co., Ltd.                  | Other                  | Domestic preference shares | -   | 20,000,000                  | 5.00                                     | None   |
| Bank of Communications Schroder Fund Management Co., Ltd.   | Other                  | Domestic preference shares | -   | 20,000,000                  | 5.00                                     | None   |
| Bank of China Limited, Shanghai Branch                      | Other                  | Domestic preference shares | -   | 20,000,000                  | 5.00                                     | None   |
| China National Tobacco Corporation Jiangsu Province Company | Other                  | Domestic preference shares | -   | 20,000,000                  | 5.00                                     | None   |
| China National Tobacco Corporation Yunnan Province Company  | Other                  | Domestic preference shares | -   | 20,000,000                  | 5.00                                     | None   |

*Notes:*

- China Shuangwei Investment Corporation Limited, China National Tobacco Corporation Jiangsu Province Company and China National Tobacco Corporation Yunnan Province Company are wholly-owned subsidiaries of China National Tobacco Corporation. China Life Insurance Company Limited – Dividend distribution – Individual dividend – 005L – FH002 Hu is managed by China Life Insurance Company Limited. Save as mentioned above, the Bank is not aware of any connections between the above shareholders of preference shares, or between the above shareholders of preference shares and the top 10 shareholders of ordinary shares, or whether they are parties acting in concert.*
- “Shareholding percentage” refers to the percentage of “農行優2” shares held by the shareholders of preference shares in the total number of “農行優2” shares (i.e. 400 million shares).*

The preference shares “農行優1” and “農行優2” of the Bank are shares not subject to restrictions on sales, and the top 10 shareholders of preference shares “農行優1” and “農行優2” who are not subject to restrictions on sales are the same as the top 10 shareholders of preference shares.

## **Profit Distribution of Preference Shares**

Dividends of the preference shares of the Bank will be paid in cash and shall be paid annually. When the Bank resolves to cancel part or all of the dividends to holders of preference shares, such undistributed dividends of current period shall not be accumulated to subsequent dividend periods. The holders of preference shares of the Bank, upon receiving dividends at the agreed rate, shall not participate in the distribution of the remaining profit attributable to the shareholders of ordinary shares.

On 12 March 2018, the Bank paid cash dividends of RMB5.50 (tax inclusive) per preference share and RMB2.2 billion (tax inclusive) in aggregate (calculated by a coupon rate of 5.50%) to all holders of “農行優2” (stock code: 360009) whose names appeared on the register of members at the close of business on 9 March 2018. For details of the distribution of dividends aforesaid, please refer to the announcements published on the websites of the Shanghai Stock Exchange and the Bank.

During the reporting period, the payment date of dividends of the preference shares of “農行優1” (stock code: 360001) was not due.

## **Redemption or Conversion of Preference Shares**

During the reporting period, there was no redemption or conversion of the preference shares issued by the Bank.

## **Restoration of Voting Rights of Preference Shares**

During the reporting period, there was no restoration of voting rights of the preference shares issued by the Bank.

## **Accounting Policies**

In accordance with *International Accounting Standard 32 – Financial Instruments: Presentation*, the Bank is of the view that the terms of preference shares “農行優1” (stock code: 360001) and “農行優2” (stock code: 360009) meet the definition of equity instruments.

## **DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT**

### **Directors, Supervisors and Senior Management of the Bank**

As at the date of this interim results announcement being considered and approved by the Board of Directors, the compositions of the Board of Directors, the Board of Supervisors and Senior Management were as follow:

The Board of Directors of the Bank comprised 14 directors, including four Executive Directors, namely Mr. ZHOU Mubing, Mr. ZHAO Huan, Mr. WANG Wei and Ms. GUO Ningning; five Non-executive Directors, namely Mr. XU Jiandong, Mr. CHEN Jianbo, Mr. HU Xiaohui, Mr. LIAO Luming and Mr. LI Qiyun; and five Independent Non-executive Directors, namely Mr. WEN Tiejun<sup>1</sup>, Mr. Francis YUEN Tin-fan, Ms. XIAO Xing, Mr. WANG Xinxin and Mr. HUANG Zhenzhong.

The Board of Supervisors of the Bank comprised six Supervisors, including one Supervisor Representing Shareholders, namely Mr. WANG Xingchun; three Supervisors Representing Employees, namely Mr. LIU Chengxu, Mr. XIA Taili and Mr. SHAO Lihong; and two External Supervisors, namely Mr. LI Wang and Ms. LV Shuqin<sup>2</sup>.

The Senior Management of the Bank comprised seven members, namely Mr. ZHAO Huan, Mr. GONG Chao, Mr. WANG Wei, Ms. GUO Ningning, Ms. ZHANG Keqiu, Mr. LI Zhicheng and Mr. ZHOU Wanfu.

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<sup>1</sup> *The term of office of Mr. WEN Tiejun expired in June 2017. In order to meet the requirement that the numbers of the Independent Non-executive Directors of the Bank shall represent at least one-third of the total members of the Board of Directors, Mr. WEN Tiejun continued to perform his duty as an Independent Non-executive Director.*

<sup>2</sup> *The term of office of each of Mr. LI Wang and Ms. LV Shuqin expired in June 2018. In order to meet the requirement that the numbers of the External Supervisors of the Bank shall represent at least one-third of the total members of the Board of Supervisors, Mr. LI Wang and Ms. LV Shuqin continued to perform their duties as External Supervisors.*

As at 30 June 2018, except for Mr. ZHOU Wanfu, the Secretary to the Board of Directors of the Bank, who held 10,000 A Shares of the Bank, none of the incumbent Directors, Supervisors and Senior Management of the Bank or who left office during the reporting period held any share of the Bank. During the reporting period, none of incumbent Directors, Supervisors and Senior Management of the Bank or who left office during the reporting period held any share option, or were granted any restricted shares of the Bank.

### **Departure of Directors, Supervisors and Senior Management**

On 28 February 2018, Mr. ZHAO Chao ceased to be a Non-executive Director of the Bank due to the expiration of his term of office.

On 11 May 2018, Mr. ZHANG Dinglong resigned as a Non-executive Director of the Bank due to his age.

On 22 August 2018, Mr. XIA Zongyu resigned as a Supervisor Representing Employees of the Bank due to work commitment.

On 22 January 2018, Mr. KANG Yi resigned as an Executive Vice President of the Bank due to adjustment in work arrangements.

On 12 March 2018, Mr. ZHOU Wanfu was appointed as the Secretary to the Board of Directors of the Bank, the company secretary and an authorised representative of the Bank by the Board of Directors of the Bank. The appointments of Mr. ZHOU Wanfu took effect on 12 April 2018, and Ms. ZHANG Keqiu ceased to be the Secretary to the Board of Directors, the company secretary and an authorized representative of the Bank.

## **SIGNIFICANT EVENTS**

### **Corporate Governance**

During the reporting period, the Bank strictly complied with the requirements of the laws and regulations including the *Company Law of the People's Republic of China*, the *Securities Law of the People's Republic of China*, the *Law of the People's Republic of China on Commercial Banks* and the regulatory rules of places where the Bank's shares are listed including the *Corporate Governance Code*. The Bank continuously promote the modernization of the corporate governance system and governance capacities, strengthen the construction of system and optimize its organization framework and consistently improve the effectiveness of corporate governance. During the reporting period, the Bank made adjustments to the composition of the Board of Directors and its special committees, improved the duties of the Board of Directors as authorized by the shareholders' general meeting and further consolidated the foundation of our corporate governance.

During the reporting period, the Bank fully complied with all the principles and code provisions of the *Corporate Governance Code* set out in Appendix 14 to the Hong Kong Listing Rules.

### ***Shareholders' General Meeting***

On 29 March 2018, the Bank held the First Extraordinary General Meeting for 2018, at which ten proposals were considered and approved, including the fixed assets investment budget for 2018, election of Non-executive Directors and the private placement plan of A Shares.

On 11 May 2018, the Bank held the 2017 Annual General Meeting, at which nine proposals were considered and approved, including the 2017 work report of the Board of Directors, the 2017 work report of the Board of Supervisors, the final financial accounts for 2017, the profit distribution plan for 2017 and the appointment of auditors for 2018, and listened to three reports including the 2017 work report of Independent Directors, the 2017 report on the implementation of the *Plan on Authorization of General Meeting of Shareholders to the Board of Directors*, and the report on the management of related transactions.

The above shareholders' general meetings were convened and held in strict compliance with the laws, regulations and listing rules of Hong Kong and the PRC. The Directors, Supervisors and the Senior Management of the Bank attended the meetings and discussed with shareholders about matters they concerned. The Bank published the announcements on the poll results and legal opinions on the above shareholders' general meetings in a timely manner in accordance with regulatory requirements. The announcements on the poll results of general meetings were published on the website of the Hong Kong Stock Exchange on 29 March 2018 and 11 May 2018, respectively, and on the website of the Shanghai Stock Exchange as well as in the media designated by the Bank for information disclosure on 30 March 2018 and 12 May 2018, respectively.

## ***Internal Audit***

During the reporting period, in accordance with the external regulatory requirements and the strategic decisions of the Board of Directors, the Bank adopted risk-oriented approaches with a focus on the identification of material operation risk, risk of cases of violation, deficiencies in internal control, regulatory and compliance and risks in respect of overseas institutions. Risk and management audits were carried out on certain branches with a focus on credit business, financial management and internal control. The Bank conducted specific audits on various aspects, including performance appraisal and remuneration management, writing-off of bad debts and reduction of non-performing loans, rating for non-retail credit risk exposures and targeted poverty alleviation. The Bank steadily promoted the audits on overseas institutions and implemented the audit on the economic responsibilities of the senior management. The Bank also monitored the rectification of key problems identified during the internal and external audit of the previous year. The Bank continued to promote the development and application of the IT platform for internal audit. The Bank also reinforced the skills training for audit and strengthened the basic management of auditing to effectively improve the capacity of supervision and services for auditing.

## **Profit and Dividend Distribution**

As approved by the 2017 Annual General Meeting of the Bank, the Bank paid cash dividends of RMB0.1783 (tax inclusive) per ordinary share and RMB57,911 million (tax inclusive) in aggregate to shareholders of ordinary shares whose names appeared on the register of members at the close of business on 24 May 2018. The Bank did not propose to pay any interim dividend for 2018 nor increase share capital by capitalizing its capital reserve.

## **Material Litigations and Arbitrations**

During the reporting period, there were no litigations or arbitrations with material impact on the business operation of the Bank.

As of 30 June 2018, the value of the claims of the pending litigations or arbitrations in which the Bank was involved as a defendant, a respondent or a third person amounted to approximately RMB8,309 million. The management of the Bank believes that the Bank has fully accrued provision for potential losses arising from the aforesaid litigations or arbitrations, and they will not have any material adverse effect on the financial position or operating results of the Bank.



## **Major Asset Acquisition, Disposal and Merger**

During the reporting period, the Bank did not carry out any major asset acquisition, disposal or merger.

## **Related Party Transactions**

During the reporting period, the Bank had not entered into any material related party transaction.

During the reporting period, the Bank had entered into various connected transactions with connected persons (as defined in the Hong Kong Listing Rules) of the Bank in the ordinary course of business. Such transactions could be exempt from compliance with the requirements of reporting, annual review, announcement and independent shareholders' approval under the Hong Kong Listing Rules.

The Bank extended loans to related natural persons (as defined in the *Administrative Measures on Information Disclosure of Listed Companies* issued by the CSRC) during the reporting period. Such loans were in compliance with our pricing policies and guarantees were provided for such loans. As at 30 June 2018, the balance of such loans amounted to RMB4,168.1 thousand and the condition for such loans were normal.

For the related party transactions defined under applicable accounting standards, please refer to "Note 50 Related Party Relations and Transactions" to the Condensed Consolidated Interim Financial Statements.

## **Use of Proceeds**

All the proceeds raised were used to strengthen the Bank's capital base to support the future development of its business as disclosed in the relevant prospectuses and offering documents.

## **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 on the assets of other companies that was required to be disclosed, and no other companies entered into any material custody, contracting or leasing arrangements on our assets that was required to be disclosed.

### ***Material Guarantees***

Provision of guarantees is one of the off-balance-sheet businesses of the Bank in its ordinary and usual course of business. 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 CBIRC.

## **Material Equity Investments Obtained and Material Non-equity Investments in Progress**

On 13 April 2018, the Board of Directors of the Bank considered and approved the capital injection of RMB6.5 billion to ABC Financial Leasing Co., Ltd., a subsidiary of the Bank. In July 2018, the Bank entered into the *Promoters' Agreement on the National Financing Guarantee Fund Limited Liability Company*, and would invest RMB3 billion in the National Financing Guarantee Fund Co., Ltd. for 4.5386% of its registered capital, which will be paid up in four years since 2018. The investment is subject to the fulfillment of procedures of regulatory authorities. For details of the aforesaid investment, please refer to the relevant announcements published on the websites of Shanghai Stock Exchange ([www.sse.com.cn](http://www.sse.com.cn)) and the Hong Kong Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)).

During the reporting period, the Bank did not have any material non-equity investment.

### **Commitments**

During the reporting period, the Bank did not have any commitment that had been duly fulfilled and completed. As at the end of the reporting period, the Bank did not have any expired commitment that had not been duly performed.

### **Penalties Imposed on the Bank and its Directors, Supervisors, Senior Management and Controlling Shareholders**

During the reporting period, neither the Bank nor any of its Directors, Supervisors, Senior Management or controlling shareholders was investigated by competent authorities, subject to coercive measures imposed by judicial authorities or disciplinary authorities, transferred to judicial authorities for prosecution or held criminally liable, investigated, suffered administrative punishment, barred from the market or disqualified by the CSRC, subject to material administrative punishments imposed by environmental protection, safe production supervision, tax or other administrative authorities, or publicly denounced by any stock exchanges.

### **Integrity of the Bank and Controlling Shareholder**

There were no judicial decisions in effect not performed, nor any outstanding debt with large amount matured and not paid, by the Bank or its controlling shareholders.

## **Purchase, Sale or Redemption of the Bank's Shares**

During the reporting period, neither the Bank nor its subsidiaries purchased, sold or redeemed any of its listed shares.

## **Implementation of Employee Incentive Measures**

During the reporting period, the Bank did not implemented any share incentive scheme, employee share ownership scheme or other employee incentives.

## **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. Each of the Directors and Supervisors of the Bank had confirmed that they had complied with such code of conduct during the reporting period.

## **Rights of Directors and Supervisors to Acquire Shares or Debentures**

As at 30 June 2018, the Bank did not grant any rights to acquire shares or debentures to any Director or Supervisor, nor was any of such rights exercised by any Director or Supervisor. Neither the Bank nor its subsidiaries entered into any agreement or arrangement enabling the Directors or Supervisors to obtain benefits by means of acquiring shares or debentures of the Bank or any other corporations.

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

As at 30 June 2018, none of the Directors or Supervisors of the Bank had any interests or short positions (including interests and short positions in which they are deemed to have under such provisions of the *Securities and Futures Ordinance* of Hong Kong) 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, 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 and other persons, please refer to "Changes in Share Capital and Shareholdings of Substantial Shareholders".

## **Interim Review**

The 2018 Interim Financial Report prepared by the Bank in accordance with the CASs and IFRSs were reviewed by PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers in accordance with the PRC and International Standards on Review Engagements, respectively.

The interim result announcement of the Bank has been reviewed and approved by the Audit and Compliance Committee of the Board of Directors.

## **Change of External Auditors**

During the reporting period, there was no change of the external auditors of the Bank.

## **Consumer Interests Protection**

As per the Bank's philosophy of "Putting Customers First with Consistent Services", the Bank is committed to continuously improving the protection of consumer rights. The Bank amended the measures on protection of consumer interests, strengthened the construction of policies and organization system in respect of the consumer interest protection. The Bank formulated relevant regulation on promotion and education in respect of the financial knowledge and established a long-term working mechanism of promoting and popularizing financial knowledge. The Bank also organized special activities for promoting and popularizing financial knowledge such as "March 15 – Financial Consumer Interests Protection Day", "Popularization of Financial Knowledge - Keep Your Wallet Safe" and "Month for Popularization of Anti-illegal Fund Raising" to enhance self-protection awareness of the consumers and their awareness of risk responsibility. The Bank further deepened the strategic transformation of retail banking business, launched the "Year of Enhancing Customer Experience" campaign, comprehensively optimized the business process and enhanced customer experience. The Bank launched the project of optimizing the process of dealing with customer consulting and complain, further enhanced the network and function of customer service synergy throughout the Bank to improve the efficiency of the response to the customer complains and customer experiences.

## **Targeted Poverty Alleviation**

For the details of targeted poverty alleviation carried out by the Bank during the reporting period, please refer to "Discussion and Analysis – County Area Banking Business – Financial Poverty Alleviation".

## **Private Placement of A Shares**

For details of the private placement of A Shares by the Bank, please refer to "Changes in Share Capital and Shareholdings of Substantial Shareholders – Details of Issuance and Listing of Securities".

## **APPENDIX I: CAPITAL ADEQUACY RATIO INFORMATION FOR THE FIRST HALF OF 2018**

Pursuant to the *Capital Rules for Commercial Banks (Provisional)* (Decree of CBRC [2012] No. 1) and the *Notice of the China Banking Regulatory Commission on Issuing the Supporting Policy Documents for the Capital Regulation of Commercial Banks* (CBRC [2013] No.33), the Bank discloses the following information.

### **I. Capital Adequacy Ratio Information**

As of 30 June 2018, given relevant rules is in the parallel implementation period, the Bank's capital adequacy ratio, Tier 1 capital adequacy ratio and CET 1 capital adequacy ratio, which were calculated in accordance with the *Capital Rules for Commercial Banks (Provisional)*, were 14.77%, 11.79% and 11.19%, respectively, and were in compliance with the regulatory requirements. The capital adequacy ratio, Tier 1 capital adequacy ratio and CET 1 capital adequacy ratio increased by 1.03, 0.53 and 0.56 percentage points respectively compared with those as of 31 December 2017. During the first half of 2018, the Bank conducted the issue of ordinary shares of A-Shares to specified subscribers, with RMB100 billion raised, and the issue of Tier 2 capital bonds of RMB40 billion in Chinese inter-banks securities market. The Bank proactively optimized structure of assets. Accordingly, the growth rate of net capital was higher than that of risk-weighted assets, leading to a significant rise in capital adequacy ratio.

### **II. Scope for Calculating Capital Adequacy Ratio**

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

### **III. Capital Adequacy Ratio and Risk-weighted Assets**

According to the application scope of the advanced approach of capital management as approved by the regulatory bodies, the Bank adopted the foundation Internal Ratings-Based (IRB) approach for non-retail exposures and IRB approach for retail exposures to measure credit risk-weighted assets, weighting approach for credit risk-weighted assets uncovered by IRB approach. Internal Model Approach (IMA) was adopted for market risk-weighted assets. Standardized measurement approach was adopted to measure market risk-weighted assets uncovered by IMA. Standardized measurement approach was adopted to measure operational risk-weighted assets. The table below sets out the net capital, risk-weighted assets and capital adequacy ratios as of 30 June 2018 pursuant to the *Capital Rules for Commercial Banks (Provisional)* calculated by the Bank.

*In millions of RMB, except for percentages*

| Item  | 30 June 2018 |            | 31 December 2017 |            |
|---|--------------|------------|------------------|------------|
|   | The Group    | The Bank   | The Group        | The Bank   |
| CET 1 capital, net  | 1,478,881    | 1,455,647  | 1,339,953        | 1,319,628  |
| Additional Tier 1 capital, net  | 79,906       | 79,899     | 79,906           | 79,899     |
| Tier 1 capital, net   | 1,558,787    | 1,535,546  | 1,419,859        | 1,399,527  |
| Tier 2 capital, net   | 394,017      | 392,659    | 312,087          | 310,747    |
| Net capital   | 1,952,804    | 1,928,205  | 1,731,946        | 1,710,274  |
| Risk-weighted assets  | 13,219,219   | 13,026,934 | 12,605,577       | 12,435,568 |
| Credit risk-weighted assets   | 12,190,050   | 12,007,592 | 11,569,211       | 11,412,929 |
| Portion covered by IRB  | 8,504,200    | 8,504,200  | 7,943,112        | 7,943,112  |
| Portion uncovered by IRB  | 3,685,850    | 3,503,392  | 3,626,099        | 3,469,817  |
| Market risk-weighted assets   | 116,727      | 112,598    | 123,924          | 115,895    |
| Portion covered by IMA  | 109,140      | 109,140    | 111,741          | 111,741    |
| Portion uncovered by IMA  | 7,587        | 3,458      | 12,183           | 4,154      |
| Operational risk-weighted assets  | 912,442      | 906,744    | 912,442          | 906,744    |
| Additional risk-weighted assets<br>due to the requirement of<br>the capital floor | —            | —          | —                | —          |
| CET 1 capital adequacy ratio  | 11.19%       | 11.17%     | 10.63%           | 10.61%     |
| Tier 1 capital adequacy ratio   | 11.79%       | 11.79%     | 11.26%           | 11.25%     |
| Capital adequacy ratio  | 14.77%       | 14.80%     | 13.74%           | 13.75%     |

The table below sets out the consolidated and unconsolidated capital adequacy ratios calculated and disclosed in accordance with the *Rules on Capital Adequacy of Commercial Banks (Decree of CBRC [2007] No.11)* in accordance with the *Capital Rules for Commercial Banks (Provisional)*.

| Item                        | 30 June 2018 |          | 31 December 2017 |          |
|-----------------------------|--------------|----------|------------------|----------|
|                             | The Group    | The Bank | The Group        | The Bank |
| Core capital adequacy ratio | 10.76%       | 10.98%   | 10.00%           | 10.00%   |
| Capital adequacy ratio      | 13.68%       | 13.88%   | 12.74%           | 12.71%   |

## IV. Risk Exposure

### (1) Credit Risk

The following tables set out the credit risk exposure of the Bank calculated according to the foundation IRB approach for non-retail exposures, IRB approach for retail exposures and weighting approach.

*In millions of RMB*

| Item   | 30 June 2018      |                      | 31 December 2017 |                      |
|--|-------------------|----------------------|------------------|----------------------|
|  | Risk exposures    | Risk-weighted assets | Risk exposures   | Risk-weighted assets |
| Credit risk exposure covered by IRB <sup>1</sup> | <b>13,219,943</b> | <b>7,612,966</b>     | 12,686,170       | 7,237,051            |
| Non-retail credit risk                           | <b>8,960,747</b>  | <b>6,418,065</b>     | 8,742,086        | 6,187,786            |
| Retail credit risk                               | <b>4,248,783</b>  | <b>1,187,583</b>     | 3,926,954        | 1,040,127            |
| Counterparty credit risk                         | <b>10,413</b>     | <b>7,318</b>         | 17,130           | 9,138                |

Note: 1. Regulatory calibration is not included.

*In millions of RMB*

| Item                                  | 30 June 2018      |                      | 31 December 2017 |                      |
|---------------------------------------|-------------------|----------------------|------------------|----------------------|
|                                       | Risk exposures    | Risk-weighted assets | Risk exposures   | Risk-weighted assets |
| Credit risk exposure uncovered by IRB | <b>10,500,655</b> | <b>3,685,850</b>     | 10,400,709       | 3,626,099            |
| On-balance sheet credit risk          | <b>9,520,593</b>  | <b>2,830,282</b>     | 9,317,303        | 2,557,256            |
| of which: asset securitization        | <b>8,806</b>      | <b>21,694</b>        | 2,909            | 6,150                |
| Off-balance sheet credit risk         | <b>955,859</b>    | <b>841,645</b>       | 1,061,927        | 1,055,111            |
| Counterparty credit risk              | <b>24,203</b>     | <b>13,923</b>        | 21,479           | 13,732               |

Please refer to “Discussion and Analysis – Risk Management and Internal Control” for details of our overdue loans, non-performing loans and loan loss provisions.

## (2) Market Risk

The Bank calculated the capital requirement of market risk according to the Internal Model Approach (IMA), of which uncovered portion measured by standardized approach. As of 30 June 2018, the capital requirements of all types of market risks are shown in the following table.

*In millions of RMB*

| Item                                     | Capital Requirements |                     |
|--|----------------------|---------------------|
|  | 30 June<br>2018      | 31 December<br>2017 |
| Portion covered by IMA                   | 8,731                | 8,939               |
| Portion covered by standardized approach | 607                  | 975                 |
| Interest rate risk                       | 313                  | 415                 |
| Equity risk                              | –                    | –                   |
| Foreign exchange risk                    | 294                  | 560                 |
| Commodity risk                           | –                    | –                   |
| Option risk                              | –                    | –                   |
| <b>Total</b>                             | <b>9,338</b>         | <b>9,914</b>        |

The Bank adopted historical simulation method with a 99% confidence interval based on a holding period of 10 days and historical observation period for one year to calculate the value at-risk (VaR) and stressed VaR. VaR and stressed VaR respectively reflect the maximum losses under a certain probability that are calculated according to recent historical scenarios and historical scenarios in one year that have constituted significant stress on the Bank's assets. The following table sets out the Bank's VaR and stressed VaR under IMA of market risk at 30 June 2018.

*In millions of RMB*

| Item                                  | 30 June 2018 |         |        | Period end |
|---------------------------------------|--------------|---------|--------|------------|
|                                       | Average      | Highest | Lowest |            |
| Value at risk (VaR)                   | 1,382        | 1,685   | 975    | 1,577      |
| Stressed value at risk (Stressed VaR) | 1,382        | 1,685   | 975    | 1,577      |



The following table sets out equity risk exposure in the banking book.

*In millions of RMB*

| Types of the invested entity | Risk exposures of publicly traded equity <sup>1</sup> |                  | Risk exposures of non-publicly traded equity <sup>1</sup> |                  | Unrealized profit or loss on potential risk <sup>2</sup> |                  |
|------------------------------|---|------------------|---|------------------|--|------------------|
|                              | 30 June 2018  | 31 December 2017 | 30 June 2018  | 31 December 2017 | 30 June 2018   | 31 December 2017 |
| Financial institutes         | 2,852   | 2,204            | 2,244   | 2,366            | 316  | 2,267            |
| Companies                    | 2,469   | 4,124            | 9,642   | 7,786            | (76)   | 4,768            |
| <b>Total</b>                 | <b>5,321</b>  | <b>6,328</b>     | <b>11,886</b>   | <b>10,152</b>    | <b>240</b>   | <b>7,035</b>     |

*Note:*

- Risk exposures of publicly traded equity refers to the risk exposures of listed companies, and risk exposures of non-publicly traded equity refers to the risk exposures of unlisted companies.*
- Unrealized profit or loss on potential risk refers to gain or loss that has been recognized in the balance sheet but not yet been recognized in the income statement.*

Please refer to “Discussion and Analysis – Risk Management and Internal Control” for details of our interest rate risk.

### **(3) Operational Risk**

As of 30 June 2018, the Bank’s operational risk capital requirement measured by standardized approach was RMB72,995 million. Please refer to “Discussion and Analysis – Risk Management and Internal Control” for details of operational risk management.

## **V. Contrast between Regulatory Consolidation and Financial Statement**

The Bank compiled the balance sheet within the scope of regulatory consolidation in accordance with the *Capital Rules for Commercial Banks (Provisional)* and the *Notice of the China Banking Regulatory Commission on Issuing the Supporting Policies for the Capital Regulation of Commercial Banks*. The contrast between the items of regulatory consolidation and financial statement is shown in the table below.

*In millions of RMB*

| Item   | 30 June 2018        |                          | 31 December 2017    |                          | Code |
|--|---------------------|--------------------------|---------------------|--------------------------|------|
|  | Financial statement | Regulatory Consolidation | Financial statement | Regulatory Consolidation |      |
| <b>Assets</b>  |                     |                          |                     |                          |      |
| Cash and balances at central banks                                     | 2,963,554           | 2,963,553                | 2,896,619           | 2,896,601                | A01  |
| Deposits with banks and other financial institutions                   | 104,728             | 98,388                   | 130,245             | 128,654                  | A02  |
| Placements with banks and other financial institutions                 | 424,382             | 424,382                  | 505,269             | 505,269                  | A03  |
| Financial assets at fair value through profit or loss                  | 647,628             | 624,634                  | 577,965             | 574,672                  | A04  |
| Derivative financial assets  | 31,190              | 31,190                   | 28,284              | 28,284                   | A05  |
| Financial assets held under resale agreements                          | 367,812             | 367,612                  | 540,386             | 538,471                  | A06  |
| Interest receivables   | 127,765             | 126,927                  | 118,693             | 117,672                  | A07  |
| Loans and advances to customers  | 11,001,367          | 11,000,618               | 10,316,311          | 10,315,613               | A08  |
| Financial investments at fair value through other comprehensive income | 1,554,327           | 1,528,245                | N/A                 | N/A                      | A09  |
| Available-for-sale financial assets                                    | N/A                 | N/A                      | 1,426,420           | 1,383,658                | A10  |
| Hold-to-maturity investments   | N/A                 | N/A                      | 3,489,135           | 3,477,280                | A11  |
| Accounts receivable investment   | N/A                 | N/A                      | 659,223             | 643,721                  | A12  |
| Financial investments at amortized cost                                | 4,223,651           | 4,200,861                | N/A                 | N/A                      | A13  |
| Long term equity investment  | 1,948               | 5,800                    | 227                 | 4,029                    | A14  |
| Fixed assets   | 150,640             | 150,123                  | 155,258             | 154,733                  | A15  |
| Land use rights  | 21,350              | 21,349                   | 21,798              | 21,798                   | A16  |
| Deferred tax assets  | 120,294             | 120,294                  | 97,751              | 97,751                   | A17  |
| Goodwill   | 1,381               | –                        | 1,381               | –                        | A18  |
| Intangible assets  | 2,635               | 2,452                    | 2,737               | 2,549                    | A19  |
| Other assets   | 176,199             | 175,504                  | 85,680              | 82,791                   | A20  |
| <b>Total assets</b>  | <b>21,920,851</b>   | <b>21,841,932</b>        | <b>21,053,382</b>   | <b>20,973,546</b>        | A00  |
| <b>Liabilities</b>   |                     |                          |                     |                          |      |
| Borrowings from central bank   | 402,735             | 402,735                  | 465,947             | 465,947                  | L01  |
| Deposits from banks and other financial institutions                   | 1,062,955           | 1,063,443                | 974,730             | 975,111                  | L02  |
| Placements from banks and other financial institutions                 | 303,733             | 303,733                  | 280,061             | 280,061                  | L03  |
| Financial liabilities at fair value through profit or loss             | 314,888             | 314,888                  | 391,772             | 391,772                  | L04  |
| Financial assets sold under repurchase agreements                      | 113,410             | 109,176                  | 319,789             | 315,037                  | L05  |

| Item   | 30 June 2018        |                          | 31 December 2017    |                          | Code |
|--|---------------------|--------------------------|---------------------|--------------------------|------|
|  | Financial statement | Regulatory Consolidation | Financial statement | Regulatory Consolidation |      |
| Due to customers                               | 16,939,933          | 16,939,979               | 16,194,279          | 16,194,313               | L06  |
| Derivative financial liabilities               | 32,140              | 32,140                   | 30,872              | 30,872                   | L07  |
| Debt securities issued                         | 668,187             | 664,683                  | 475,017             | 475,017                  | L08  |
| Employee salary payables                       | 39,361              | 39,249                   | 40,222              | 40,006                   | L09  |
| Taxes payables                                 | 34,602              | 34,623                   | 40,164              | 40,191                   | L10  |
| Dividend payables                              | 12,709              | 12,709                   | –                   | –                        | L11  |
| Interest payables                              | 202,368             | 202,347                  | 228,805             | 228,842                  | L12  |
| Deferred tax liabilities                       | 86                  | 86                       | 87                  | 87                       | L13  |
| Provisions                                     | 27,041              | 27,041                   | 10,709              | 10,708                   | L14  |
| Other liabilities                              | 196,992             | 127,354                  | 171,531             | 97,516                   | L15  |
| <b>Total liabilities</b>                       | <b>20,351,140</b>   | <b>20,274,186</b>        | <b>19,623,985</b>   | <b>19,545,480</b>        | L00  |
| <b>Equity</b>                                  |                     |                          |                     |                          |      |
| Paid-in capital                                | 349,983             | 349,983                  | 324,794             | 324,794                  | E01  |
| Other equity instruments                       | 79,899              | 79,899                   | 79,899              | 79,899                   | E02  |
| Capital reserve                                | 173,573             | 173,574                  | 98,773              | 98,773                   | E03  |
| Surplus reserve                                | 134,368             | 134,366                  | 134,348             | 134,347                  | E04  |
| General reserve                                | 239,352             | 239,352                  | 230,750             | 230,750                  | E05  |
| Undistributed profits                          | 588,077             | 588,682                  | 577,573             | 577,652                  | E06  |
| Minority interests                             | 4,485               | 1,695                    | 2,982               | 774                      | E07  |
| Other comprehensive income                     | (26)                | 195                      | (19,722)            | (18,923)                 | E08  |
| of which: Foreign currency translation reserve | 310                 | 310                      | (32)                | (32)                     | E09  |
| <b>Total equity</b>                            | <b>1,569,711</b>    | <b>1,567,746</b>         | <b>1,429,397</b>    | <b>1,428,066</b>         | E00  |

## VI. Composition of Capital

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

|  |   | <i>In millions of RMB</i> |           |     |
|--|---|---------------------------|-----------|-----|
| Item   | 30 June<br>2018   | 31 December<br>2017       | Code      |     |
| <b>CET 1 capital</b>                         |   |                           |           |     |
| 1  | Paid-in capital   | 349,983                   | 324,794   | E01 |
| 2  | Retained earnings   | 962,400                   | 942,749   |     |
| 2a   | Surplus reserve   | 134,366                   | 134,347   | E04 |
| 2b   | General reserve   | 239,352                   | 230,750   | E05 |
| 2c   | Undistributed profits   | 588,682                   | 577,652   | E06 |
| 3  | Accumulated other comprehensive income and disclosed reserve  | 173,769                   | 79,850    |     |
| 3a   | Capital reserve   | 173,574                   | 98,773    | E03 |
| 3b   | Others  | 195                       | (18,923)  | E08 |
| 4  | Directly issued capital subject to phase out from CET 1 capital (only applicable to non-joint stock companies, banks of joint stock companies just fill with "0") | -                         | -         |     |
| 5  | Common share capital issued by subsidiaries and held by third parties   | 53                        | 60        |     |
| 6  | <b>CET 1 capital before regulatory adjustments</b>  | <b>1,486,205</b>          | 1,347,453 |     |
| <b>CET 1 capital: regulatory adjustments</b> |   |                           |           |     |
| 7  | Prudential valuation adjustments  | -                         | -         |     |
| 8  | Goodwill (net of deferred tax liability)  | -                         | -         | A18 |
| 9  | Other intangible assets other than land use rights (net of deferred tax liability)  | 2,452                     | 2,549     | A19 |
| 10   | Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)                           | 4                         | 3         |     |
| 11   | Cash-flow hedge reserve to the items not calculated at fair value   | -                         | -         |     |
| 12   | Shortfall of provisions to expected losses on loans   | -                         | -         |     |
| 13   | Securitization gain on sale   | -                         | -         |     |
| 14   | Unrealized gains and losses due to changes in own credit risk on fair valued liabilities  | -                         | -         |     |
| 15   | Defined-benefit pension fund net assets (net of deferred tax liability)   | -                         | -         |     |
| 16   | Investments in own shares (if not already netted off paid-in capital on reported balance sheet)   | -                         | -         |     |
| 17   | Reciprocal cross-holdings in common equity  | -                         | -         |     |
| 18   | Deductible amount of the CET 1 capital from insignificant minority capital investment of the financial institutions outside the scope of consolidation            | -                         | -         |     |

| Item   | 30 June<br>2018  | 31 December<br>2017 | Code |
|--|------------------|---------------------|------|
| 19 Deductible amount of the CET 1 capital from significant minority capital investment of the financial institutions outside the scope of consolidation  | –                | –                   |      |
| 20 Mortgage servicing rights   | –                | –                   |      |
| 21 Other deductible amount in the net differed tax asset that rely on future profitability of the bank   | –                | –                   |      |
| 22 Significant investments in the capital of financial institutions outside the scope of regulatory consolidation and other net deferred tax assets that rely on the Bank's future profitability (amount exceeding the 15% of the CET 1 capital) | –                | –                   |      |
| 23 of which: significant investments in the capital of financial institutions  | –                | –                   |      |
| 24 of which: mortgage servicing rights   | –                | –                   |      |
| 25 of which: deductible amount in other net deferred tax assets that rely on the Bank's future profitability   | –                | –                   |      |
| 26a Investment in CET 1 capital of financial institutions outside the scope of regulatory consolidation but in which the Bank has the control  | <b>4,868</b>     | 4,948               |      |
| 26b Shortfall of CET 1 capital of financial institutions outside the scope of regulatory consolidation but in which the Bank has the control   | –                | –                   |      |
| 26c Total other items deductible from CET 1 capital  | –                | –                   |      |
| 27 Regulatory adjustments applied to CET 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions  | –                | –                   |      |
| <b>28 Total regulatory adjustments to CET 1 capital</b>  | <b>7,324</b>     | 7,500               |      |
| <b>29 CET 1 capital</b>  | <b>1,478,881</b> | 1,339,953           |      |
| <b>Additional Tier 1 capital</b>   |                  |                     |      |
| 30 Directly issued qualifying Additional Tier 1 instruments plus related stock surplus   | <b>79,899</b>    | 79,899              |      |
| 31 of which: classified as equity  | <b>79,899</b>    | 79,899              | E02  |
| 32 of which: classified as liabilities   | –                | –                   |      |
| 33 Directly issued capital instruments subject to phase out from Additional Tier 1   | –                | –                   |      |
| 34 Minority interest given recognition in Tier 1   | <b>7</b>         | 7                   |      |
| 35 of which: instruments issued by subsidiaries subject to phase out   | –                | –                   |      |
| <b>36 Additional Tier 1 capital before regulatory adjustments</b>  | <b>79,906</b>    | 79,906              |      |
| <b>Additional Tier 1 capital: regulatory adjustments</b>   |                  |                     |      |
| 37 Investments in own Additional Tier 1 instruments  | –                | –                   |      |
| 38 Reciprocal cross-holdings in Additional Tier 1 instruments  | –                | –                   |      |
| 39 Additional Tier 1 capital from insignificant minority capital investment of the financial institutions outside the scope of consolidation   | –                | –                   |      |
| 40 Additional Tier 1 capital from significant minority capital investment of the financial institutions outside the scope of consolidation   | –                | –                   |      |

| Item   | 30 June<br>2018  | 31 December<br>2017 | Code |
|--|------------------|---------------------|------|
| 41a Investments in Additional Tier 1 capital of financial institutions outside the scope of consolidation but in which the Bank has the control                      | –                | –                   |      |
| 41b Shortfall of Additional Tier 1 capital of financial institutions outside the scope of consolidation but in which the Bank has the control                        | –                | –                   |      |
| 41c Other items deductible from Additional Tier 1 capital  | –                | –                   |      |
| 42 Amount deductible from Additional Tier 2 capital but not yet deducted   | –                | –                   |      |
| <b>43 Total regulatory adjustments to Additional Tier 1 capital</b>  | <b>–</b>         | <b>–</b>            |      |
| <b>44 Additional Tier 1 capital</b>  | <b>79,906</b>    | 79,906              |      |
| <b>45 Tier 1 capital (CET 1 capital + Additional Tier 1 capital)</b>   | <b>1,558,787</b> | 1,419,859           |      |
| <b>Tier 2 capital</b>  |                  |                     |      |
| 46 Directly issued qualifying Tier 2 instruments plus related stock surplus  | <b>169,904</b>   | 144,951             |      |
| 47 of which: Directly issued capital instruments subject to phase out from Tier 2  | <b>60,000</b>    | 75,000              |      |
| 48 Tier 2 instruments (and CET 1 and AT 1 instruments not included in row 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2) | <b>14</b>        | 14                  |      |
| 49 of which: Portions not given recognition after the transition period  | –                | –                   |      |
| 50 Excess loan loss provisions   | <b>224,099</b>   | 167,122             |      |
| <b>51 Tier 2 capital before regulatory adjustments</b>   | <b>394,017</b>   | 312,087             |      |

| Item   | 30 June<br>2018   | 31 December<br>2017 | Code |
|--|-------------------|---------------------|------|
| <b>Tier 2 capital: regulatory adjustments</b>  |                   |                     |      |
| 52 Investments in own Tier 2 instruments   | –                 | –                   |      |
| 53 Reciprocal cross-holdings in Tier 2 instruments   | –                 | –                   |      |
| 54 Tier 2 capital from insignificant minority capital investment of the financial institutions outside the scope of consolidation    | –                 | –                   |      |
| 55 Tier 2 capital from significant minority capital investment of the financial institutions outside the scope of consolidation      | –                 | –                   |      |
| 56a Investments in Tier 2 capital of financial institutions outside the scope of consolidation but in which the Bank has the control | –                 | –                   |      |
| 56b Shortfall of Tier 2 capital of financial institutions outside the scope of consolidation but in which the Bank has the control   | –                 | –                   |      |
| 56c Other items deductible from Tier 2 capital   | –                 | –                   |      |
| <b>57 Total regulatory adjustments to Tier 2 capital</b>   | –                 | –                   |      |
| <b>58 Tier 2 capital</b>   | <b>394,017</b>    | 312,087             |      |
| <b>59 Total capital (Tier 1 capital + Tier 2 capital)</b>  | <b>1,952,804</b>  | 1,731,946           |      |
| <b>60 Total risk weighed assets</b>  | <b>13,219,219</b> | 12,605,577          |      |
| <b>Capital adequacy ratios and reserve capital requirements</b>  |                   |                     |      |
| 61 CET 1 capital adequacy ratio  | <b>11.19%</b>     | 10.63%              |      |
| 62 Tier 1 capital adequacy ratio   | <b>11.79%</b>     | 11.26%              |      |
| 63 Capital adequacy ratio  | <b>14.77%</b>     | 13.74%              |      |
| 64 Institution specific buffer requirement   | <b>3.50%</b>      | 3.50%               |      |
| 65 of which: capital conservation buffer requirement   | <b>2.50%</b>      | 2.50%               |      |
| 66 of which: countercyclical buffer requirement  | <b>0.00%</b>      | 0.00%               |      |
| 67 of which: G-SIBs buffer requirement   | <b>1.00%</b>      | 1.00%               |      |
| 68 CET 1 capital available to meet buffers (as a percentage of risk weighted assets)   | <b>5.79%</b>      | 5.26%               |      |
| <b>National minimum</b>  |                   |                     |      |
| 69 CET 1 minimum ratio   | <b>5%</b>         | 5%                  |      |
| 70 Tier 1 minimum ratio  | <b>6%</b>         | 6%                  |      |
| 71 Total capital minimum ratio   | <b>8%</b>         | 8%                  |      |
| <b>Amounts not deducted from the thresholds for deduction</b>  |                   |                     |      |
| 72 Non-significant investments in the capital of other unconsolidated financial institutions   | <b>50,570</b>     | 51,309              |      |
| 73 Significant investments in the common stock of unconsolidated financial institutions  | <b>608</b>        | 693                 |      |
| 74 Mortgage servicing rights (net of related tax liability)  | <b>N/A</b>        | N/A                 |      |
| 75 Other net deferred tax assets relying on the Bank's future profitability (net of deferred tax liabilities)                        | <b>120,203</b>    | 97,661              |      |

| Item  | 30 June<br>2018 | 31 December<br>2017 | Code |
|---|-----------------|---------------------|------|
| <b>Applicable caps on the inclusion of over-provision for loss on loans in Tier 2 capital</b>                             |                 |                     |      |
| 76  |                 |                     |      |
| Provisions for excess loan loss actually provided under the Weighting Approach  | <b>32,236</b>   | 30,594              |      |
| 77  |                 |                     |      |
| The caps of provision eligible for inclusion in Tier 2 capital excess loan loss under the Weighting Approach              | <b>45,670</b>   | 44,944              |      |
| 78  |                 |                     |      |
| Provisions for loan loss actually provided under the Internal Ratings-Based approach                                      | <b>191,863</b>  | 144,029             |      |
| 79  |                 |                     |      |
| The caps of provision eligible for inclusion in Tier 2 capital excess loan loss under the Internal Ratings-Based Approach | <b>191,863</b>  | 136,528             |      |
| <b>Capital instruments subject to phase-out arrangements</b>  |                 |                     |      |
| 80  |                 |                     |      |
| Amount included in CET 1 capital due to transitional arrangements   | –               | –                   |      |
| 81  |                 |                     |      |
| Amount excluded from CET 1 capital due to transitional arrangements   | –               | –                   |      |
| 82  |                 |                     |      |
| Amount included in Additional Tier 1 capital due to transitional arrangements   | –               | –                   |      |
| 83  |                 |                     |      |
| Amount excluded from Additional Tier 1 capital due to transitional arrangements   | –               | –                   |      |
| 84  |                 |                     |      |
| Amount included in Tier 2 instruments due to transitional arrangements  | <b>60,000</b>   | 75,000              |      |
| 85  |                 |                     |      |
| Amount excluded from Tier 2 due to transitional arrangements  | <b>65,000</b>   | 50,000              |      |



## VII. Main Features of Eligible Capital Instruments

As of 30 June 2018, the eligible capital instruments of the Bank included common stocks, preference shares and Tier 2 capital instrument. In July 2010, A-shares of the Bank were listed on the Shanghai Stock Exchange and H-shares of the Bank were listed on the Hong Kong Stock Exchange. In November 2014 and March 2015, the Bank issued 800 million preference shares with two issuances, with RMB80 billion raised. All of the raised funds after deducting issue expenses are used to replenish Additional Tier 1 capital. In 2018, the Bank conducted a private issue of 25,188,916,873 A-Shares to raise RMB100 billion. All of the raised funds after deducting issue expenses are used to replenish CET 1 capital.

During the period from 2009 to 2012, the Bank issued in aggregate conventional subordinated bonds amounting to RMB150 billion in the PRC inter-bank bond market. Pursuant to the requirement of *Capital Rules for Commercial Banks (Provisional)*, since 2013, the amount of conventional subordinated bonds that can be included in regulatory capital shall be reduced year by year, and as of 30 June 2018, the aggregate amount that could be included in Tier 2 capital was RMB60 billion. In August 2014, the Bank successfully issued Tier 2 capital bonds amounting to RMB30 billion in Chinese inter-banks securities market, all of which were included into Tier 2 capital. In October 2017, the Bank successfully issued Tier 2 capital bonds amounting to RMB40 billion in Chinese inter-banks securities market, all of which after deducting issue expenses were included into Tier 2 capital. In April 2018, the Bank successfully issued Tier 2 capital bonds amounting to RMB40 billion in Chinese inter-banks securities market, all of which after deducting issue expenses were included into Tier 2 capital.

The following table sets the main features of eligible capital instruments of the Bank.

|   |  | Ordinary share<br>of A-shares  | Ordinary share<br>of H-shares  | Preference<br>shares  | Tier 2 capital<br>instruments  | Tier 2 capital<br>instruments  | Tier 2 capital<br>instruments  |
|---|--|--|--|---|--|--|--|
| 1 | Issuer   | Agricultural Bank of China Limited   | Agricultural Bank of China Limited   | Agricultural Bank of China Limited  | Agricultural Bank of China Limited   | Agricultural Bank of China Limited   | Agricultural Bank of China Limited   |
| 2 | Unique code  | 601288   | 1288   | 360001 and 360009   | 1428012  | 1728018  | 1828002  |
| 3 | Governing laws   | “Company Law of the People’s Republic of China”, “Securities Law of the People’s Republic of China”, “Law of the People’s Republic of China on Commercial Banks”, “Rules Governing the Listing of Stocks on Shanghai Stock Exchange”, etc. | “Company Law of the People’s Republic of China”, “Law of the People’s Republic of China on Commercial Banks”, “Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited”, etc. | “Company Law of the People’s Republic of China”, “Securities Law of the People’s Republic of China”, “the Administrative Measures on the Pilot Scheme of Preference Shares”, etc. | “Law of the People’s Republic of China on Commercial Banks”, “Capital Rules for Commercial Banks (Provisional)”, “Measures for the Administration of the Issuance of Financial Bonds in the National Inter-bank Bond Market”, etc. | “Law of the People’s Republic of China on Commercial Banks”, “Capital Rules for Commercial Banks (Provisional)”, “Measures for the Administration of the Issuance of Financial Bonds in the National Inter-bank Bond Market”, etc. | “Law of the People’s Republic of China on Commercial Banks”, “Capital Rules for Commercial Banks (Provisional)”, “Measures for the Administration of the Issuance of Financial Bonds in the National Inter-bank Bond Market”, etc. |
| 4 | Regulatory treatments of which: Application of Capital Rules for Commercial Banks (Provisional) transitional rules | CET 1 capital  | CET 1 capital  | Additional Tier 1 capital   | Tier 2 capital   | Tier 2 capital   | Tier 2 capital   |
| 5 | of which: Application of Capital Rules for Commercial Banks (Provisional) post-transitional Rules                  | CET 1 capital  | CET 1 capital  | Additional Tier 1 capital   | Tier 2 capital   | Tier 2 capital   | Tier 2 capital   |
| 6 | of which: Eligible at the Bank/the Group   | the Bank and the Group   | the Bank and the Group   | the Bank and the Group  | the Bank and the Group   | the Bank and the Group   | the Bank and the Group   |
| 7 | Instrument type  | Ordinary shares  | Ordinary shares  | Preference shares   | Tier 2 capital bonds   | Tier 2 capital bonds   | Tier 2 capital bonds   |
| 8 | Recognized in regulatory capital (in million of RMB, most recent reporting date)                                   | 319,244  | 30,739   | 79,899  | 30,000   | 39,953   | 39,951   |
| 9 | Par value  | RMB1   | RMB1   | RMB100  | RMB100   | RMB100   | RMB100   |

|    |  | Ordinary share<br>of A-shares      | Ordinary share<br>of H-shares      | Preference<br>shares  | Tier 2 capital<br>instruments                 | Tier 2 capital<br>instruments                 | Tier 2 capital<br>instruments                 |
|----|--|------------------------------------|------------------------------------|---|---|---|---|
| 10 | Accounting classification  | Equity                             | Equity                             | Equity  | Liability                                     | Liability                                     | Liability                                     |
| 11 | Original date of issuance  | 2010-07-15 and<br>2018-06-26       | 2010-07-16                         | 2014-10-31 and<br>2015-03-06  | 2014-8-18                                     | 2017-10-17                                    | 2018-4-27                                     |
| 12 | Perpetual or dated   | Perpetual                          | Perpetual                          | Perpetual   | Dated   | Dated   | Dated   |
| 13 | of which: Original<br>maturity dates   | No maturity date                   | No maturity date                   | No maturity date  | 2024-8-18                                     | 2027-10-17                                    | 2028-4-27                                     |
| 14 | Issuer call subject to prior<br>regulatory approval  | No                                 | No                                 | No  | Yes (subject to prior<br>regulatory approval) | Yes (subject to prior<br>regulatory approval) | Yes (subject to prior<br>regulatory approval) |
| 15 | of which: Optional call<br>date, contingent call dates<br>and redemption amount<br>(in million of RMB) | -                                  | -                                  | -   | 2019-08-18,<br>redemption amount<br>30,000    | 2022-10-17,<br>redemption amount<br>40,000    | 2023-4-27, redemption<br>amount 40,000        |
| 16 | of which: Subsequent call<br>dates, if applicable<br>Bonus or Dividends                                | -                                  | -                                  | -   | -   | -   | -   |
| 17 | of which: Fixed or<br>floating dividend/bonus  | Floating                           | Floating                           | The coupon rate of the<br>preference shares will be<br>adjusted every 5 years.<br>The dividend of the<br>preference shares under<br>the Issuance will be paid<br>at an agreed fixed coupon<br>rate during each dividend<br>adjustment period. | Fixed   | Fixed   | Fixed   |
| 18 | of which: coupon rate and<br>any related index   | Subject to the<br>Board's decision | Subject to the<br>Board's decision | Coupon rate of the first<br>dividend adjustment<br>period of the first<br>issuance of preference<br>shares is 6%. Coupon<br>rate of the first dividend<br>adjustment period of<br>the second issuance of<br>preference shares is 5.5%.        | 5.80%   | 4.45%   | 4.45%   |
| 19 | of which: Existence of a<br>dividend stopper   | No                                 | No                                 | Yes   | No  | No  | No  |

|    |  | Ordinary share<br>of A-shares | Ordinary share<br>of H-shares | Preference<br>shares  | Tier 2 capital<br>instruments | Tier 2 capital<br>instruments | Tier 2 capital<br>instruments |
|----|--|-------------------------------|-------------------------------|---|-------------------------------|-------------------------------|-------------------------------|
| 20 | of which: Whether fully discretionary in cancellation of bonus or dividend | Full discretionary            | Full discretionary            | Full discretionary  | Without discretionary         | Without discretionary         | Without discretionary         |
| 21 | of which: Existence of step up or other incentive to redeem                | No                            | No                            | No  | No                            | No                            | No                            |
| 22 | of which: cumulative or non-cumulative                                     | Non-cumulative                | Non- cumulative               | Non- cumulative   | Non- cumulative               | Non- cumulative               | Non- cumulative               |
| 23 | Convertible or non-convertible   | No                            | No                            | Yes   | No                            | No                            | No                            |
| 24 | of which: If convertible, specify conversion trigger(s)                    | -                             | -                             | (1) If the CET 1 capital adequacy rate of the Bank decreased to 5.125% (or below), the preference shares issued will be fully or partially transferred to ordinary shares of A share, in order to make the CET 1 capital adequacy rate resumed to above 5.125%. In case of partial transfer, all preference shares issued will be transferred in proportion on the same conditions. | -                             | -                             | -                             |

|    | Ordinary share<br>of A-shares                   | Ordinary share<br>of H-shares | Preference<br>shares   | Tier 2 capital<br>instruments | Tier 2 capital<br>instruments | Tier 2 capital<br>instruments |
|----|---|-------------------------------|--|-------------------------------|-------------------------------|-------------------------------|
|    |   |                               | <p>(2) All preference shares issued will be transferred into ordinary shares of A share in case of the earlier occurrence of the following two situations: 1) the CBIRC considers that the Bank could not survive in case no conversion will be carried out; 2) relevant authority considers that the Bank could not survive in case no capital injection with public departments or no provision of support with the same effectiveness.</p> <p>If the Bank Mandatorily transfer the issued preference shares to ordinary shares, it shall report to the CBIRC for investigation and making decision, and shall perform the obligations of disclosure of temporary reports and announcements in accordance with Securities Law of the People's Republic of China and relevant requirements of the CSRC.</p> |                               |                               |                               |
| 25 | of which: If convertible,<br>fully or partially | -                             | -  | Fully or partially            | -                             | -                             |

|   | Ordinary share<br>of A-shares | Ordinary share<br>of H-shares | Preference<br>shares   | Tier 2 capital<br>instruments | Tier 2 capital<br>instruments | Tier 2 capital<br>instruments |
|---|-------------------------------|-------------------------------|--|-------------------------------|-------------------------------|-------------------------------|
| 26 of which: If convertible,<br>determine methods for<br>conversion price | -                             | -                             | <p>The initial conversion price of the preference shares under the Issuance shall be the average trading price of the ordinary shares of the A Share of the Bank in 20 trading days preceding the date of the Board resolution on the Issuance Plan (i.e. RMB2.43 per share).</p> <p>After the date of the Board resolution, in the event the Bank issues stock dividends, converts capital reserves to share capital, conducts follow-on issuances of shares (excluding the ordinary shares that may be converted from the convertible capital instruments issued by the Bank such as preference shares and convertible corporate bonds), conducts a rights issue or acts under similar circumstances, the Bank will adjust the conversion price on a cumulative basis in accordance with the sequence of occurrences of the foregoing events. The specific adjustment measures are as follows:</p> | -                             | -                             | -                             |

| Ordinary share of A-shares | Ordinary share of H-shares | Preference shares   | Tier 2 capital instruments | Tier 2 capital instruments | Tier 2 capital instruments |
|----------------------------|----------------------------|---|----------------------------|----------------------------|----------------------------|
|                            |                            | <p>In the event of issuing stock dividends or converting capital reserves to share capital:<br/> <math>P1=P0/(1+n)</math>;</p>  |                            |                            |                            |
|                            |                            | <p>In the event of conducting follow on issuances of shares or rights issue:<br/> <math>P1=P0 \times (N+Q \times (A/M)) / (N+Q)</math>;</p>   |                            |                            |                            |
|                            |                            | <p>Among which: “P0” is the conversion price before the adjustment; “n” is the ratio of stock dividends or converting capital reserves to share capital; “Q” is the number of ordinary shares issued in the follow-on issuances of shares or the rights issue; “N” is the total number of the Bank’s ordinary shares before the increase or rights issue; “A” is the subscription price of the follow-on issuances of shares or rights issue; “M” is the newly issued shares’ closing price on the trading day one day prior to the date of the effective and irrevocable announcement on offering results in the follow-on issuances of shares or rights issue; P1 is the adjusted conversion price. When the above changes in the Bank’s shares and/or shareholder’s interests occur, the Bank will adjust the conversion price in sequence, and will make corresponding information disclosure in accordance with relevant requirements.</p> |                            |                            |                            |

|    | Ordinary share<br>of A-shares   | Ordinary share<br>of H-shares | Preference<br>shares  | Tier 2 capital<br>instruments  | Tier 2 capital<br>instruments  | Tier 2 capital<br>instruments  |
|----|---|-------------------------------|---|--|--|--|
|    |   |                               | The mandatory conversion price of the preference shares will not be adjusted according to the Bank's distribution of cash dividends on ordinary shares.   |  |  |  |
|    |   |                               | In 2018, the Bank conducted a private issue of ordinary shares of A-Shares to specified subscribers, with RMB100 billion raised. On the basis of the calculation of mandatory conversion price of the first and the second batch of preference shares according to the formula of adjustment as stated under the terms of prospectus in relation to issue of preference shares, the mandatory conversion price of the first and the second batch of preference shares issued by the Bank has been adjusted to RMB2.46 per share from RMB2.43 per share. |  |  |  |
| 27 | of which: If convertible, mandatory or optional conversion              | -                             | -   | Yes  | -  | -  |
| 28 | of which: If convertible, specify instrument type convertible into      | -                             | -   | Ordinary Shares  | -  | -  |
| 29 | of which: If convertible, specify issuer of instrument it converts into | -                             | -   | Agricultural Bank of China Limited   | -  | -  |
| 30 | Write-down feature  | No                            | No  | Yes  | Yes  | Yes  |
| 31 | of which: If write-down, write-down trigger(s)                          | -                             | -   | Triggers refer to the occurrence of the earlier of the following two events: (1) the CBIRC considers that the issuer could not survive if no write-down carried out; (2) relevant authority considers that the issuer could not survive in case no capital injection with public departments or no provision of support with the same effectiveness. | Triggers refer to the occurrence of the earlier of the following two events: (1) the CBIRC considers that the issuer could not survive if no write-down carried out; (2) relevant authority considers that the issuer could not survive in case no capital injection with public departments or no provision of support with the same effectiveness. | Triggers refer to the occurrence of the earlier of the following two events: (1) the CBIRC considers that the issuer could not survive if no write-down carried out; (2) relevant authority considers that the issuer could not survive in case no capital injection with public departments or no provision of support with the same effectiveness. |



|    |   | Ordinary share<br>of A-shares   | Ordinary share<br>of H-shares   | Preference<br>shares   | Tier 2 capital<br>instruments   | Tier 2 capital<br>instruments   | Tier 2 capital<br>instruments   |
|----|---|---|---|--|---|---|---|
| 32 | of which: If write-down,<br>full or partial   | -   | -   | -  | Full write-down   | Full write-down   | Full write-down   |
| 33 | of which: If write-down,<br>permanent or temporary  | -   | -   | -  | Permanent   | Permanent   | Permanent   |
| 34 | of which: If temporary<br>write-down, description<br>of write-up mechanism  | -   | -   | -  | -   | -   | -   |
| 35 | Position in subordination<br>hierarchy in liquidation<br>(instrument type<br>immediately senior to<br>instrument) | Subordinate to the<br>depositors, creditors,<br>junior debt and<br>Additional Tier 1<br>capital instruments | Subordinate to the<br>depositors, creditors,<br>junior debt and<br>Additional Tier 1<br>capital instruments | Subordinate to the<br>depositors, creditors,<br>junior debt, prior to CET<br>1 capital instruments | Subordinate to<br>the depositors and<br>creditors, and prior<br>to equity capital and<br>other Tier 1 capital<br>instrument | Subordinate to<br>the depositors and<br>creditors, and prior<br>to equity capital and<br>other Tier 1 capital<br>instrument | Subordinate to<br>the depositors and<br>creditors, and prior<br>to equity capital and<br>other Tier 1 capital<br>instrument |
| 36 | Non-eligible transitioned<br>features   | No  | No  | No   | No  | No  | No  |
| 37 | of which: If yes, specify<br>non-eligible features  | -   | -   | -  | -   | -   | -   |

## **APPENDIX II LIQUIDITY COVERAGE RATIO INFORMATION**

The Bank disclosed the following information of liquidity coverage ratio in accordance with relevant regulations of the CBIRC.

### **Regulatory Requirements of Liquidity Coverage Ratio**

In accordance with the *Rules on Liquidity Risk Management of Commercial Banks* issued by the CBIRC, it is required that the liquidity coverage ratio of commercial banks should be no less than 100%. In addition, in accordance with the *Rules on Disclosure for Liquidity Coverage Ratio Information of Commercial Banks*, commercial banks are required to disclose the liquidity coverage ratio information at the same frequency as issuing the financial report, and to disclose the simple arithmetic average of the liquidity coverage ratios based on daily data in every quarter from 2017 and the number of daily data adopted in calculation of such average.

### **Liquidity Coverage Ratio**

The Bank calculated the liquidity coverage ratio in accordance with the *Rules on Liquidity Risk Management of Commercial Banks* and applicable calculation requirements. The average of daily liquidity coverage ratio of the Bank was 117.5% in the second quarter of 2018, representing a decrease of 7.3 percentage points over the previous quarter. The number of days used in calculating such average was 91 days. Our high-quality liquid assets are mainly cash, central bank surplus reserves which are able to be drawn down under stress scenarios and securities fall within the definition of Level 1 and Level 2 assets under the *Rules on Liquidity Risk Management of Commercial Banks*.

The averages of the daily liquidity coverage ratio and individual line items over the second quarter in 2018 are as follows:

*In ten thousands of RMB, except for percentages*

| Item                              |  | Total Unweighted Value | Total Weighted Value        |
|-----------------------------------|--|------------------------|-----------------------------|
| <b>HIGH-QUALITY LIQUID ASSETS</b> |  |                        |                             |
| 1                                 | Total high-quality liquid assets (HQLA)  |                        | 410,884,605                 |
| <b>CASH OUTFLOWS</b>              |  |                        |                             |
| 2                                 | Retail deposits and deposits from small business customers, of which:                          | 992,788,171            | 90,941,933                  |
| 3                                 | <i>Stable deposits</i>   | 166,730,326            | 8,336,149                   |
| 4                                 | <i>Less Stable deposits</i>  | 826,057,845            | 82,605,784                  |
| 5                                 | Unsecured wholesale funding, of which:   | 642,507,438            | 259,311,567                 |
| 6                                 | <i>Operational deposits (all counterparties) and deposits in networks of cooperative banks</i> | 198,127,932            | 48,267,239                  |
| 7                                 | <i>Non-operational deposits (all counterparties)</i>   | 440,737,098            | 207,401,920                 |
| 8                                 | <i>Unsecured debt</i>  | 3,642,408              | 3,642,408                   |
| 9                                 | Secured wholesale funding  |                        | 2,578,999                   |
| 10                                | Additional requirements, of which:   | 193,800,808            | 36,605,143                  |
| 11                                | <i>Outflows related to derivative exposures and other collateral requirements</i>              | 22,949,564             | 22,949,564                  |
| 12                                | <i>Outflows related to loss of funding on debt products</i>                                    | 10,242                 | 10,242                      |
| 13                                | <i>Credit and liquidity facilities</i>   | 170,841,002            | 13,645,337                  |
| 14                                | Other contractual funding obligations  | 32,873,632             | 32,873,632                  |
| 15                                | Other contingent funding obligations   | 131,670,098            | 5,628,046                   |
| 16                                | TOTAL CASH OUTFLOWS  |                        | 427,939,320                 |
| <b>CASH INFLOWS</b>               |  |                        |                             |
| 17                                | Secured lending (e.g. reverse repos and borrowed securities)                                   | 14,826,655             | 14,481,875                  |
| 18                                | Inflows from fully performing exposures  | 76,434,590             | 40,424,391                  |
| 19                                | Other cash inflows   | 23,608,588             | 23,608,588                  |
| 20                                | TOTAL CASH INFLOWS   | 114,869,833            | 78,514,854                  |
|                                   |  |                        | <b>Total Adjusted Value</b> |
| 21                                | TOTAL HQLA   |                        | 410,595,421                 |
| 22                                | TOTAL NET CASH OUTFLOWS  |                        | 349,424,466                 |
| 23                                | LIQUIDITY COVERAGE RATIO (%)   |                        | 117.5%                      |

## APPENDIX III LEVERAGE RATIO INFORMATION

As at 30 June 2018, the Bank's leverage ratio, calculated in accordance with the *Rules for the Administration of the Leverage Ratio of Commercial Banks (amended)* by the CBIRC, was 6.62%, above the regulatory requirement.

*In millions of RMB, except for percentages*

| Item                                     | 30 June<br>2018 | 31 March<br>2018 | 31 December<br>2017 | 30 September<br>2017 |
|--|-----------------|------------------|---------------------|----------------------|
| Tier 1 capital, net                      | 1,558,787       | 1,453,250        | 1,419,859           | 1,398,679            |
| Adjusted on-and off-balance sheet assets | 23,561,983      | 23,309,581       | 22,791,573          | 22,327,545           |
| Leverage ratio                           | 6.62%           | 6.23%            | 6.23%               | 6.26%                |

*In millions of RMB*

| No. | Item   | Balance           |
|-----|--|-------------------|
| 1   | Total consolidated assets                        | 21,920,851        |
| 2   | Adjustment for consolidation                     | (78,919)          |
| 3   | Adjustment for clients' assets                   | –                 |
| 4   | Adjustment for derivatives                       | (3,906)           |
| 5   | Adjustment for securities financing transactions | –                 |
| 6   | Adjustment for off-balance sheet items           | 1,731,281         |
| 7   | Other adjustments                                | (7,324)           |
| 8   | <b>Adjusted on-and off-balance sheet assets</b>  | <b>23,561,983</b> |

*In millions of RMB, except for percentages*

| <b>No.</b> | <b>Item</b>  | <b>Balance</b>    |
|------------|--|-------------------|
| 1          | On-balance sheet assets (excluding derivatives and securities financing transactions)  | 21,443,129        |
| 2          | Less: deductions from Tier 1 capital   | (7,324)           |
| 3          | <b>Adjusted on-balance sheet assets (excluding derivatives and securities financing transactions)</b>                          | <b>21,435,805</b> |
| 4          | Replacement cost of all derivatives (net of eligible margin)   | 13,403            |
| 5          | Potential exposure of all derivatives  | 13,892            |
| 6          | Gross-up of collaterals deducted from the balance sheet  | –                 |
| 7          | Less: receivables assets resulting from providing eligible margin  | (10)              |
| 8          | Less: derivative assets resulting from transactions with the central counterparty when providing clearance services to clients | –                 |
| 9          | Notional principal amount of written credit derivatives  | –                 |
| 10         | Less: deductible amounts of written credit derivative assets   | –                 |
| 11         | <b>Derivative assets</b>   | <b>27,285</b>     |
| 12         | Securities financing transaction assets for accounting purpose   | 367,612           |
| 13         | Less: deductible amounts of securities financing transaction assets  | –                 |
| 14         | Counterparty credit risk exposure for securities financing transaction   | –                 |
| 15         | Securities financing transaction assets resulting from agent transaction   | –                 |
| 16         | <b>Securities financing transaction assets</b>   | <b>367,612</b>    |
| 17         | Off-balance sheet items  | 3,847,033         |
| 18         | Less: Adjustments for conversion to credit equivalent amounts  | (2,115,752)       |
| 19         | <b>Adjusted off-balance sheet items</b>  | <b>1,731,281</b>  |
| 20         | Tier 1 capital, net  | 1,558,787         |
| 21         | Adjusted on-and off-balance sheet assets   | 23,561,983        |
| 22         | <b>Leverage ratio</b>  | <b>6.62%</b>      |

**AGRICULTURAL BANK OF CHINA LIMITED**  
(Incorporated in the People's Republic of China with Limited Liability)

**Interim Financial Information (Unaudited)**  
**For the six months ended 30 June 2018**  
(Prepared under International Financial Reporting Standards)

## **Report on review of Interim Financial Information**

**To the Board of Directors of Agricultural Bank of China Limited**  
(Incorporated in the People's Republic of China with Limited Liability)

### **Introduction**

We have reviewed the interim financial information set out on pages 1 to 133, which comprises the condensed consolidated interim statement of financial position of Agricultural Bank of China Limited (the “Bank”) and its subsidiaries (together, the “Group”) as at 30 June 2018 and the condensed consolidated interim income statement, the condensed consolidated interim statement of comprehensive income, the condensed consolidated interim statement of changes in equity and the condensed consolidated interim statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes (the “Interim Financial Information”). The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting”. The directors of the Bank are responsible for the preparation and presentation of this Interim Financial Information in accordance with International Accounting Standard 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on this Interim Financial Information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### **Scope of review**

We conducted our review in accordance with International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the Interim Financial Information of the Group is not prepared, in all material respects, in accordance with International Accounting Standard 34 “Interim Financial Reporting”.

PricewaterhouseCoopers  
Certified Public Accountants

Hong Kong, 28 August 2018



**AGRICULTURAL BANK OF CHINA LIMITED**

**CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT**

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Amounts in millions of Renminbi, unless otherwise stated)

|  | Notes | Six months ended 30 June |                     |
|--|-------|--------------------------|---------------------|
|  |       | 2018<br>(Unaudited)      | 2017<br>(Unaudited) |
| Interest income  | 6     | 378,294                  | 344,600             |
| Interest expense   | 6     | (144,461)                | (133,277)           |
| <b>Net interest income</b>   | 6     | <b>233,833</b>           | <b>211,323</b>      |
| Fee and commission income  | 7     | 48,496                   | 47,262              |
| Fee and commission expense   | 7     | (4,859)                  | (4,797)             |
| <b>Net fee and commission income</b>   | 7     | <b>43,637</b>            | <b>42,465</b>       |
| Net trading gain/(loss)  | 8     | 7,806                    | (1,370)             |
| Net gain on financial instruments designated at<br>fair value through profit or loss                               | 9     | 3,130                    | 607                 |
| Net gain on investment securities  |       | 948                      | 308                 |
| Other operating income   | 10    | 18,596                   | 25,986              |
| <b>Operating income</b>  |       | <b>307,950</b>           | <b>279,319</b>      |
| Operating expenses   | 11    | (100,999)                | (101,414)           |
| Impairment losses on assets  | 12    | (65,405)                 | (44,697)            |
| <b>Operating profit</b>  |       | <b>141,546</b>           | <b>133,208</b>      |
| Share of result of associate   |       | 6                        | 2                   |
| <b>Profit before tax</b>   |       | <b>141,552</b>           | <b>133,210</b>      |
| Income tax expense   | 13    | (25,576)                 | (24,540)            |
| <b>Profit for the period</b>   |       | <b>115,976</b>           | <b>108,670</b>      |
| <b>Attributable to:</b>  |       |                          |                     |
| Equity holders of the Bank   |       | 115,789                  | 108,593             |
| Non-controlling interests  |       | 187                      | 77                  |
|  |       | <b>115,976</b>           | <b>108,670</b>      |
| Earnings per share attributable to the ordinary<br>equity holders of the Bank (expressed in RMB<br>yuan per share) |       |                          |                     |
| - Basic and diluted  | 15    | 0.35                     | 0.33                |

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

**AGRICULTURAL BANK OF CHINA LIMITED**

**CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2018**  
(Amounts in millions of Renminbi, unless otherwise stated)

|   | <b>Six months ended 30 June</b>   |                                   |
|---|-----------------------------------|-----------------------------------|
|   | <b>2018</b><br><b>(Unaudited)</b> | <b>2017</b><br><b>(Unaudited)</b> |
| Profit for the period   | 115,976                           | 108,670                           |
| Other comprehensive income  |                                   |                                   |
| Items that may be reclassified subsequently to profit or loss:  |                                   |                                   |
| Net gains on debt instruments at fair value through other comprehensive income                                    | 12,362                            | N/A                               |
| Income tax impact for net gains on debt instruments at fair value through other comprehensive income              | (2,727)                           | N/A                               |
| Net losses from fair value changes on available-for-sale financial assets   | N/A                               | (18,101)                          |
| Income tax impact for fair value changes on available-for-sale financial assets                                   | N/A                               | 4,433                             |
| Foreign currency translation differences  | 342                               | (737)                             |
| Items that will not be reclassified subsequently to profit or loss:   |                                   |                                   |
| Net gains on equity investments designated at fair value through other comprehensive income                       | 161                               | N/A                               |
| Income tax impact for net gains on equity investments designated at fair value through other comprehensive income | (40)                              | N/A                               |
| Other comprehensive income, net of tax  | 10,098                            | (14,405)                          |
| Total comprehensive income for the period   | 126,074                           | 94,265                            |
| Total comprehensive income attributable to:   |                                   |                                   |
| Equity holders of the Bank  | 125,594                           | 94,422                            |
| Non-controlling interests   | 480                               | (157)                             |
|   | 126,074                           | 94,265                            |

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

**AGRICULTURAL BANK OF CHINA LIMITED**

**CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION**

AS AT 30 JUNE 2018

(Amounts in millions of Renminbi, unless otherwise stated)

|  | Notes | 30 June 2018<br>(Unaudited) | 31 December 2017<br>(Audited) |
|--|-------|-----------------------------|-------------------------------|
| <b>Assets</b>  |       |                             |                               |
| Cash and balances with central banks                                   | 16    | 2,963,554                   | 2,896,619                     |
| Deposits with banks and other financial institutions                   | 17    | 104,728                     | 130,245                       |
| Precious metals  |       | 76,373                      | 32,008                        |
| Placements with and loans to banks and other financial institutions    | 18    | 424,382                     | 505,269                       |
| Financial assets at fair value through profit or loss                  | 19    | 647,628                     | N/A                           |
| Financial assets held for trading                                      | 20    | N/A                         | 194,640                       |
| Financial assets designated at fair value through profit or loss       | 21    | N/A                         | 383,325                       |
| Derivative financial assets  | 22    | 31,190                      | 28,284                        |
| Financial assets held under resale agreements                          | 23    | 367,812                     | 540,386                       |
| Loans and advances to customers  | 24    | 11,001,367                  | 10,316,311                    |
| Financial investments at fair value through other comprehensive income | 25    | 1,554,327                   | N/A                           |
| Available-for-sale financial assets                                    | 26    | N/A                         | 1,426,420                     |
| Financial investments at amortized costs                               | 27    | 4,223,651                   | N/A                           |
| Held-to-maturity investments   | 28    | N/A                         | 3,489,135                     |
| Debt instruments classified as receivables                             | 29    | N/A                         | 659,223                       |
| Investment in associates and joint venture                             | 30    | 1,948                       | 227                           |
| Property and equipment   | 31    | 150,640                     | 155,258                       |
| Goodwill   |       | 1,381                       | 1,381                         |
| Deferred tax assets  | 32    | 120,294                     | 97,751                        |
| Other assets   | 33    | 251,576                     | 196,900                       |
| <b>Total assets</b>  |       | <b>21,920,851</b>           | <b>21,053,382</b>             |
| <b>Liabilities</b>   |       |                             |                               |
| Borrowings from central banks  | 34    | 402,735                     | 465,947                       |
| Deposits from banks and other financial institutions                   | 35    | 1,062,955                   | 974,730                       |
| Placements from banks and other financial institutions                 | 36    | 303,733                     | 280,061                       |
| Financial liabilities at fair value through profit or loss             | 37    | 314,888                     | 391,772                       |
| Derivative financial liabilities                                       | 22    | 32,140                      | 30,872                        |
| Financial assets sold under repurchase agreements                      | 38    | 113,410                     | 319,789                       |
| Due to customers   | 39    | 16,939,933                  | 16,194,279                    |
| Dividends payable  | 14    | 12,709                      | -                             |
| Debt securities issued   | 40    | 668,187                     | 475,017                       |
| Deferred tax liabilities   | 32    | 86                          | 87                            |
| Other liabilities  | 41    | 500,364                     | 491,431                       |
| <b>Total liabilities</b>   |       | <b>20,351,140</b>           | <b>19,623,985</b>             |

**AGRICULTURAL BANK OF CHINA LIMITED**

**CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION (Continued)**  
AS AT 30 JUNE 2018  
(Amounts in millions of Renminbi, unless otherwise stated)

|   | Notes | 30 June 2018<br>(Unaudited) | 31 December 2017<br>(Audited) |
|---|-------|-----------------------------|-------------------------------|
| <b>Equity</b>                                     |       |                             |                               |
| Ordinary shares                                   | 42    | 349,983                     | 324,794                       |
| Preference shares                                 | 43    | 79,899                      | 79,899                        |
| Capital reserve                                   | 44    | 173,573                     | 98,773                        |
| Investment revaluation reserve                    | 45    | (336)                       | (19,690)                      |
| Surplus reserve                                   | 46    | 134,368                     | 134,348                       |
| General reserve                                   | 47    | 239,352                     | 230,750                       |
| Retained earnings                                 |       | 588,077                     | 577,573                       |
| Foreign currency translation reserve              |       | 310                         | (32)                          |
|   |       | <u>1,565,226</u>            | <u>1,426,415</u>              |
| Equity attributable to equity holders of the Bank |       | 1,565,226                   | 1,426,415                     |
| Non-controlling interests                         |       | 4,485                       | 2,982                         |
|   |       | <u>1,569,711</u>            | <u>1,429,397</u>              |
| <b>Total equity</b>                               |       | <u>1,569,711</u>            | <u>1,429,397</u>              |
| <b>Total equity and liabilities</b>               |       | <u><u>21,920,851</u></u>    | <u><u>21,053,382</u></u>      |

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

Approved and authorized for issue by the Board of Directors on 28 August 2018.

Zhou Mubing

Chairman

Zhao Huan

Vice Chairman

**AGRICULTURAL BANK OF CHINA LIMITED**

**CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY**

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Amounts in millions of Renminbi, unless otherwise stated)

|  | Notes | Total equity attributable to equity holders of the Bank |                   |                 |                                |                 |                 |                   |                                      |           |                           |           |
|--|-------|---|-------------------|-----------------|--------------------------------|-----------------|-----------------|-------------------|--------------------------------------|-----------|---------------------------|-----------|
|  |       | Ordinary shares   | Preference shares | Capital reserve | Investment revaluation reserve | Surplus reserve | General reserve | Retained earnings | Foreign currency translation reserve | Subtotal  | Non-controlling interests | Total     |
| As at 31 December 2017 (Audited)           |       | 324,794   | 79,899            | 98,773          | (19,690)                       | 134,348         | 230,750         | 577,573           | (32)                                 | 1,426,415 | 2,982                     | 1,429,397 |
| Change in accounting policy                | 3     | -   | -                 | -               | 9,891                          | -               | (95)            | (36,457)          | -                                    | (26,661)  | 244                       | (26,417)  |
| As at 1 January 2018 (Restated, unaudited) |       | 324,794   | 79,899            | 98,773          | (9,799)                        | 134,348         | 230,655         | 541,116           | (32)                                 | 1,399,754 | 3,226                     | 1,402,980 |
| Profit for the period                      |       | -   | -                 | -               | -                              | -               | -               | 115,789           | -                                    | 115,789   | 187                       | 115,976   |
| Other comprehensive income                 |       | -   | -                 | -               | 9,463                          | -               | -               | -                 | 342                                  | 9,805     | 293                       | 10,098    |
| Total comprehensive income for the period  |       | -   | -                 | -               | 9,463                          | -               | -               | 115,789           | 342                                  | 125,594   | 480                       | 126,074   |
| Capital contribution from equity holders   |       | 25,189  | -                 | 74,800          | -                              | -               | -               | -                 | -                                    | 99,989    | 779                       | 100,768   |
| Appropriation to surplus reserve           | 46    | -   | -                 | -               | -                              | 20              | -               | (20)              | -                                    | -         | -                         | -         |
| Appropriation to general reserve           | 47    | -   | -                 | -               | -                              | -               | 8,697           | (8,697)           | -                                    | -         | -                         | -         |
| Dividends paid to ordinary equity holders  | 14    | -   | -                 | -               | -                              | -               | -               | (57,911)          | -                                    | (57,911)  | -                         | (57,911)  |
| Dividends paid to preference shareholders  | 14    | -   | -                 | -               | -                              | -               | -               | (2,200)           | -                                    | (2,200)   | -                         | (2,200)   |
| As at 30 June 2018 (Unaudited)             |       | 349,983   | 79,899            | 173,573         | (336)                          | 134,368         | 239,352         | 588,077           | 310                                  | 1,565,226 | 4,485                     | 1,569,711 |

**AGRICULTURAL BANK OF CHINA LIMITED**

**CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY (Continued)**

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Amounts in millions of Renminbi, unless otherwise stated)

|   |                            | <b>Total equity attributable to equity holders of the Bank</b> |                            |                                |                            |                            |                              |                                |                             |                  |              |
|---|----------------------------|--|----------------------------|--------------------------------|----------------------------|----------------------------|------------------------------|--------------------------------|-----------------------------|------------------|--------------|
|   |                            | <b>Investment</b>  |                            |                                |                            |                            | <b>Foreign<br/>currency</b>  |                                | <b>Non-<br/>controlling</b> |                  | <b>Total</b> |
| <b>Notes</b>                              | <b>Ordinary<br/>shares</b> | <b>Preference<br/>shares</b>                                   | <b>Capital<br/>reserve</b> | <b>revaluation<br/>reserve</b> | <b>Surplus<br/>reserve</b> | <b>General<br/>reserve</b> | <b>Retained<br/>earnings</b> | <b>translation<br/>reserve</b> | <b>Subtotal</b>             | <b>interests</b> | <b>Total</b> |
| As at 1 January 2017 (Audited)            | 324,794                    | 79,899   | 98,773                     | 3,578                          | 115,136                    | 198,305                    | 496,083                      | 1,625                          | 1,318,193                   | 3,398            | 1,321,591    |
| Profit for the period                     | -                          | -  | -                          | -                              | -                          | -                          | 108,593                      | -                              | 108,593                     | 77               | 108,670      |
| Other comprehensive income                | -                          | -  | -                          | (13,434)                       | -                          | -                          | -                            | (737)                          | (14,171)                    | (234)            | (14,405)     |
| Total comprehensive income for the period | -                          | -  | -                          | (13,434)                       | -                          | -                          | 108,593                      | (737)                          | 94,422                      | (157)            | 94,265       |
| Appropriation to surplus reserve          | 46                         | -  | -                          | -                              | 1                          | -                          | (1)                          | -                              | -                           | -                | -            |
| Appropriation to general reserve          | 47                         | -  | -                          | -                              | -                          | 32,158                     | (32,158)                     | -                              | -                           | -                | -            |
| Dividends paid to ordinary equity holders | 14                         | -  | -                          | -                              | -                          | -                          | (55,215)                     | -                              | (55,215)                    | -                | (55,215)     |
| Dividends paid to preference shareholders | 14                         | -  | -                          | -                              | -                          | -                          | (2,200)                      | -                              | (2,200)                     | -                | (2,200)      |
| As at 30 June 2017 (Unaudited)            | 324,794                    | 79,899   | 98,773                     | (9,856)                        | 115,137                    | 230,463                    | 515,102                      | 888                            | 1,355,200                   | 3,241            | 1,358,441    |
| Profit for the period                     | -                          | -  | -                          | -                              | -                          | -                          | 84,369                       | -                              | 84,369                      | 94               | 84,463       |
| Other comprehensive income                | -                          | -  | -                          | (9,834)                        | -                          | -                          | -                            | (920)                          | (10,754)                    | (353)            | (11,107)     |
| Total comprehensive income for the period | -                          | -  | -                          | (9,834)                        | -                          | -                          | 84,369                       | (920)                          | 73,615                      | (259)            | 73,356       |
| Appropriation to surplus reserve          | 46                         | -  | -                          | -                              | 19,211                     | -                          | (19,211)                     | -                              | -                           | -                | -            |
| Appropriation to general reserve          | 47                         | -  | -                          | -                              | -                          | 287                        | (287)                        | -                              | -                           | -                | -            |
| Dividends paid to preference shareholders | 14                         | -  | -                          | -                              | -                          | -                          | (2,400)                      | -                              | (2,400)                     | -                | (2,400)      |
| As at 31 December 2017 (Audited)          | 324,794                    | 79,899   | 98,773                     | (19,690)                       | 134,348                    | 230,750                    | 577,573                      | (32)                           | 1,426,415                   | 2,982            | 1,429,397    |

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

**AGRICULTURAL BANK OF CHINA LIMITED**

**CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS**

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Amounts in millions of Renminbi, unless otherwise stated)

|   | <b>Six months ended 30 June</b>   |                                   |
|---|-----------------------------------|-----------------------------------|
|   | <b>2018</b><br><b>(Unaudited)</b> | <b>2017</b><br><b>(Unaudited)</b> |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                                   |                                   |
| Profit before tax   | 141,552                           | 133,210                           |
| Adjustments for:  |                                   |                                   |
| Amortization of intangible assets and other assets  | 1,293                             | 1,390                             |
| Depreciation of property and equipment  | 7,047                             | 7,716                             |
| Impairment losses on assets   | 65,405                            | 44,697                            |
| Interest income arising from investment securities  | (103,077)                         | (92,163)                          |
| Interest income arising from impaired loans and advances to customers                             | (993)                             | (935)                             |
| Interest expense on debt securities issued  | 10,073                            | 6,402                             |
| Revaluation (gain)/loss on financial instruments at fair value through profit or loss             | (2,844)                           | 2,666                             |
| Net gain on investment securities   | (948)                             | (308)                             |
| Share of result of associate  | (6)                               | (2)                               |
| Net gain on disposal of property, equipment and other assets                                      | (406)                             | (232)                             |
| Net foreign exchange (gain)/loss  | (1,307)                           | 1,038                             |
|   | <u>115,789</u>                    | <u>103,479</u>                    |
| Net change in operating assets and operating liabilities:   |                                   |                                   |
| Net decrease in balances with central banks, deposits with banks and other financial institutions | 102,459                           | 192,159                           |
| Net (increase)/decrease in placements with and loans to banks and other financial institutions    | (39,006)                          | 98,393                            |
| Net decrease in financial assets held under resale agreements                                     | 14,097                            | 26,893                            |
| Net increase in loans and advances to customers   | (758,093)                         | (737,517)                         |
| Net (decrease)/increase in borrowings from central banks  | (63,212)                          | 144,697                           |
| Net increase/(decrease) in placements from banks and other financial institutions                 | 23,672                            | (6,552)                           |
| Net increase in due to customers and deposits from banks and other financial institutions         | 833,879                           | 842,940                           |
| Increase in other operating assets  | (120,001)                         | (167,621)                         |
| Decrease in other operating liabilities   | (282,908)                         | (125,925)                         |
|   | <u>(173,324)</u>                  | <u>370,946</u>                    |
| Cash (used in)/from operations  | (173,324)                         | 370,946                           |
| Income tax paid   | (48,128)                          | (28,073)                          |
|   | <u>(221,452)</u>                  | <u>342,873</u>                    |
| <b>NET CASH (USED IN)/FROM OPERATING ACTIVITIES</b>   | <u>(221,452)</u>                  | <u>342,873</u>                    |

**AGRICULTURAL BANK OF CHINA LIMITED**

**CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS (Continued)**

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Amounts in millions of Renminbi, unless otherwise stated)

|   | Notes | Six months ended 30 June |                     |
|---|-------|--------------------------|---------------------|
|   |       | 2018<br>(Unaudited)      | 2017<br>(Unaudited) |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                           |       |                          |                     |
| Cash received from disposal/redemption of investment securities       |       | 1,061,457                | 834,459             |
| Cash received from interest income arising from investment securities |       | 100,249                  | 87,598              |
| Cash received from disposal of property, equipment and other assets   |       | 403                      | 531                 |
| Cash paid for purchase of investment securities                       |       | (1,303,741)              | (1,264,737)         |
| Increase in investment in associates and joint venture                |       | (1,715)                  | -                   |
| Cash paid for purchase of property, equipment and other assets        |       | (5,219)                  | (4,818)             |
| <b>NET CASH USED IN INVESTING ACTIVITIES</b>                          |       | <b>(148,566)</b>         | <b>(346,967)</b>    |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                           |       |                          |                     |
| Contribution from issues of shares                                    |       | 100,000                  | -                   |
| Cash received from debt securities issued                             |       | 727,885                  | 364,540             |
| Repayments of debt securities issued                                  |       | (537,079)                | (308,165)           |
| Cash payments for interest on debt securities issued                  |       | (8,781)                  | (6,117)             |
| Cash payments for transaction cost of debt securities issued          |       | (5)                      | (1)                 |
| Cash payments for transaction cost of shares issued                   |       | (11)                     | -                   |
| Capital contribution from non-controlling interests                   |       | 779                      | -                   |
| Dividends paid to ordinary shareholders                               |       | (45,202)                 | -                   |
| Dividends paid to preference shareholders                             |       | (2,200)                  | (2,200)             |
| <b>NET CASH FROM FINANCING ACTIVITIES</b>                             |       | <b>235,386</b>           | <b>48,057</b>       |
| <b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>           |       | <b>(134,632)</b>         | <b>43,963</b>       |
| CASH AND CASH EQUIVALENTS AS AT 1 JANUARY                             |       | 1,001,246                | 827,698             |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS          |       | 989                      | (1,305)             |
| <b>CASH AND CASH EQUIVALENTS AS AT 30 JUNE</b>                        | 48    | <b>867,603</b>           | <b>870,356</b>      |
| <b>NET CASH FLOWS FROM OPERATING ACTIVITIES INCLUDE:</b>              |       |                          |                     |
| Interest received   |       | 253,167                  | 234,563             |
| Interest paid   |       | (162,117)                | (138,059)           |

The accompanying notes form an integral part of these condensed consolidated interim financial statements.



# AGRICULTURAL BANK OF CHINA LIMITED

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Amounts in millions of Renminbi, unless otherwise stated)

### 1 GENERAL INFORMATION

Agricultural Bank of China Limited (the “Bank”) is the successor entity to the Agricultural Bank of China (the “Predecessor Entity”) which was a wholly state-owned commercial bank approved for setup by the People’s Bank of China (the “PBOC”) and founded on 23 February 1979 in the People’s Republic of China (the “PRC”). On 15 January 2009, the Bank was established after the completion of the financial restructuring of the Predecessor Entity. The Bank’s establishment was authorized by the PBOC. The Bank was listed on the Shanghai Stock Exchange and the Stock Exchange of Hong Kong Limited on 15 July 2010 and 16 July 2010, respectively.

The Bank operates under financial services certificate No. B0002H111000001 issued by the China Banking and Insurance Regulatory Commission (the former “China Banking and Insurance Regulatory Commission” and “China Insurance Regulatory Commission”, the “CBIRC”), and business license No. 911100001000054748 issued by Beijing Administration of Industry and Commerce. The registered office of the Bank is located at No. 69 Jianguomen Nei Avenue, Dongcheng District, Beijing, the PRC.

The principal activities of the Bank and its subsidiaries (collectively, the “Group”) include Renminbi (“RMB”) and foreign currency deposits, loans, clearing and settlement services, assets custodian services, fund management, financial leasing services, insurance services and other services as approved by relevant regulators, and the provision of related services by its overseas establishments as approved by the respective local regulators.

The head office and domestic branches of the Bank and its subsidiaries operating in the Mainland China are referred to as “Domestic Operations”. Branches and subsidiaries registered and operating outside of the Mainland China are referred to as “Overseas Operations”.

### 2 BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2018 have been prepared in accordance with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting”, as well as with all applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

### 3 PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements have been prepared on the historical cost basis, except for certain financial instruments which are measured at fair value. Except for those described below, the accounting policies and methods of computation used in preparing the condensed consolidated interim financial statements are the same as those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2017.

The condensed consolidated interim financial statements should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2017, which have been audited.

# AGRICULTURAL BANK OF CHINA LIMITED

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Amounts in millions of Renminbi, unless otherwise stated)

### 3 PRINCIPAL ACCOUNTING POLICIES (Continued)

#### 3.1 Standards and amendments effective in 2018 relevant to and adopted by the Group

In the current interim period, the Group has adopted the following International Financial Reporting Standards (“IFRSs”) and amendments issued by the International Accounting Standards Board (“IASB”), that are mandatorily effective for the current interim period. Descriptions of these standards and amendments were disclosed in the Group’s annual consolidated financial statements for the year ended 31 December 2017.

|     |                      |   |
|-----|----------------------|---|
| (1) | IFRS 9               | Financial Instruments   |
| (2) | IFRS 15              | Revenue from Contracts with Customers   |
| (3) | Amendments to IAS 28 | Investments in Associates and Joint Ventures - included in the Annual Improvements to IFRSs 2014 - 2016 Cycle |
| (4) | Amendments to IFRS 4 | Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts   |
| (5) | Amendments to IAS 40 | Transfer of Investment Property   |
| (6) | IFRIC 22             | Foreign Currency Transactions and Advance Consideration   |

The new accounting standard IFRS 9 Financial Instruments and their impacts are disclosed in Note 3.3 Changes in principal accounting policies and Note 3.4 The impact of changes in principal accounting policies, respectively. The adoption of the other standards and amendments does not have a significant impact on the operating results, comprehensive income, or financial position of the Group.

#### 3.2 Standards and amendments relevant to the Group that are not yet effective in the current interim period and have not been adopted before their effective dates by the Group

The Group has not adopted the following new or amended standards and interpretations issued by the IASB and the IFRS Interpretations Committee (“IFRIC”), that have been issued but are not yet effective.

|     |  | Effective for annual periods beginning on or after  |  |
|-----|--|---|--|
| (1) | IFRIC 23   | (i) Uncertainty over Income Tax Treatments  | 1 January 2019   |
| (2) | Amendments to IFRS 9                             | (i) Prepayment Features with Negative Compensation and Modifications of Financial Liabilities | 1 January 2019   |
| (3) | Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 | (i) The Annual Improvements to IFRSs 2015 - 2017 Cycle  | 1 January 2019   |
| (4) | IFRS 17  | (i) Insurance Contracts   | 1 January 2021   |
| (5) | Amendments to IFRS 10 and IAS 28                 | (i) Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture     | The amendments were originally intended to be effective for annual periods beginning on or after 1 January 2016. The effective date has now been deferred/removed. |
| (6) | Amendments to IAS 19                             | (ii) Employee Benefits’ Regarding Plan Amendment, Curtailment or Settlement                   | 1 January 2019   |
| (7) | IFRS 16  | (iii) Leases  | 1 January 2019   |
| (8) | Amendments to IAS 28                             | (iv) Long-term Interests in Associates and Joint Ventures                                     | 1 January 2019   |

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Amounts in millions of Renminbi, unless otherwise stated)

**3 PRINCIPAL ACCOUNTING POLICIES (Continued)**

**3.2 Standards and amendments relevant to the Group that are not yet effective in the current interim period and have not been adopted before their effective dates by the Group (Continued)**

(i) Descriptions of these standards and amendments were disclosed in the Group's annual consolidated financial statements for the year ended 31 December 2017. The Group anticipates that the adoption of these standards and amendments will not have a significant impact on the Group's consolidated financial statements.

(ii) Amendments to IAS 19: Employee Benefits' Regarding Plan Amendment, Curtailment or Settlement

On 8 February 2018, the IASB issued amendments to IAS 19: Employee benefits' regarding plan amendment, curtailment or settlement to require an entity to determine the amount of any past service cost, or gain or loss on settlement by measuring the net defined benefit liability before and after the amendment, using current assumptions and the fair value of plan assets at the time of the amendment. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

(iii) IFRS 16: Leases

The standard will affect primarily the accounting for the Group's operating leases when the Group is the lessee. As at 30 June 2018, the Group has noncancellable operating lease commitments of RMB11,268 million (Note 52 Contingent Liabilities and Commitments). The Group has not yet determined to what extent these commitments will result in the recognition of right-of-use assets and liabilities for future payments and how this will affect the Group's profit and classification of cash flows. Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

(iv) Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures

On 12 October 2017, the IASB issued amendments to IAS 28: Investments in Associates and Joint Ventures to clarify that companies account for long-term interests in an associate or joint venture - to which the equity method is not applied - using IFRS 9. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
FOR THE SIX MONTHS ENDED 30 JUNE 2018  
(Amounts in millions of Renminbi, unless otherwise stated)

**3 PRINCIPAL ACCOUNTING POLICIES (Continued)**

**3.3 Changes in principal accounting policies**

The Group has adopted IFRS 9 as issued by the IASB in July 2014 with the transition date of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognized in the Group's consolidated financial statements.

As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognized in the opening retained earnings and other components of reserves in the current period. For notes disclosures, the consequential amendments to the selected IFRS 7 disclosures considered to be relevant to this condensed consolidated interim financial statements have only been applied to the current period. The comparative period notes disclosures repeat those disclosures made in the prior year.

The adoption of IFRS 9 has resulted in changes in the Group's accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. Specific accounting policies which have been significantly impacted by IFRS 9 are described as follows:

**Financial instruments**

(1) Initial recognition, classification and measurement of financial instruments

Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Group commits to purchase or sell the asset.

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss.

**Financial assets**

Financial assets are classified on the basis of the Group's business model for managing the asset and the cash flow characteristics of the assets:

- (i) Amortized cost ("AC");
- (ii) Fair value through other comprehensive income ("FVOCI"); or
- (iii) Fair value through profit or loss ("FVPL").

The business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of "other" business model and measured at FVPL. Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
FOR THE SIX MONTHS ENDED 30 JUNE 2018  
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**3 PRINCIPAL ACCOUNTING POLICIES (Continued)**

**3.3 Changes in principal accounting policies (Continued)**

**Financial instruments (Continued)**

- (1) Initial recognition, classification and measurement of financial instruments (Continued)

**Financial assets (Continued)**

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest ("SPPI"). In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic leading risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic leading arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determine whether their cash flows are SPPI.

The classification requirements for debt instruments and equity instruments are described as below:

***Debt Instruments***

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds. Classification and measurement of debt instruments depend on the Group's business model for managing the asset and the cash flow characteristics of asset.

Based on these factors, the Group classifies its debt instruments into one of the following three measurement categories:

- (i) Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent SPPI, and that are not designated at FVPL, are measured at amortized cost.
- (ii) FVOCI: Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent SPPI, and that are not designated at FVPL, are measured at FVOCI.
- (iii) FVPL: Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL.

The Group may also irrevocably designate financial assets at FVPL if doing so significantly reduces or eliminates a mismatch created by assets and liabilities being measured on different bases.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
FOR THE SIX MONTHS ENDED 30 JUNE 2018  
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**3 PRINCIPAL ACCOUNTING POLICIES (Continued)**

**3.3 Changes in principal accounting policies (Continued)**

**Financial instruments (Continued)**

- (1) Initial recognition, classification and measurement of financial instruments (Continued)

**Financial assets (Continued)**

***Equity instruments***

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Group subsequently measures all equity investments at FVPL, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at FVOCI.

- (2) Reclassification of financial assets

When the Group changes the business model for managing its financial assets, it shall reclassify all affected financial assets, and apply the reclassification prospectively from the reclassification date. The Group does not restate any previously recognized gains, losses (including impairment gains or losses) or interest. Reclassification date is the first day of the first reporting period following the change in business model that results in the Group reclassifying financial assets.

- (3) Subsequent measurement of financial instruments

Subsequent measurement of financial instruments depends on the categories:

**Amortized cost**

The amortized cost is the amount at which the financial asset or financial liability is measured at initial recognition: (i) minus the principal repayments; (ii) plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount; (iii) for financial assets, adjusted for any loss allowance. Interest income from these financial assets is included in "Interest income" using the effective interest rate method.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortized cost before any impairment allowance) or to the amortized cost of a financial liability. The calculation does not consider expected credit losses ("ECL") and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate. For purchased or originated credit-impaired ("POCI") financial assets (definition on note 54.1), the Group calculates the credit-adjusted effective interest rate, which is calculated based on the amortized cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

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FOR THE SIX MONTHS ENDED 30 JUNE 2018  
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**3 PRINCIPAL ACCOUNTING POLICIES (Continued)**

**3.3 Changes in principal accounting policies (Continued)**

**Financial instruments (Continued)**

(3) Subsequent measurement of financial instruments (Continued)

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets and is included in “Interest income”, except for: (i) POCI financial assets, whose interest income is calculated, since initial recognition, by applying the credit-adjusted effective interest rate to their amortized cost; and (ii) financial assets that are not POCI but have subsequently become credit-impaired, whose interest income is calculated by applying the effective interest rate to their amortized cost (i.e.net of the expected credit loss provision). If, in a subsequent period, the financial assets improve their qualities so that they are no longer credit-impaired and the improvement in credit quality is related objectively to a certain event occurring after the application of the above-mentioned rules, then the interest income is calculated by applying the effective interest rate to their gross carrying amount.

Fair value through other comprehensive income

*Debt instruments*

Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument’s amortized cost which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss. Interest income from these financial assets is included in “interest income” using the effective interest rate method.

*Equity instruments*

The equity instrument investments that are not held for trading are designated as FVOCI. When this election is used, fair value gains and losses are recognized in OCI and are not subsequently reclassified to profit or loss, including on disposal. Dividends, when representing a return on such investments, continue to be recognized in profit or loss as investment income when the Group’s right to receive payments is established.

Financial assets at fair value through profit or loss

*Debt instruments*

A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented in the profit or loss statement within “Net trading gain” in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separated in “Net gain on financial instruments designated at fair value through profit or loss”.

*Equity instruments*

Gains and losses on equity investments at FVPL are included in the “Net trading gain” in the condensed consolidated interim income statement.

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**3 PRINCIPAL ACCOUNTING POLICIES (Continued)**

**3.3 Changes in principal accounting policies (Continued)**

**Financial instruments (Continued)**

(3) Subsequent Measurement of financial instruments (Continued)

*Financial liabilities at fair value through profit or loss*

Financial liabilities at FVPL are measured at fair value with all gains or losses recognized in the profit or loss of the current period, except for financial liabilities designated as at fair value through profit or loss, where gains or losses on the financial liabilities are treated as follows:

- (i) changes in fair value of such financial liabilities due to changes in the Group's own credit risk are recognized in other comprehensive income; and
- (ii) other changes in fair value of such financial liabilities are recognized in profit or loss of the current period. If the accounting of changes in the credit risk of the financial liabilities in accordance with (i) will create or enlarge accounting mismatches in profit or loss, the Group recognizes all gains or losses on such financial liabilities (including amounts arising from changes in its own credit risk) in the profit or loss of the current period.

When the liabilities designated as at fair value through profit or loss is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to retained earnings.

(4) Impairment of financial instruments

The Group assesses on a forward-looking basis the ECL associated with its debt instrument assets carried at amortized cost and FVOCI and with exposure arising from some loan commitments and financial guarantee contracts.

ECL is the weighted average of credit losses with the respective risks of a default occurring as the weights. Credit loss is the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, which are all cash shortfalls, discounted at the original effective interest rate (or credit-adjusted effective interest rate for POCI financial assets).

The Group measures ECL of a financial instrument reflects:

- (i) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- (ii) the time value of money; and
- (iii) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.



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**3 PRINCIPAL ACCOUNTING POLICIES (Continued)**

**3.3 Changes in principal accounting policies (Continued)**

**Financial instruments (Continued)**

(4) Impairment of financial instruments (Continued)

For financial instruments whose impairment losses are measured using the ECL model, the Group assesses whether their credit risk has increased significantly since their initial recognition, and applies a three-stage impairment model to calculate their impairment allowance and recognize their ECL, as follows:

- Stage I: If the credit risk has not increased significantly since its initial recognition, the financial asset is included in stage I.
- Stage II: If the credit risk has increased significantly since its initial recognition but is not yet deemed to be credit-impaired, the financial instrument is included in Stage II. The description of how the Group determines when a significant increase in credit risk has occurred is disclosed in Note 54.1.
- Stage III: If the financial instruments is credit-impaired, the financial instrument is included in Stage III. The definition of credit-impaired financial assets is disclosed in Note 54.1.

Financial instruments in Stage I have their ECL measured at an amount equivalent to the ECL of the financial asset for the next 12 months. Financial instruments in Stage II or Stage III have their ECL measured at an amount equivalent to the ECL over the lifetime of the financial instruments. The description of inputs, assumptions and estimation techniques used in measuring the ECL is disclosed in Note 54.1.

The Group applies the impairment requirements for the recognition and measurement of a loss allowance for debt instruments that are measured at FVOCI. The loss allowance is recognized in other comprehensive income and the impairment loss is recognized in profit or loss, and it should not reduce the carrying amount of the financial asset in the statement of financial position.

If the Group has measured the loss allowance for a financial instrument other than POCI at an amount equal to lifetime expected credit losses in the previous reporting period, but determines at the current reporting date that the credit risk on the financial instruments has increased significantly since initial recognition is no longer met, the Group measures the loss allowance at an amount equal to 12-month expected credit losses at the current reporting date and the amount of expected credit losses reversal is recognized in profit or loss. For POCI, at the reporting date, the Group only recognize the cumulative changes in lifetime expected credit losses since initial recognition as a loss allowance for POCI financial assets.

(5) Modification of loans

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Group assesses whether or not the new terms are substantially different to the original terms.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
FOR THE SIX MONTHS ENDED 30 JUNE 2018  
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**3 PRINCIPAL ACCOUNTING POLICIES (Continued)**

**3.3 Changes in principal accounting policies (Continued)**

**Financial instruments (Continued)**

(5) Modification of loans (Continued)

If the terms are substantially different, the Group derecognizes the original financial asset and recognizes a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Group also assesses whether the new financial asset recognized is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognized in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for POCI financial assets).

(6) Financial guarantee contracts and loan commitments

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 terms of a debt instrument.

Financial guarantees are initially recognized at fair value on the date the guarantee was given. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial amount, less amortization of guarantee fees recognized in accordance with the revenue recognition policy, and the best estimate of the expenditure required to settle the guarantee. These estimates are determined based on experience of similar transactions, historical losses and supplemented by the judgment of management. Any increase in the liability relating to guarantees is taken to the consolidated income statement.

The impairment allowance of loan commitments provided by the Group is measured by ECL. The Group has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

For loan commitments and financial guarantee contracts, the loss allowance is recognized as a provision. However, for contracts that include both a loan and an undrawn commitment and the Group can not separately identify the expected credit losses on the undrawn commitment component from those on the loan component, the expected credit losses on the undrawn commitment are recognized together with the loss allowance for the loan. To the extent that the combined expected credit losses exceed the gross carrying amount of the loan, the expected credit losses are recognized as a provision.

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**3 PRINCIPAL ACCOUNTING POLICIES (Continued)**

**3.4 The impact of changes in principal accounting policies**

Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the Group.

(1) The measurement category and the carrying amount of financial instruments

The measurement category and the carrying amount of financial instruments in accordance with IAS 39 and IFRS 9 at 1 January 2018 are compared as follows:

| Financial assets  | IAS 39  |                 | IFRS 9  |                 |
|---|---|-----------------|---|-----------------|
|   | Measurement categories  | Carrying amount | Measurement categories                        | Carrying amount |
| Cash and balances with central banks                                | Amortized costs   | 2,896,619       | Amortized costs                               | 2,896,619       |
| Deposits with banks and other financial institutions                | Amortized costs   | 130,245         | Amortized costs                               | 129,950         |
| Placements with and loans to banks and other financial institutions | Amortized costs   | 505,269         | Amortized costs                               | 504,822         |
| Derivative financial assets   | Fair value through profit or loss (Held for trading)                                | 28,284          | Fair value through profit or loss (Mandatory) | 28,284          |
| Financial assets held under resale agreements                       | Amortized costs   | 540,386         | Amortized costs                               | 538,796         |
| Loans and advances to customers                                     | Amortized costs   | 10,316,311      | Amortized costs                               | 10,040,513      |
|   |   |                 | Fair value through other comprehensive income | 253,324         |
| Investment in financial instruments                                 | Fair value through profit or loss   | 577,965         | Fair value through profit or loss             | 643,197         |
|   | Fair value through other comprehensive income (Available-for-sale financial assets) | 1,426,420       | Fair value through other comprehensive income | 1,481,014       |
|   | Amortized costs (Held-to-maturity investments)                                      | 3,489,135       | Amortized costs                               | 4,034,843       |
|   | Amortized costs (Debt instruments classified as receivables)                        | 659,223         |   |                 |
| Other financial assets  | Amortized costs   | 155,111         | Amortized costs                               | 152,807         |

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**3 PRINCIPAL ACCOUNTING POLICIES (Continued)**

**3.4 The impact of changes in principal accounting policies (Continued)**

(1) The measurement category and the carrying amount of financial instruments (Continued)

There were no changes to the classification and measurement of financial liabilities, other than to changes in the fair value of financial liabilities designated at fair value through profit or loss that are attributable to changes in the instrument's credit risk, which are now presented in other comprehensive income. This change does not have a significant impact on the Group's condensed interim financial statements.

(2) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9

The Group performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics. The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 January 2018:

|  | <b>31 December 2017</b>       |                         | <b>1 January 2018</b> |                               |
|--|-------------------------------|-------------------------|-----------------------|-------------------------------|
|  | <b>IAS 39 carrying amount</b> | <b>Reclassification</b> | <b>Remeasurement</b>  | <b>IFRS 9 carrying amount</b> |
| <b>Amortized costs</b>   |                               |                         |                       |                               |
| <b>Cash and balances with central banks</b>                                |                               |                         |                       |                               |
| Opening balance under IAS 39 and closing balance under IFRS 9              | 2,896,619                     |                         |                       | 2,896,619                     |
| <b>Deposits with banks and other financial institutions</b>                |                               |                         |                       |                               |
| Opening balance under IAS 39   | 130,245                       |                         |                       |                               |
| Remeasurement: ECL allowance   |                               |                         | (295)                 |                               |
| Closing balance under IFRS 9   |                               |                         |                       | 129,950                       |
| <b>Placements with and loans to banks and other financial institutions</b> |                               |                         |                       |                               |
| Opening balance under IAS 39   | 505,269                       |                         |                       |                               |
| Remeasurement: ECL allowance   |                               |                         | (447)                 |                               |
| Closing balance under IFRS 9   |                               |                         |                       | 504,822                       |

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**3 PRINCIPAL ACCOUNTING POLICIES (Continued)**

**3.4 The impact of changes in principal accounting policies (Continued)**

(2) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (Continued)

|  | <b>31 December 2017</b>       |                         |                      | <b>1 January 2018</b>         |
|--|-------------------------------|-------------------------|----------------------|-------------------------------|
|  | <b>IAS 39 carrying amount</b> | <b>Reclassification</b> | <b>Remeasurement</b> | <b>IFRS 9 carrying amount</b> |
| <b>Amortized costs (Continued)</b>                   |                               |                         |                      |                               |
| <b>Financial assets held under resale agreements</b> |                               |                         |                      |                               |
| Opening balance under IAS 39                         | 540,386                       |                         |                      |                               |
| Remeasurement: ECL allowance                         |                               |                         | (1,590)              |                               |
| Closing balance under IFRS 9                         |                               |                         |                      | 538,796                       |
| <b>Loans and advances to customers</b>               |                               |                         |                      |                               |
| Opening balance under IAS 39                         | 10,316,311                    |                         |                      |                               |
| Subtraction: To FVOCI (IFRS 9)                       |                               | (248,457)               |                      |                               |
| Remeasurement: ECL allowance                         |                               |                         | (27,341)             |                               |
| Closing balance under IFRS 9                         |                               |                         |                      | 10,040,513                    |

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**3 PRINCIPAL ACCOUNTING POLICIES (Continued)**

**3.4 The impact of changes in principal accounting policies (Continued)**

(2) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (Continued)

|  | 31 December 2017       |                  |               | 1 January 2018         |
|--|------------------------|------------------|---------------|------------------------|
|  | IAS 39 carrying amount | Reclassification | Remeasurement | IFRS 9 carrying amount |
| <b>Amortized costs (Continued)</b>                                 |                        |                  |               |                        |
| <b>Financial investments at amortized costs</b>                    |                        |                  |               |                        |
| Opening balance under IAS 39                                       | -                      |                  |               |                        |
| Addition: From financial assets held to maturity (IAS 39)          |                        | 3,240,292        |               |                        |
| Remeasurement: ECL allowance                                       |                        |                  | 1,153         |                        |
| Addition: From debt instruments classified as receivables (IAS 39) |                        | 649,971          |               |                        |
| Remeasurement: ECL allowance                                       |                        |                  | 311           |                        |
| Addition: From available-for-sale financial assets (IAS 39)        |                        | 137,792          |               |                        |
| Remeasurement: From fair value ("FV") to AC                        |                        |                  | 5,882         |                        |
| Remeasurement: ECL allowance                                       |                        |                  | (558)         |                        |
| Closing balance under IFRS 9                                       |                        |                  |               | 4,034,843              |
| <b>Held-to-maturity investments</b>                                |                        |                  |               |                        |
| Opening balance under IAS 39                                       | 3,489,135              |                  |               |                        |
| Subtraction: To AC (IFRS 9)  |                        | (3,240,292)      |               |                        |
| Subtraction: To FVPL (Mandatory) (IFRS 9)                          |                        | (17,822)         |               |                        |
| Subtraction: To FVOCI (IFRS 9)                                     |                        | (231,021)        |               |                        |
| Closing balance under IFRS 9                                       |                        |                  |               | -                      |

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**3 PRINCIPAL ACCOUNTING POLICIES (Continued)**

**3.4 The impact of changes in principal accounting policies (Continued)**

(2) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (Continued)

|   | 31 December 2017       |                  |                 | 1 January 2018         |
|---|------------------------|------------------|-----------------|------------------------|
|   | IAS 39 carrying amount | Reclassification | Remeasurement   | IFRS 9 carrying amount |
| <b>Amortized costs (Continued)</b>                |                        |                  |                 |                        |
| <b>Debt instruments classified as receivables</b> |                        |                  |                 |                        |
| Opening balance under IAS 39                      | 659,223                |                  |                 |                        |
| Subtraction: To AC (IFRS 9)                       |                        | (649,971)        |                 |                        |
| Subtraction: To FVPL (Mandatory) (IFRS 9)         |                        | (8,646)          |                 |                        |
| Subtraction: To FVOCI (IFRS 9)                    |                        | (606)            |                 |                        |
| Closing balance under IFRS 9                      |                        |                  |                 | -                      |
| <b>Other financial assets</b>                     |                        |                  |                 |                        |
| Opening balance under IAS 39                      | 155,111                |                  |                 |                        |
| Subtraction: To FVPL (IFRS 9)                     |                        | (2,302)          |                 |                        |
| Remeasurement: ECL allowance                      |                        |                  | (2)             |                        |
| Closing balance under IFRS 9                      |                        |                  |                 | 152,807                |
| <b>Gross financial assets at amortized cost</b>   | <b>18,692,299</b>      | <b>(371,062)</b> | <b>(22,887)</b> | <b>18,298,350</b>      |

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**3 PRINCIPAL ACCOUNTING POLICIES (Continued)**

**3.4 The impact of changes in principal accounting policies (Continued)**

(2) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (Continued)

|  | <b>31 December 2017</b>       |                         |                      | <b>1 January 2018</b>         |
|--|-------------------------------|-------------------------|----------------------|-------------------------------|
|  | <b>IAS 39 carrying amount</b> | <b>Reclassification</b> | <b>Remeasurement</b> | <b>IFRS 9 carrying amount</b> |
| <b>Fair value through profit or loss</b>   |                               |                         |                      |                               |
| <b>Investment in financial instruments - fair value through profit or loss (Mandatory)</b> |                               |                         |                      |                               |
| Opening balance under IAS 39   | 194,640                       |                         |                      |                               |
| Addition: From designated at FVPL (IAS 39)   |                               | 30,182                  |                      |                               |
| Addition: From available-for-sale financial assets (IAS 39)                                |                               | 36,346                  |                      |                               |
| Addition: From financial assets held to maturity (IAS 39)                                  |                               | 17,822                  |                      |                               |
| Remeasurement: From AC to FV   |                               |                         | (422)                |                               |
| Addition: From debt instruments classified as receivables (IAS 39)                         |                               | 8,646                   |                      |                               |
| Remeasurement: From AC to FV   |                               |                         | 110                  |                               |
| Addition: From other assets (IAS 39)   |                               | 2,302                   |                      |                               |
| Subtraction: To FVOCI  |                               | (574)                   |                      |                               |
| Closing balance under IFRS 9   |                               |                         |                      | <b>289,052</b>                |



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**3 PRINCIPAL ACCOUNTING POLICIES (Continued)**

**3.4 The impact of changes in principal accounting policies (Continued)**

(2) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (Continued)

|   | <b>31 December 2017</b>       |                         |                      | <b>1 January 2018</b>         |
|---|-------------------------------|-------------------------|----------------------|-------------------------------|
|   | <b>IAS 39 carrying amount</b> | <b>Reclassification</b> | <b>Remeasurement</b> | <b>IFRS 9 carrying amount</b> |
| <b>Fair value through profit or loss (Continued)</b>  |                               |                         |                      |                               |
| <b>Investment in financial instruments - fair value through profit or loss (Designated)</b> |                               |                         |                      |                               |
| Opening balance under IAS 39  | 383,325                       |                         |                      |                               |
| Subtraction: To FVPL (Mandatory) (IFRS 9)   |                               | (30,182)                |                      |                               |
| Addition: From available-for-sale financial assets (IAS 39)                                 |                               | 1,002                   |                      |                               |
| Closing balance under IFRS 9  |                               |                         |                      | 354,145                       |
| <b>Gross financial assets at fair value through profit or loss</b>                          | <b>577,965</b>                | <b>65,544</b>           | <b>(312)</b>         | <b>643,197</b>                |

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**3 PRINCIPAL ACCOUNTING POLICIES (Continued)**

**3.4 The impact of changes in principal accounting policies (Continued)**

(2) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (Continued)

|   | 31 December 2017       |                  |               | 1 January 2018         |
|---|------------------------|------------------|---------------|------------------------|
|   | IAS 39 carrying amount | Reclassification | Remeasurement | IFRS 9 carrying amount |
| <b>Fair value through other comprehensive income</b>                    |                        |                  |               |                        |
| <b>Loans and advances to customers</b>                                  |                        |                  |               |                        |
| Opening balance under IAS 39  | -                      |                  |               |                        |
| Addition: From AC   |                        | 248,457          |               |                        |
| Remeasurement: From AC to FV  |                        |                  | 4,867         |                        |
| Closing balance under IFRS 9  |                        |                  |               | 253,324                |
| <b>Fair value through other comprehensive income (Debt instruments)</b> |                        |                  |               |                        |
| Opening balance under IAS 39  | -                      |                  |               |                        |
| Addition: From financial assets held to maturity (IAS 39)               |                        | 231,021          |               |                        |
| Remeasurement: From AC to FV  |                        |                  | (2,482)       |                        |
| Addition: From debt instruments classified as receivables (IAS 39)      |                        | 606              |               |                        |
| Remeasurement: From AC to FV  |                        |                  | 15            |                        |
| Addition: From available-for-sale financial assets (IAS 39)             |                        | 1,249,930        |               |                        |
| Addition: From FVPL (held for trading) (IAS 39)                         |                        | 574              |               |                        |
| Closing balance under IFRS 9  |                        |                  |               | 1,479,664              |

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**3 PRINCIPAL ACCOUNTING POLICIES (Continued)**

**3.4 The impact of changes in principal accounting policies (Continued)**

(2) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (Continued)

|  | 31 December 2017       |                  |               | 1 January 2018         |
|--|------------------------|------------------|---------------|------------------------|
|  | IAS 39 carrying amount | Reclassification | Remeasurement | IFRS 9 carrying amount |
| <b>Fair value through other comprehensive income (Continued)</b>               |                        |                  |               |                        |
| <b>Fair value through other comprehensive income (Equity instruments)</b>      |                        |                  |               |                        |
| Opening balance under IAS 39   | -                      |                  |               |                        |
| Addition: From available for sale (IAS 39)                                     |                        | 1,350            |               |                        |
| Closing balance under IFRS 9   |                        |                  |               | 1,350                  |
| <b>Available-for-sale financial assets</b>                                     |                        |                  |               |                        |
| Opening balance under IAS 39   | 1,426,420              |                  |               |                        |
| Subtraction: To FVPL (Mandatory) (IFRS 9)                                      |                        | (36,346)         |               |                        |
| Subtraction: To FVPL (Designated) (IFRS 9)                                     |                        | (1,002)          |               |                        |
| Subtraction: To AC (IFRS 9)  |                        | (137,792)        |               |                        |
| Subtraction: To FVOCI - debt instruments (IFRS 9)                              |                        | (1,249,930)      |               |                        |
| Subtraction: To FVOCI - equity instruments (IFRS 9)                            |                        | (1,350)          |               |                        |
| Closing balance under IFRS 9   |                        |                  |               | -                      |
| <b>Gross financial assets at fair value through other comprehensive income</b> | <b>1,426,420</b>       | <b>305,518</b>   | <b>2,400</b>  | <b>1,734,338</b>       |

Due to the impact of classification, measurement and impairment, the investment revaluation reserve and retained earnings of the Group were increased by RMB9,891 million and decreased by RMB36,457 million, respectively. The impact on deferred tax of the Group is disclosed in Note 32.

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#### 3 PRINCIPAL ACCOUNTING POLICIES (Continued)

##### 3.4 The impact of changes in principal accounting policies (Continued)

###### (3) Reconciliation of impairment allowance and provision balance from IAS 39 to IFRS 9

The following table reconciles the prior period's closing impairment allowance and provision measured in accordance with IAS 39 incurred loss model and IAS 37 to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at 1 January 2018:

|  | Loan loss allowance under IAS 39/<br>Provision under IAS 37 | Reclassification | Remeasurement | Loan loss allowance/<br>Provision under IFRS 9 |
|--|---|------------------|---------------|--|
| Deposits with banks and other financial institutions   | 89  | -                | 295           | 384  |
| Placements with and loans to banks and other financial institutions  | 938   | -                | 447           | 1,385  |
| Financial assets held under resale agreements  | -   | -                | 1,590         | 1,590  |
| Loans and advances to customers  | 404,300   | (5,318)          | 27,341        | 426,323  |
| Held-to-maturity investments and debt instruments classified as receivables (IAS 39)/Financial investments at amortized costs (IFRS 9) | 10,526  | (1,456)          | (906)         | 8,164  |
| Other financial assets   | 7,840   | (4,004)          | 2             | 3,838  |
| <b>Total</b>   | <b>423,693</b>  | <b>(10,778)</b>  | <b>28,769</b> | <b>441,684</b>                                 |
| Loan commitments and financial guarantee contracts   | 3,536   | -                | 15,362        | 18,898   |

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**4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

The preparation of condensed consolidated interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, and income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Group's annual consolidated financial statements for the year ended 31 December 2017, except the critical accounting estimates and judgements made in measurement of the expected credit loss allowance.

***Measurement of the expected credit loss allowance***

The measurement of the expected credit loss allowance for financial assets measured at amortized cost and FVOCI and with exposure arising from some loan commits and financial guarantee contracts, is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in Note 54.1 Credit risk.

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#### 5 INVESTMENT IN SUBSIDIARIES, ASSOCIATES, JOINT VENTURE AND STRUCTURED ENTITIES

##### (1) Investment in subsidiaries

The following are the principal subsidiaries of the Group as at 30 June 2018:

| Name of entity   | Date of incorporation/ establishment | Place of incorporation/ establishment | Authorized/ paid-in capital | Percentage of equity interest (%) | Percentage of voting rights (%) | Principal activities                     |
|--|--------------------------------------|---------------------------------------|-----------------------------|-----------------------------------|---------------------------------|--|
| China Agricultural Finance Co., Ltd.                         | 1 November 1988                      | Hong Kong, PRC                        | HKD588,790,000              | 100.00                            | 100.00                          | Investment holding                       |
| ABC International Holdings Limited                           | 11 November 2009                     | Hong Kong, PRC                        | HKD4,113,392,449            | 100.00                            | 100.00                          | Investment holding                       |
| ABC Financial Leasing Co., Ltd.                              | 29 September 2010                    | Shanghai, PRC                         | RMB3,000,000,000            | 100.00                            | 100.00                          | Financial leasing                        |
| Agricultural Bank of China (UK) Limited                      | 29 November 2011                     | London, United Kingdom                | USD100,000,000              | 100.00                            | 100.00                          | Banking                                  |
| ABC-CA Fund Management Co., Ltd. (i)                         | 18 March 2008                        | Shanghai, PRC                         | RMB1,750,000,001            | 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 (ii) | 12 August 2008                       | Hubei, PRC                            | RMB31,000,000               | 50.00                             | 66.67                           | Banking                                  |
| ABC Jixi Rural Bank Limited Liability Company                | 25 May 2010                          | Anhui, PRC                            | RMB29,400,000               | 51.02                             | 51.02                           | Banking                                  |
| ABC Ansai Rural Bank Limited Liability Company               | 30 March 2010                        | Shaanxi, PRC                          | RMB40,000,000               | 51.00                             | 51.00                           | Banking                                  |
| ABC Zhejiang Yongkang Rural Bank Limited Liability Company   | 20 April 2012                        | Zhejiang, PRC                         | RMB210,000,000              | 51.00                             | 51.00                           | Banking                                  |
| ABC Xiamen Tong'an Rural Bank Limited Liability Company      | 24 May 2012                          | Fujian, PRC                           | RMB100,000,000              | 51.00                             | 51.00                           | Banking                                  |
| ABC Life Insurance Co., Ltd. (iii)                           | 19 December 2005                     | Beijing, PRC                          | RMB2,949,916,475            | 51.00                             | 51.00                           | Life insurance                           |
| Agricultural Bank of China (Luxembourg) Limited              | 26 November 2014                     | Luxembourg, Luxembourg                | EUR 20,000,000              | 100.00                            | 100.00                          | Banking                                  |
| Agricultural Bank of China (Moscow) Limited                  | 23 December 2014                     | Moscow, Russia                        | RUB1,400,000,000            | 100.00                            | 100.00                          | Banking                                  |
| ABC Financial Asset Investment Co., Ltd.                     | 1 August 2017                        | Beijing, PRC                          | RMB10,000,000,000           | 100.00                            | 100.00                          | Debt-to-equity swap and related services |

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#### 5 INVESTMENT IN SUBSIDIARIES, ASSOCIATES, JOINT VENTURE AND STRUCTURED ENTITIES (Continued)

##### (1) Investment in subsidiaries (Continued)

The following are the principal subsidiaries of the Group as at 30 June 2018 (Continued):

For the six months ended 30 June 2018, there were no changes in the proportion of equity interest or voting rights the Group held in its subsidiaries.

- (i) During the six months ended 30 June 2018, the Group and other investors contributed additional capital totally RMB1,550 million to ABC-CA Fund Management Co., Ltd., comprising registered capital of RMB1,550 million. After the capital injection, the proportion of equity interest and voting rights the Group held in ABC-CA Fund Management Co., Ltd. remained at 51.67%.
- (ii) Two of the three directors on the board of ABC Hubei Hanchuan Rural Bank Limited Liability Company were appointed by the Bank. The Bank concluded that it has effective control over and has included this entity in its consolidation scope.
- (iii) On 31 December 2012, the Bank acquired 51% of the issued share capital of Jiahe Life Insurance Co., Ltd. and renamed it as ABC Life Insurance Co., Ltd. ("ABC Life Insurance") and the Group recognized goodwill of RMB1,381 million as a result of this acquisition.

During the year ended 31 December 2016, the Group and other investors contributed additional capital totally RMB3,761 million to ABC Life Insurance, comprising registered capital of RMB917 million and capital reserve of RMB2,844 million. After the capital injection, the proportion of equity interest and voting rights the Group held in ABC Life Insurance remained at 51%. Contribution by non-controlling interest amounted to RMB1,843 million.

As at 30 June 2018 and 31 December 2017, there was no objective evidence noted for any goodwill impairment.

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**5 INVESTMENT IN SUBSIDIARIES, ASSOCIATES, JOINT VENTURE AND STRUCTURED ENTITIES (Continued)**

(2) Investment in associates

| Name of entity   |      | Date of incorporation/ establishment | Place of incorporation/ establishment | Authorized/ paid-in capital | Percentage of equity interest (%) | Percentage of voting rights (%) | Principal activities  |
|--|------|--------------------------------------|---------------------------------------|-----------------------------|-----------------------------------|---------------------------------|---|
| Sino-Congolese Bank of Africa                                    | (i)  | 2015                                 | Brazzaville, Congo                    | XAF 53,342,800,000          | 50.00                             | 50.00                           | Bank  |
| ABC Gaotou (Hubei) Debt-to-Equity Investment Fund LP             | (ii) | 2018                                 | Hubei, PRC                            | RMB 500,000,000             | 74.00                             | 33.33                           | Non Securities equity investment activities and related advisory services |
| State Power Investment (Chengde) New Energy Generation Co.,Ltd   |      | 2013                                 | Hebei, PRC                            | RMB 451,266,000             | 39.18                             | 39.18                           | New energy generation   |
| State Power Investment (Guyuan) New Energy Generation Co.,Ltd    |      | 2014                                 | Hebei, PRC                            | RMB 215,389,700             | 39.18                             | 39.18                           | New energy generation   |
| State Power Investment (Pingquan) New Energy Generation Co.,Ltd  |      | 2014                                 | Hebei, PRC                            | RMB 66,096,700              | 39.18                             | 39.18                           | New energy generation   |
| State Power Investment (Xuanhua) New Energy Generation Co., Ltd  |      | 2013                                 | Hebei, PRC                            | RMB 776,257,800             | 39.18                             | 39.18                           | New energy generation   |
| State Power Investment (Xingtai) New Energy Generation Co.,Ltd   |      | 2013                                 | Hebei, PRC                            | RMB 164,419,600             | 39.18                             | 39.18                           | New energy generation   |
| State Power Investment (Zhangbei) Wind Power Generation Co., Ltd |      | 2009                                 | Hebei, PRC                            | RMB 263,071,400             | 39.18                             | 39.18                           | Wind power generation   |

(i) On 28 May 2015, the Sino-Congolese Bank of Africa (La Banque Sino-Congolaise pour l’Afrique, hereinafter referred to as BSCA.Bank), established by the Bank and other investors with authorized capital denominated in Central African CFA franc (“XAF”), was granted the required banking license by the local regulatory authority. The Bank holds 50% equity interest and voting rights in BSCA.Bank, and has the right to participate in the financial and operating policy decisions of BSCA.Bank, but does not constitute control or joint control over those policy decisions.

(ii) On 2 May 2018, the Bank’s wholly-owned subsidiary, ABC Financial Assets Investment Co., Ltd. and other investors invested in the ABC Gaotou (Hubei) Debt-to-equity Investment Fund LP., among the three members of the limited partnership investment decision-making committee, one member is appointed by ABC Financial Assets Investment Co., Ltd. The group has the right to participate in the financial and operating policy decisions of ABC Gaotou (Hubei) Debt-to-equity Investment Fund LP., but does not constitute control or joint control over those policy decisions.



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#### 5 INVESTMENT IN SUBSIDIARIES, ASSOCIATES, JOINT VENTURE AND STRUCTURED ENTITIES (Continued)

##### (3) Investment in joint venture

| Name of entity               | Date of incorporation/<br>establishment | Place of incorporation/<br>establishment | Authorized/<br>paid-in capita | Percentage<br>of equity<br>interest (%) | Percentage<br>of voting<br>rights (%) | Principal<br>activities |
|------------------------------|---|--|-------------------------------|---|---------------------------------------|-------------------------|
| Suida(Jiaxing) Investment LP | 2018                                    | Zhejiang, PRC                            | RMB1,200,000,000              | 41.71                                   | 40.00                                 | Industrial Investment   |

On 1 June 2018, the Bank's wholly-owned subsidiary, ABC Financial Assets Investment Co., Ltd. and other investors funded the establishment of Suida (Jiaxing) Investment Partnership (Limited Partnership). Issues discussed at the partner meeting of the limited partnership shall be approved by all partners. The Group shall jointly control the financial and operating policies with other parties.

##### (4) Structured entities

The Group also consolidated structured entities as disclosed in Note 51 Structured Entities.

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**6 NET INTEREST INCOME**

|  | <b>Six months ended 30 June</b> |             |
|--|---------------------------------|-------------|
|  | <b>2018</b>                     | <b>2017</b> |
| Interest income  |                                 |             |
| Loans and advances to customers  |                                 |             |
| Including: Corporate loans and advances  | 147,476                         | 131,581     |
| Personal loans and advances  | 91,548                          | 75,407      |
| Discounted bills   | 3,398                           | 5,542       |
| Subtotal   | 242,422                         | 212,530     |
| Financial investments at amortized costs   | 75,089                          | N/A         |
| Financial investments at fair value through other comprehensive income   | 27,988                          | N/A         |
| Available-for-sale financial assets  | N/A                             | 23,540      |
| Held-to-maturity investments   | N/A                             | 57,437      |
| Debt instruments classified as receivables   | N/A                             | 11,186      |
| Balances with central banks  | 20,732                          | 20,172      |
| Placements with and loans to banks and other financial institutions  | 5,824                           | 7,191       |
| Financial assets held under resale agreements  | 5,266                           | 4,839       |
| Deposits with banks and other financial institutions   | 973                             | 5,596       |
| Financial assets held for trading  | N/A                             | 1,955       |
| Financial assets designated at fair value through profit or loss   | N/A                             | 154         |
| Subtotal   | 378,294                         | 344,600     |
| Interest expense   |                                 |             |
| Due to customers   | (108,160)                       | (104,112)   |
| Deposits from banks and other financial institutions   | (13,365)                        | (12,180)    |
| Debt securities issued   | (10,073)                        | (6,402)     |
| Borrowings from central banks  | (7,136)                         | (6,012)     |
| Placements from banks and other financial institutions   | (3,829)                         | (2,958)     |
| Financial assets sold under repurchase agreements  | (1,795)                         | (1,412)     |
| Financial liabilities at fair value through profit or loss   | (103)                           | (201)       |
| Subtotal   | (144,461)                       | (133,277)   |
| Net interest income  | 233,833                         | 211,323     |
| Interest income accrued on credit-impaired/ identified impaired financial assets (included within interest income) | 993                             | 935         |

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**7 NET FEE AND COMMISSION INCOME**

|                                   | <b>Six months ended 30 June</b> |                |
|-----------------------------------|---------------------------------|----------------|
|                                   | <b>2018</b>                     | <b>2017</b>    |
| Fee and commission income         |                                 |                |
| Bank card                         | 12,426                          | 10,897         |
| Agency services                   | 12,231                          | 14,776         |
| Electronic banking services       | 9,081                           | 6,596          |
| Settlement and clearing services  | 5,831                           | 6,163          |
| Consultancy and advisory services | 5,526                           | 5,595          |
| Custodian and other fiduciary     | 2,144                           | 1,970          |
| Credit commitment                 | 1,007                           | 1,151          |
| Others                            | 250                             | 114            |
| Subtotal                          | <u>48,496</u>                   | <u>47,262</u>  |
| Fee and commission expense        |                                 |                |
| Bank card                         | (3,241)                         | (3,205)        |
| Settlement and clearing services  | (740)                           | (650)          |
| Electronic banking services       | (535)                           | (552)          |
| Others                            | (343)                           | (390)          |
| Subtotal                          | <u>(4,859)</u>                  | <u>(4,797)</u> |
| Net fee and commission income     | <u>43,637</u>                   | <u>42,465</u>  |

**8 NET TRADING GAIN/(LOSS)**

|   | <b>Six months ended 30 June</b> |                |
|---|---------------------------------|----------------|
|   | <b>2018</b>                     | <b>2017</b>    |
| Net gain on precious metals (1)   | 2,686                           | 1,907          |
| Net gain/(loss) on debt securities at fair value through profit or loss (Mandatory) | 6,948                           | (959)          |
| Net loss on foreign exchange rate derivatives                                       | (1,996)                         | (2,099)        |
| Net gain/(loss) on interest rate derivatives  | 1,049                           | (219)          |
| Others  | (881)                           | -              |
| Total   | <u>7,806</u>                    | <u>(1,370)</u> |

(1) Net gain on precious metals consists of net gain on precious metals and precious metal related derivative products.

**9 NET GAIN ON FINANCIAL INSTRUMENTS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS**

|   | <b>Six months ended 30 June</b> |             |
|---|---------------------------------|-------------|
|   | <b>2018</b>                     | <b>2017</b> |
| Net gain on debt securities   | 49                              | 15          |
| Net gain/(loss) on underlying assets and liabilities related to principal guaranteed wealth management products | 3,105                           | (120)       |
| Others  | (24)                            | 712         |
| Total   | <u>3,130</u>                    | <u>607</u>  |

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**10 OTHER OPERATING INCOME**

|  | <b>Six months ended 30 June</b> |               |
|--|---------------------------------|---------------|
|  | <b>2018</b>                     | <b>2017</b>   |
| Insurance premium                          | 14,250                          | 18,646        |
| Net gain on foreign exchange               | 1,991                           | 4,298         |
| Government grant                           | 703                             | 1,741         |
| Rental income                              | 371                             | 328           |
| Gain on disposal of property and equipment | 419                             | 229           |
| Others                                     | 862                             | 744           |
| Total                                      | <u>18,596</u>                   | <u>25,986</u> |

**11 OPERATING EXPENSES**

|   |     | <b>Six months ended 30 June</b> |                |
|---|-----|---------------------------------|----------------|
|   |     | <b>2018</b>                     | <b>2017</b>    |
| Staff costs                                   | (1) | 56,384                          | 53,478         |
| Insurance benefits and claims                 |     | 13,944                          | 18,462         |
| General operating and administrative expenses |     | 17,079                          | 15,881         |
| Depreciation and amortization                 |     | 8,236                           | 9,106          |
| Tax and surcharges                            | (2) | 2,646                           | 2,411          |
| Others  |     | 2,710                           | 2,076          |
| Total   |     | <u>100,999</u>                  | <u>101,414</u> |

(1) Staff costs

|   | <b>Six months ended 30 June</b> |               |
|---|---------------------------------|---------------|
|   | <b>2018</b>                     | <b>2017</b>   |
| Short-term employee benefits                  |                                 |               |
| Salaries, bonuses, allowance and subsidies    | 37,641                          | 35,263        |
| Housing funds                                 | 4,064                           | 4,058         |
| Social insurance                              | 2,675                           | 2,577         |
| Including: Medical insurance                  | 2,403                           | 2,325         |
| Maternity insurance                           | 187                             | 166           |
| Employment injury insurance                   | 85                              | 86            |
| Labor union fees and staff education expenses | 1,663                           | 1,206         |
| Others  | 2,904                           | 3,288         |
| Subtotal                                      | 48,947                          | 46,392        |
| Defined contribution benefits                 | 7,729                           | 7,572         |
| Early retirement benefits                     | (292)                           | (486)         |
| Total   | <u>56,384</u>                   | <u>53,478</u> |

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**11 OPERATING EXPENSES (Continued)**

- (2) From 1 May 2016, the Group is subject to value-added taxes on its income from credit business, fee income on financial services, income from insurance business and trading of financial products at 6%.

Pursuant to the “Circular regarding Further Clarification of Relevant Policies Applicable to the Financial Sector in the Comprehensive Implementation of the VAT Pilot Programs” (Cai Shui [2016] No. 46), the Bank elected to adopt a simplified methodology to calculate value-added taxes at 3% on interest income derived from loans granted to farming households, rural enterprises and other rural institutions by county-level sub-branches included in the Bank’s pilot programs of the Sannong Finance Division, including those under the Bank’s provincial branches in provinces, autonomous regions, municipalities directly under the central government and municipalities with independent budgetary status as well as those under the Xinjiang Production and Construction Corps Branch.

City construction and maintenance tax is calculated at 1%, 5% or 7% of VAT for the Group’s Domestic Operations.

Education surcharge is calculated at 3% or 5% of VAT for the Group’s Domestic Operations.

**12 IMPAIRMENT LOSSES ON ASSETS**

|  | <b>Six months ended 30 June</b> |
|--|---------------------------------|
|  | <b>2018</b>                     |
| Credit impairment losses   |                                 |
| Loans and advances to customers  | 66,655                          |
| Financial investments at fair value through other comprehensive income | 917                             |
| Financial assets held under resale agreements                          | (1,091)                         |
| Financial investments at amortized costs                               | (920)                           |
| Placements with and loans to banks and other financial institutions    | (425)                           |
| Others   | 243                             |
| Subtotal   | 65,379                          |
| Other impairment losses on assets                                      | 26                              |
| Total  | 65,405                          |
|  | <b>Six months ended 30 June</b> |
|  | <b>2017</b>                     |
| Loans and advances to customers  | 41,455                          |
| Held-to-maturity investments   | 2,105                           |
| Debt instruments classified as receivables                             | 238                             |
| Placements with and loans to banks and other financial institutions    | (1,178)                         |
| Others   | 2,077                           |
| Total  | 44,697                          |

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**13 INCOME TAX EXPENSE**

|                             | <b>Six months ended 30 June</b> |               |
|-----------------------------|---------------------------------|---------------|
|                             | <b>2018</b>                     | <b>2017</b>   |
| Current income tax          |                                 |               |
| - PRC Enterprise Income Tax | 40,650                          | 32,455        |
| - Hong Kong Profits Tax     | 390                             | 314           |
| - Other jurisdictions       | 103                             | 133           |
| Subtotal                    | 41,143                          | 32,902        |
| Deferred tax (Note 32)      | (15,567)                        | (8,362)       |
| Total                       | <u>25,576</u>                   | <u>24,540</u> |

PRC Enterprise Income Tax is calculated at 25% of the estimated taxable profit for the current and prior periods, and also includes supplementary PRC tax on Overseas Operations as determined in accordance with the relevant PRC income tax rules and regulations. Pre-tax deduction items of enterprise income tax are governed by the relevant tax regulations in the PRC. Taxation arising in other jurisdictions (including Hong Kong) is calculated at the rates prevailing in the relevant jurisdictions.

The tax charges for the six months ended 30 June 2018 and 30 June 2017 can be reconciled to the profit per the condensed consolidated interim income statement as follows:

|   | <b>Six months ended 30 June</b> |               |
|---|---------------------------------|---------------|
|   | <b>2018</b>                     | <b>2017</b>   |
| Profit before tax   | 141,552                         | 133,210       |
| Tax calculated at applicable PRC statutory tax rate of 25%              | 35,388                          | 33,303        |
| Tax effect of income not taxable for tax purpose                        | (12,174)                        | (8,768)       |
| Tax effect of costs, expenses and losses not deductible for tax purpose | 2,377                           | 79            |
| Effect of different tax rates in other jurisdictions                    | (15)                            | (74)          |
| Income tax expense  | <u>25,576</u>                   | <u>24,540</u> |

- (1) Non-taxable income primarily includes interest income from PRC treasury bonds and municipal government bonds.

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**14 DIVIDENDS**

|   |     | <b>Six months ended 30 June</b> |               |
|---|-----|---------------------------------|---------------|
|   |     | <b>2018</b>                     | <b>2017</b>   |
| Dividends on ordinary shares recognized as distribution during the period |     |                                 |               |
| Cash dividend related to 2017   | (1) | 57,911                          | -             |
| Cash dividend related to 2016   | (2) | -                               | 55,215        |
|   |     | <u>57,911</u>                   | <u>55,215</u> |
|   |     | <b>Six months ended 30 June</b> |               |
|   |     | <b>2018</b>                     | <b>2017</b>   |
| Dividends on preference shares declared and paid                          | (4) | <u>2,200</u>                    | <u>2,200</u>  |

(1) Distribution of final dividend for 2017

A cash dividend of RMB0.1783 per ordinary share related to 2017, amounting to RMB57,911 million in total was approved, after the required appropriations for the statutory surplus reserve and the general reserve for 2017 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 11 May 2018.

The dividend unpaid was recognized as dividends payable as at 30 June 2018.

(2) Distribution of final dividend for 2016

A cash dividend of RMB0.17 per ordinary share related to 2016, amounting to RMB55,215 million in total was approved, after the required appropriations for the statutory surplus reserve and the general reserve for 2016 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 28 June 2017.

The above dividend was recognized as distribution and distributed during the year ended 31 December 2017.

(3) No dividends on ordinary shares related to the period from 1 January 2018 to 30 June 2018 were paid, declared or proposed during the current period. The directors do not recommend any interim dividend for the six months ended 30 June 2018.

(4) Distribution of dividend on preference shares for 2018

A cash dividend at the dividend rate of 5.5% per annum related to the second tranche of preference shares amounting to RMB2,200 million in total was approved at the Board of Directors' Meeting held on 11 January 2018 and distributed on 12 March 2018.

Distribution of dividend on preference shares for 2017

A cash dividend at the dividend rate of 5.5% per annum related to the second tranche of preference shares amounting to RMB2,200 million in total was approved at the Board of Directors' Meeting held on 13 January 2017 and distributed on 13 March 2017.

A cash dividend at the dividend rate of 6% per annum related to the first tranche of preference shares amounting to RMB2,400 million in total was approved at the Board of Directors' Meeting held on 9 October 2017 and distributed on 6 November 2017.

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#### 15 EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is as follows:

|   | <u>Six months ended 30 June</u> |                |
|---|---------------------------------|----------------|
|   | <u>2018</u>                     | <u>2017</u>    |
| Earnings:   |                                 |                |
| Profit for the period attributable to equity holders of the Bank                | 115,789                         | 108,593        |
| Less: profit for the period attributable to preference shareholders of the Bank | <u>(2,200)</u>                  | <u>(2,200)</u> |
| Profit for the period attributable to ordinary equity holders of the Bank       | <u>113,589</u>                  | <u>106,393</u> |
| Number of shares:   |                                 |                |
| Weighted average number of ordinary shares in issue (million)                   | 324,794                         | 324,794        |
| Basic and diluted earnings per share (RMB yuan)                                 | <u>0.35</u>                     | <u>0.33</u>    |

For the purpose of calculating basic earnings per share, cash dividends of RMB2,200 million of non-cumulative preference shares declared and distributed for the six months ended 30 June 2018 was deducted from the profit for the period attributable to equity holders of the Bank (Six months ended 30 June 2017: RMB 2,200 million).

The conversion feature of preference shares is considered to fall within contingently issuable ordinary shares. The triggering events of conversion did not occur for the six months ended 30 June 2018 and 30 June 2017, therefore the conversion feature of preference shares has no dilutive effect on earnings per share calculation.



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**16 CASH AND BALANCES WITH CENTRAL BANKS**

|   | <b>30 June 2018</b>     | <b>31 December 2017</b> |
|---|-------------------------|-------------------------|
| Cash  | 103,882                 | 108,497                 |
| Mandatory reserve deposits with central banks (1) | 2,468,028               | 2,581,677               |
| Surplus reserve deposits with central banks (2)   | 217,725                 | 43,408                  |
| Other deposits with central banks (3)             | <u>173,919</u>          | <u>163,037</u>          |
| Total   | <u><u>2,963,554</u></u> | <u><u>2,896,619</u></u> |

- (1) The Group places mandatory reserve deposits with the PBOC and overseas regulatory bodies. These include RMB reserve deposits and foreign currency reserve deposits. According to the requirements of “Notice on Reducing Deposit Reserve Ratio for Certain Financial Institutions to Replace Medium-term Lending Facilities issued by the People's Bank of China”(Yinfa [2018] No.94), RMB deposit reserve ratio for certain financial institutions is reduced by 1% from 25 April 2018.

For Domestic Operations of the Bank which meet the requirements of “Notice on Performance Appraisal Results Of the Sannong Banking Operations of Agricultural Bank of China Limited for 2018 issued by the People’s Bank of China” (Yinbanfa [2018] No. 61), effective 25 March 2018, RMB mandatory reserve deposits with the PBOC are based on 13.5% of qualified RMB deposits (31 December 2017: 14.5%). For the remaining Domestic Operations of the Bank, RMB mandatory reserve deposits are based on 15.5% of qualified RMB deposits (31 December 2017: 16.5%). For the overseas participating banks and clearing banks with eligible RMB deposits, RMB mandatory reserve deposits are based on 15.5 % of qualified RMB deposits (31 December 2017: 16.5%). Foreign currency mandatory reserve deposits are based on 5% (31 December 2017: 5%) of qualified foreign currency deposits from customers. Mandatory reserve deposits placed by the Bank’s Overseas Operations are determined based on respective overseas regulatory requirements. The foreign currency reserve deposits placed with the PBOC are non-interest bearing.

- (2) Surplus reserve deposits primarily represent deposits maintained with the PBOC in addition to the mandatory reserve deposits and mainly for the purpose of clearing.
- (3) Other deposits with central banks primarily represent fiscal deposits and foreign exchange risk reserve placed with the PBOC that are not available for use in the Group’s daily operations. Fiscal deposits are non-interest bearing, and the interest rate for foreign exchange risk reserve is currently set at zero. The foreign exchange risk reserve is maintained with the PBOC in accordance with the “Notice on Reinforcing the Macro Prudential Management of Foreign Exchange Transactions” (Yinfa [2015] No.273) issued by the PBOC on 31 August 2015. The foreign exchange risk reserve from 1 January 2017 to 10 September 2017 was placed on a monthly basis at 20% of the total contract amount of customers driven forward sale of foreign exchange transactions in the preceding month and will be repayable after 12 months. From 11 September 2017, the foreign exchange risk reserve rate was adjusted to 0% according to the “Notice on Adjustment of Foreign Exchange Risk Reserves Policy” (Yinfa [2017] No. 207) issued by PBOC on 8 September 2017.

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**17 DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS**

|   | <b>30 June 2018</b>   | <b>31 December 2017</b> |
|---|-----------------------|-------------------------|
| Deposits with:  |                       |                         |
| Domestic banks  | 53,690                | 92,355                  |
| Other domestic financial institutions                     | 13,054                | 6,961                   |
| Overseas banks  | <u>38,361</u>         | <u>31,018</u>           |
| Gross amount  | <u>105,105</u>        | <u>130,334</u>          |
| Allowance for impairment losses                           | <u>(377)</u>          | <u>(89)</u>             |
| Deposits with Banks and other financial institutions, net | <u><u>104,728</u></u> | <u><u>130,245</u></u>   |

As at 30 June 2018, the carrying amount of deposits with banks and other financial institutions which have been pledged as security was RMB15,611 million (31 December 2017: RMB10,598 million). These deposits were mainly security deposits pledged with clearing house and exchanges.

**18 PLACEMENTS WITH AND LOANS TO BANKS AND OTHER FINANCIAL INSTITUTIONS**

|  | <b>30 June 2018</b>   | <b>31 December 2017</b> |
|--|-----------------------|-------------------------|
| Placements with and loans to:  |                       |                         |
| Domestic banks   | 145,915               | 243,304                 |
| Other domestic financial institutions                                    | 194,858               | 189,488                 |
| Overseas banks and other financial institutions                          | <u>84,596</u>         | <u>73,415</u>           |
| Gross amount   | <u>425,369</u>        | <u>506,207</u>          |
| Allowance for impairment losses  | <u>(987)</u>          | <u>(938)</u>            |
| Placements with and loans to banks and other financial institutions, net | <u><u>424,382</u></u> | <u><u>505,269</u></u>   |

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**19 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

**30 June 2018**

|  |     |             |
|--|-----|-------------|
| Financial assets at fair value through profit or loss<br>(Mandatory)   |     |             |
| Debt securities issued by:   |     |             |
| Governments  |     | 13,313      |
| Public sector and quasi-governments                                    |     | 102,393     |
| Financial institutions   |     | 89,140      |
| Corporates   |     | 27,079      |
|  |     | <hr/>       |
| Subtotal   |     | 231,925     |
|  |     | <hr/>       |
| Precious metal contracts   |     | 21,054      |
|  |     | <hr/>       |
| Total  |     | 252,979     |
|  |     | <hr/>       |
| Financial assets at fair value through profit or loss<br>(Designated)  |     |             |
| Debt securities issued by:   |     |             |
| Governments  |     | 19,507      |
| Public sector and quasi-governments                                    |     | 62,898      |
| Financial institutions   |     | 63,939      |
| Corporates   |     | 47,886      |
|  |     | <hr/>       |
| Subtotal   |     | 194,230     |
|  |     | <hr/>       |
| Deposits with banks and other<br>financial institutions                |     | 4,810       |
| Placements with and loans to banks<br>and other financial institutions |     | 123,397     |
| Others   | (1) | 72,212      |
|  |     | <hr/>       |
| Total  |     | 394,649     |
|  |     | <hr/>       |
| Total  |     | 647,628     |
|  |     | <hr/> <hr/> |
| Analyzed as:   |     |             |
| Listed in Hong Kong  |     | 5,055       |
| Listed outside Hong Kong   | (2) | 401,315     |
| Unlisted   |     | 241,258     |
|  |     | <hr/>       |
| Total  |     | 647,628     |
|  |     | <hr/> <hr/> |

(1) Others mainly include credit assets, equity instruments and fund investments. After the implementation of IFRS 9, the foreclosed assets are recorded under “Financial Assets at Fair Value Through Profit or Loss” instead of “Other Assets” under IAS 39. As at 30 June 2018, the carrying amount of foreclosed assets was 2,991 million.

(2) Debt securities traded on the China Domestic Inter-bank Bond Market are included in “Listed outside Hong Kong”.

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**20 FINANCIAL ASSETS HELD FOR TRADING**

**31 December 2017**

|                                     |     |                     |
|-------------------------------------|-----|---------------------|
| Debt securities issued by:          |     |                     |
| Governments                         |     | 12,112              |
| Public sector and quasi-governments |     | 79,368              |
| Financial institutions              |     | 50,845              |
| Corporates                          |     | 21,624              |
|                                     |     | <hr/>               |
| Subtotal                            |     | 163,949             |
| Precious metal contracts            |     | <hr/> 30,691        |
| Total                               |     | <hr/> <hr/> 194,640 |
| Analyzed as:                        |     |                     |
| Listed in Hong Kong                 |     | -                   |
| Listed outside Hong Kong            | (1) | 163,949             |
| Unlisted                            |     | <hr/> 30,691        |
| Total                               |     | <hr/> <hr/> 194,640 |

- (1) Debt securities traded on the China Domestic Inter-bank Bond Market are included in “Listed outside Hong Kong”.

**21 FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS**

**31 December 2017**

|   |     |                     |
|---|-----|---------------------|
| Debt securities issued by:  |     |                     |
| Governments   |     | 19,352              |
| Public sector and quasi-governments                                 |     | 61,344              |
| Financial institutions  |     | 52,805              |
| Corporates  |     | 39,138              |
|   |     | <hr/>               |
| Subtotal  |     | 172,639             |
| Deposits with banks and other financial institutions                |     | 93,741              |
| Placements with and loans to banks and other financial institutions |     | 92,388              |
| Others  | (1) | <hr/> 24,557        |
| Total   |     | <hr/> <hr/> 383,325 |
| Analyzed as:  |     |                     |
| Listed in Hong Kong   |     | 3,153               |
| Listed outside Hong Kong  | (2) | 163,054             |
| Unlisted  |     | <hr/> 217,118       |
| Total   |     | <hr/> <hr/> 383,325 |

- (1) Others mainly include credit assets, equity instruments and fund investments.

- (2) Debt securities traded on the China Domestic Inter-bank Bond Market are included in “Listed outside Hong Kong”.

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**22 DERIVATIVE FINANCIAL ASSETS AND LIABILITIES**

The Group primarily enters into foreign exchange rate, interest rate and precious metal derivative contracts related to trading, asset and liability management, and customer initiated transactions.

The contractual/notional amounts and fair values of the derivative financial instruments entered into by the Group are set out in the following tables. The contractual/notional amounts of derivative financial instruments provide a basis for comparison with fair values of instruments recognized on the condensed consolidated interim statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair values of the instruments and, therefore, do not indicate the Group's exposure to credit or market risks. The fair values of derivative instruments become favorable (assets) or unfavorable (liabilities) as a result of fluctuations in market interest rates, foreign exchange rates or precious metal prices relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly.

Certain financial assets and financial liabilities of the Group are subject to enforceable master netting arrangements or similar agreements. The agreement between the Group and the counterparty generally allows for net settlement of the relevant financial assets and financial liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and financial liabilities will be settled on a gross basis. However, each party to the master netting arrangements or similar agreements will have the option to settle all such amounts on a net basis in the event of default of the other party. As at 30 June 2018 and 31 December 2017, the amount of the financial assets and financial liabilities subject to enforceable master netting arrangements or similar agreements are not material to the Group. The Group did not elect to offset these financial assets and financial liabilities on a net basis. The Group does not hold any other financial instruments, other than derivatives, that are subject to master netting arrangements or similar agreements.

|  | <b>30 June 2018</b>                     |                   |                    |
|--|---|-------------------|--------------------|
|  | <b>Contractual/<br/>notional amount</b> | <b>Fair value</b> |                    |
|  |   | <b>Assets</b>     | <b>Liabilities</b> |
| Exchange rate derivatives  |   |                   |                    |
| Currency forwards and swaps, and<br>cross-currency interest rate swaps | 2,538,448                               | 24,680            | (31,383)           |
| Currency options   | 45,391                                  | 415               | (244)              |
| Subtotal   |   | 25,095            | (31,627)           |
| Interest rate derivatives  |   |                   |                    |
| Interest rate swaps  | 231,317                                 | 2,082             | (463)              |
| Precious metal contracts and others                                    | 96,771                                  | 4,013             | (50)               |
| Total derivative financial assets and<br>liabilities                   |   | <u>31,190</u>     | <u>(32,140)</u>    |

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**22 DERIVATIVE FINANCIAL ASSETS AND LIABILITIES (Continued)**

|  | <b>31 December 2017</b>                 |                   |                    |
|--|---|-------------------|--------------------|
|  | <b>Contractual/<br/>notional amount</b> | <b>Fair value</b> |                    |
|  |   | <b>Assets</b>     | <b>Liabilities</b> |
| Exchange rate derivatives  |   |                   |                    |
| Currency forwards and swaps, and<br>cross-currency interest rate swaps | 1,997,265                               | 24,349            | (29,838)           |
| Currency options   | 62,409                                  | 945               | (275)              |
| Subtotal   |   | 25,294            | (30,113)           |
| Interest rate derivatives  |   |                   |                    |
| Interest rate swaps  | 279,373                                 | 1,132             | (406)              |
| Precious metal contracts and others                                    | 126,596                                 | 1,858             | (353)              |
| Total derivative financial assets and liabilities                      |   | <u>28,284</u>     | <u>(30,872)</u>    |

Credit risk weighted amount for derivative transaction counterparties represents the counterparty credit risk associated with derivative transactions and is calculated in accordance with the "Capital Rules for Commercial Banks (Provisional)" issued by the CBIRC which was effective 1 January 2013 and is dependent on, among other factors, creditworthiness of customers and maturity characteristics of each type of contract. As at 30 June 2018 and 31 December 2017, the credit risk weighted amount for derivative transaction counterparty was measured under the Internal Ratings - Based approach.

|  | <b>30 June 2018</b> | <b>31 December 2017</b> |
|--|---------------------|-------------------------|
| Credit risk weighted amount for counterparty | <u>21,241</u>       | <u>22,868</u>           |

**23 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS**

|  | <b>30 June 2018</b> | <b>31 December 2017</b> |
|--|---------------------|-------------------------|
| Analyzed by collateral type:                       |                     |                         |
| Debt securities                                    | 319,507             | 481,056                 |
| Bills  | 48,804              | 59,330                  |
| Total  | 368,311             | 540,386                 |
| Allowance for impairment losses                    | <u>(499)</u>        | <u>-</u>                |
| Financial assets held under resale agreements, net | <u>367,812</u>      | <u>540,386</u>          |

The collateral received in connection with financial assets held under resale agreements is disclosed in Note 52 Contingent Liabilities and Commitments - Collateral.

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**24 LOANS AND ADVANCES TO CUSTOMERS**

Analysis of loans and advances to customers:

|     |  | <b>30 June 2018</b>      |
|-----|--|--------------------------|
|     | Measured at amortized cost (1)   | 10,812,755               |
|     | Measured at fair value through other comprehensive income (2)  | <u>188,612</u>           |
|     | Loans and advances to customers, net   | <u><u>11,001,367</u></u> |
| (1) | Measured at amortized cost:  |                          |
|     | Corporate loans and advances<br>Loans and advances   | 6,927,725                |
|     | Personal loans and advances  | <u>4,346,801</u>         |
|     | Subtotal   | 11,274,526               |
|     | Allowance for impairment losses  | <u>(461,771)</u>         |
|     | Carrying amount of loans and advances to customers measured at amortized cost  | <u><u>10,812,755</u></u> |
| (2) | Measured at fair value through other comprehensive income:   |                          |
|     | Corporate loans and advances (i)<br>Loans and advances   | 34,191                   |
|     | Discounted bills   | <u>154,421</u>           |
|     | Carrying amount of loans and advances to customers measured at fair value through other comprehensive income   | <u><u>188,612</u></u>    |
| (i) | As at 1 January 2018, due to the adoption of IFRS 9, discounted bills and forfeiting included in loans and advances to customers were adjusted to be measured at fair value through other comprehensive income in head office and domestic branches of the Bank. |                          |

**31 December 2017**

|  |  |                          |
|--|--|--------------------------|
|  | Corporate loans and advances<br>Loans and advances | 6,527,217                |
|  | Discounted bills                                   | <u>187,502</u>           |
|  | Subtotal   | 6,714,719                |
|  | Personal loans and advances                        | <u>4,005,892</u>         |
|  | Gross loans and advances                           | <u>10,720,611</u>        |
|  | Allowance for impairment losses                    | <u>(404,300)</u>         |
|  | Loans and advances to customers, net               | <u><u>10,316,311</u></u> |

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**24 LOANS AND ADVANCES TO CUSTOMERS (Continued)**

Analysis of loans and advances to customers by stages of expected credit loss model:

|  | Stage I    | Stage II | Stage III (i) | Total      | Credit-impaired gross loans and advances as a % of total gross loans and advances |
|--|------------|----------|---------------|------------|---|
| 30 June 2018   |            |          |               |            |   |
| Gross loans and advances   | 10,890,661 | 386,582  | 185,895       | 11,463,138 | 1.62  |
| Allowance for impairment losses of loans and advances to customers | (260,442)  | (63,467) | (137,862)     | (461,771)  |   |
| Loans and advances to customers, net                               | 10,630,219 | 323,115  | 48,033        | 11,001,367 |   |

Analysis of loans and advances to customers by collective and individual assessments:

|                                      | Loans and advances for which the allowance is collectively assessed (ii) | Identified impaired loans and advances (iii)     |  |           | Total      | Identified impaired gross loans and advances as a % of total gross loans and advances |
|--------------------------------------|--|--|--|-----------|------------|---|
|                                      |  | For which the allowance is collectively assessed | For which the allowance is individually assessed | Subtotal  |            |   |
| 31 December 2017                     |  |  |  |           |            |   |
| Gross loans and advances             | 10,526,579   | 34,227   | 159,805  | 194,032   | 10,720,611 | 1.81  |
| Allowance for impairment losses      | (255,266)  | (26,723)   | (122,311)  | (149,034) | (404,300)  |   |
| Loans and advances to customers, net | 10,271,313   | 7,504  | 37,494   | 44,998    | 10,316,311 |   |

- (i) At 30 June 2018, the exposure of credit-impaired loans and advances covered by collateral and pledge is RMB35,930 million(31 December 2017: the exposure of impaired loans and advances covered by collateral and pledge is RMB41,052 million).
- (ii) Loans and advances for which allowance is collectively assessed consist of loans and advances which have not been specifically identified as impaired.
- (iii) Identified impaired loans and advances include loans for which objective evidence of impairment exists and which have been identified as bearing impairment losses, which are measured either individually (corporate loans and advances) or collectively (personal loans and advances).



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**24 LOANS AND ADVANCES TO CUSTOMERS (Continued)**

Movements of the allowance for impairment losses on loans and advances to customers:

|  | <b>Six months ended 30 June 2018</b> |                                  |                  | <b>Total</b>   |
|--|--------------------------------------|----------------------------------|------------------|----------------|
|  | <b>Stage I<br/>12m ECL</b>           | <b>Stage II<br/>Lifetime ECL</b> | <b>Stage III</b> |                |
| 01 January 2018 (i)  | 214,802                              | 56,749                           | 154,772          | 426,323        |
| Impairment allowance on loans charged                        | 83,634                               | 21,461                           | 35,531           | 140,626        |
| Reversal of impairment allowance                             | (38,037)                             | (14,744)                         | (19,650)         | (72,431)       |
| Write-offs and transfer out                                  | (8)                                  | -                                | (39,559)         | (39,567)       |
| Recovery of loans and advances written off in previous years | -                                    | -                                | 7,753            | 7,753          |
| Unwinding of discount on allowance                           | -                                    | -                                | (993)            | (993)          |
| Exchange difference  | 51                                   | 1                                | 8                | 60             |
| 30 June 2018   | <u>260,442</u>                       | <u>63,467</u>                    | <u>137,862</u>   | <u>461,771</u> |

- (i) The reconciliation of impairment allowance on loans and advances to customers from IAS 39 to IFRS 9 on 1 January 2018 is disclosed in Note 3.4(3).

|  | <b>Year ended 31 December 2017</b>             |  | <b>Total</b>   |
|--|--|--|----------------|
|  | <b>Individually<br/>assessed<br/>allowance</b> | <b>Collectively<br/>assessed<br/>allowance</b> |                |
| 1 January 2017   | 133,605  | 266,670  | 400,275        |
| Impairment allowance on loans charged                        | 87,588   | 107,125  | 194,713        |
| Reversal of impairment allowance                             | (20,158)                                       | (81,691)                                       | (101,849)      |
| Net additions  | <u>67,430</u>                                  | <u>25,434</u>                                  | <u>92,864</u>  |
| Write-offs and transfer out                                  | (82,283)                                       | (12,010)                                       | (94,293)       |
| Recovery of loans and advances written off in previous years | 4,758  | 2,343  | 7,101          |
| Unwinding of discount on allowance                           | (1,077)  | (353)  | (1,430)        |
| Exchange difference  | (122)  | (95)   | (217)          |
| 31 December 2017   | <u>122,311</u>                                 | <u>281,989</u>                                 | <u>404,300</u> |

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**25 FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME**

|                            |                                     | <b>30 June 2018</b> |
|----------------------------|-------------------------------------|---------------------|
| Debt instruments           |                                     |                     |
| Debt securities issued by: |                                     |                     |
|                            | Governments                         | 539,029             |
|                            | Public sector and quasi-governments | 278,749             |
|                            | Financial institutions              | 545,764             |
|                            | Corporates                          | <u>177,858</u>      |
|                            | Subtotal                            | <u>1,541,400</u>    |
| Others                     | (1)                                 | 10,717              |
| Total debt instruments     |                                     | <u>1,552,117</u>    |
| Equity instruments         |                                     | <u>2,210</u>        |
| Total                      |                                     | <u>1,554,327</u>    |
| Analyzed as:               |                                     |                     |
| Debt instruments           |                                     |                     |
|                            | Listed in Hong Kong                 | 81,512              |
|                            | Listed outside Hong Kong            | 1,421,742           |
|                            | Unlisted                            | 48,863              |
| Equity instruments         |                                     |                     |
|                            | Listed outside Hong Kong            | 679                 |
|                            | Unlisted                            | <u>1,531</u>        |
| Total                      |                                     | <u>1,554,327</u>    |

(1) Others primarily include trust investment plan and debt investment plan invested by the Group.

(2) Debt securities traded on the China Domestic Inter-bank Bond Market are included in "Listed outside Hong Kong".

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**26 AVAILABLE-FOR-SALE FINANCIAL ASSETS**

|                                      |                                     | <b>31 December 2017</b> |
|--------------------------------------|-------------------------------------|-------------------------|
| Debt securities issued by:           |                                     |                         |
|                                      | Governments                         | 510,794                 |
|                                      | Public sector and quasi-governments | 312,321                 |
|                                      | Financial institutions              | 398,098                 |
|                                      | Corporates                          | <u>177,671</u>          |
|                                      | Subtotal                            | 1,398,884               |
|                                      | Fund investments (1)                | 3,715                   |
|                                      | Equity instruments                  | 7,523                   |
|                                      | Others (1)                          | <u>16,298</u>           |
|                                      | Total                               | <u><u>1,426,420</u></u> |
| Analyzed as:                         |                                     |                         |
| Debt securities                      |                                     |                         |
|                                      | Listed in Hong Kong                 | 85,012                  |
|                                      | Listed outside Hong Kong (2)        | 1,282,278               |
|                                      | Unlisted                            | 31,593                  |
| Equity instruments, fund investments |                                     |                         |
|                                      | Listed in Hong Kong                 | 114                     |
|                                      | Listed outside Hong Kong            | 8,211                   |
|                                      | Unlisted (3)                        | <u>19,212</u>           |
|                                      | Total                               | <u><u>1,426,420</u></u> |

- (1) The Group's other available-for-sale financial assets primarily include assets management products invested by the Group. Fund investments and others are unconsolidated structured entities held by Group.
- (2) Debt securities traded on the China Domestic Inter-bank Bond Market are included in "Listed outside Hong Kong".
- (3) As at 31 December 2017, unlisted equity instruments of the Group amounted to RMB297 million was measured at cost because their fair value cannot be reliably measured.

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**27 FINANCIAL INVESTMENTS AT AMORTIZED COSTS**

|   |     | <b>30 June 2018</b> |
|---|-----|---------------------|
| Debt securities issued by:                    |     |                     |
| Governments                                   |     | 2,119,390           |
| Public sector and quasi-governments           |     | 1,308,879           |
| Financial institutions                        |     | 243,149             |
| Corporates                                    |     | <u>149,780</u>      |
| Subtotal                                      |     | 3,821,198           |
| Receivable from the MOF                       | (1) | 290,891             |
| Special government bond                       | (2) | 93,300              |
| Others  | (3) | <u>25,308</u>       |
| Total   |     | <u>4,230,697</u>    |
| Allowance for impairment losses               |     | <u>(7,046)</u>      |
| Financial investments at amortized costs, net |     | <u>4,223,651</u>    |
| Analyzed as:                                  |     |                     |
| Listed in Hong Kong                           |     | 9,789               |
| Listed outside Hong Kong                      | (4) | 3,840,635           |
| Unlisted                                      |     | <u>373,227</u>      |
| Total   |     | <u>4,223,651</u>    |

- (1) Pursuant to the “Notice on Relevant Issues Concerning the Disposal of Non-performing Assets of Agricultural Bank of China” (Caijin [2008] No. 138) issued by the MOF, receivable from the MOF is to be settled annually over a tentative period of 15 years starting from 1 January 2008 and bears interest at the 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 Predecessor Entity for capital replenishment. The bond will mature in 2028 and bears interest at a fixed rate of 2.25% per annum, starting from 1 December 2008.
- (3) Other debt instruments classified as financial investments at amortized costs are primarily related to investment in unconsolidated structured entities held by the Group.
- (4) Debt securities traded on the China Domestic Inter-bank Bond Market are included in “Listed outside Hong Kong”.

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**28 HELD-TO-MATURITY INVESTMENTS****31 December 2017**

|                                     |     |                  |
|-------------------------------------|-----|------------------|
| Debt securities issued by:          |     |                  |
| Governments                         |     | 1,774,655        |
| Public sector and quasi-governments |     | 1,269,267        |
| Financial institutions              |     | 302,240          |
| Corporates                          |     | 149,146          |
|                                     |     | <u>3,495,308</u> |
| Gross amount                        |     | 3,495,308        |
| Allowance for impairment losses     |     | <u>(6,173)</u>   |
| Held-to-maturity investments, net   |     | <u>3,489,135</u> |
| Analyzed as:                        |     |                  |
| Listed in Hong Kong                 |     | 6,835            |
| Listed outside Hong Kong            | (1) | 3,456,090        |
| Unlisted                            |     | 26,210           |
|                                     |     | <u>3,489,135</u> |
| Total                               |     | <u>3,489,135</u> |

- (1) Debt securities traded on the China Domestic Inter-bank Bond Market are included in "Listed outside Hong Kong".

**29 DEBT INSTRUMENTS CLASSIFIED AS RECEIVABLES****31 December 2017**

|  |     |                |
|--|-----|----------------|
| Receivable from the MOF                                  | (1) | 271,678        |
| Special government bond                                  | (2) | 93,300         |
| Government bonds   |     | 169,336        |
| Financial institution bonds                              |     | 81,075         |
| Corporate bonds  |     | 15,887         |
| Certificate treasury bonds and savings<br>treasury bonds |     | 3,612          |
| Others   | (3) | 28,688         |
|  |     | <u>663,576</u> |
| Gross amount   |     | 663,576        |
| Allowance for impairment losses                          |     | <u>(4,353)</u> |
| Debt instruments classified as receivables, net          |     | <u>659,223</u> |
| Analyzed as:   |     |                |
| Listed in Hong Kong                                      |     | 1              |
| Listed outside Hong Kong                                 |     | 304,192        |
| Unlisted   |     | 355,030        |
|  |     | <u>659,223</u> |
| Total  |     | <u>659,223</u> |

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### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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#### 29 DEBT INSTRUMENTS CLASSIFIED AS RECEIVABLES (Continued)

- (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 tentative period of 15 years starting from 1 January 2008 and bears interest at the 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 Predecessor Entity for capital replenishment. The bond will mature in 2028 and bears interest at a fixed rate of 2.25% per annum, starting from 1 December 2008.
- (3) Other debt instruments classified as receivables are primarily related to investments in unconsolidated structured entities held by the Group.

#### 30 INVESTMENT IN ASSOCIATES AND JOINT VENTURE

|                                 | 30 June 2018 | 31 December 2017 |
|---------------------------------|--------------|------------------|
| Investment in associates        | 1,499        | 278              |
| Investment in joint venture     | 500          | -                |
| Subtotal                        | <u>1,999</u> | <u>278</u>       |
| Allowance for impairment losses |              |                  |
| - investment in associate       | <u>(51)</u>  | <u>(51)</u>      |
| Carrying amount                 | <u>1,948</u> | <u>227</u>       |

The detail information of the investment in associates and joint venture was disclosed in Note 5 investment in subsidiaries, associates, joint venture and structured entities.

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**31 PROPERTY AND EQUIPMENT**

|                                 | Buildings       | Electronic<br>equipment,<br>furniture and<br>fixtures | Motor<br>vehicles | Construction<br>in progress | Total            |
|---------------------------------|-----------------|---|-------------------|-----------------------------|------------------|
| Cost                            |                 |   |                   |                             |                  |
| 1 January 2018                  | 173,802         | 64,846  | 10,009            | 16,170                      | 264,827          |
| Additions                       | 566             | 325   | 713               | 1,315                       | 2,919            |
| Transfers                       | 2,508           | 99  | 16                | (2,623)                     | -                |
| Disposals                       | (652)           | (835)   | (156)             | (1)                         | (1,644)          |
| 30 June 2018                    | <u>176,224</u>  | <u>64,435</u>   | <u>10,582</u>     | <u>14,861</u>               | <u>266,102</u>   |
| Accumulated depreciation        |                 |   |                   |                             |                  |
| 1 January 2018                  | (61,235)        | (44,900)  | (3,022)           | -                           | (109,157)        |
| Charge for the period           | (3,514)         | (3,237)   | (296)             | -                           | (7,047)          |
| Eliminated on disposals         | 257             | 741   | 151               | -                           | 1,149            |
| 30 June 2018                    | <u>(64,492)</u> | <u>(47,396)</u>                                       | <u>(3,167)</u>    | <u>-</u>                    | <u>(115,055)</u> |
| Allowance for impairment losses |                 |   |                   |                             |                  |
| 1 January 2018                  | (294)           | (8)   | (1)               | (109)                       | (412)            |
| Impairment loss                 | (2)             | -   | -                 | (1)                         | (3)              |
| Eliminated on disposals         | 8               | -   | -                 | -                           | 8                |
| 30 June 2018                    | <u>(288)</u>    | <u>(8)</u>  | <u>(1)</u>        | <u>(110)</u>                | <u>(407)</u>     |
| Carrying value                  |                 |   |                   |                             |                  |
| 30 June 2018                    | <u>111,444</u>  | <u>17,031</u>   | <u>7,414</u>      | <u>14,751</u>               | <u>150,640</u>   |
| 1 January 2018                  | <u>112,273</u>  | <u>19,938</u>   | <u>6,986</u>      | <u>16,061</u>               | <u>155,258</u>   |

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**31 PROPERTY AND EQUIPMENT (Continued)**

|                                 | Buildings       | Electronic<br>equipment,<br>furniture and<br>fixtures | Motor<br>vehicles | Construction<br>in progress | Total            |
|---------------------------------|-----------------|---|-------------------|-----------------------------|------------------|
| Cost                            |                 |   |                   |                             |                  |
| 1 January 2017                  | 162,858         | 64,203  | 8,309             | 22,031                      | 257,401          |
| Additions                       | 1,986           | 4,176   | 2,868             | 4,285                       | 13,315           |
| Transfers                       | 9,794           | 351   | 1                 | (10,146)                    | -                |
| Disposals                       | (836)           | (3,884)   | (1,169)           | -                           | (5,889)          |
| 31 December 2017                | <u>173,802</u>  | <u>64,846</u>   | <u>10,009</u>     | <u>16,170</u>               | <u>264,827</u>   |
| Accumulated depreciation        |                 |   |                   |                             |                  |
| 1 January 2017                  | (54,032)        | (41,258)  | (3,128)           | -                           | (98,418)         |
| Charge for the year             | (7,516)         | (7,483)   | (454)             | -                           | (15,453)         |
| Eliminated on disposals         | 313             | 3,841   | 560               | -                           | 4,714            |
| 31 December 2017                | <u>(61,235)</u> | <u>(44,900)</u>                                       | <u>(3,022)</u>    | <u>-</u>                    | <u>(109,157)</u> |
| Allowance for impairment losses |                 |   |                   |                             |                  |
| 1 January 2017                  | (296)           | (8)   | (2)               | (8)                         | (314)            |
| Impairment loss                 | -               | -   | -                 | (101)                       | (101)            |
| Eliminated on disposals         | 2               | -   | 1                 | -                           | 3                |
| 31 December 2017                | <u>(294)</u>    | <u>(8)</u>  | <u>(1)</u>        | <u>(109)</u>                | <u>(412)</u>     |
| Carrying value                  |                 |   |                   |                             |                  |
| 31 December 2017                | <u>112,273</u>  | <u>19,938</u>   | <u>6,986</u>      | <u>16,061</u>               | <u>155,258</u>   |
| 1 January 2017                  | <u>108,530</u>  | <u>22,937</u>   | <u>5,179</u>      | <u>22,023</u>               | <u>158,669</u>   |

According to the relevant laws and regulations, subsequent to the Bank's transformation into a joint stock company, the legal title of properties previously held by the Predecessor Entity are to be transferred to the Bank. As at 30 June 2018, the registration transfer process of these transferred properties and other certain properties has not been completed. Management believes that the incomplete registration transfer process does not affect the rights of the Bank as the legal successor to those assets.



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**32 DEFERRED TAXATION**

For the purpose of presentation in the condensed consolidated interim statement of financial position, certain deferred tax assets and liabilities have been offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following is the analysis of the deferred tax balances:

|                          | <b>30 June 2018</b> | <b>31 December 2017</b> |
|--------------------------|---------------------|-------------------------|
| Deferred tax assets      | 120,294             | 97,751                  |
| Deferred tax liabilities | <u>(86)</u>         | <u>(87)</u>             |
| Net                      | <u>120,208</u>      | <u>97,664</u>           |

(1) The following are the movements and major deferred tax assets and liabilities recognized:

|  | <b>Allowance for<br/>impairment<br/>losses</b> | <b>Accrued but<br/>unpaid<br/>staff cost</b> | <b>Early<br/>retirement<br/>benefits</b> | <b>Provision</b> | <b>Fair value<br/>changes of<br/>financial<br/>instruments</b> | <b>Others</b> | <b>Total</b>   |
|--|--|--|--|------------------|--|---------------|----------------|
| 31 December 2017   | 78,656   | 7,376  | 940                                      | 2,677            | 7,763  | 252           | 97,664         |
| Change in accounting<br>policy                             | <u>7,266</u>                                   | <u>-</u>                                     | <u>-</u>                                 | <u>3,841</u>     | <u>(1,363)</u>   | <u>-</u>      | <u>9,744</u>   |
| 1 January 2018   | 85,922   | 7,376  | 940                                      | 6,518            | 6,400  | 252           | 107,408        |
| Credit/(charge) to the<br>consolidated<br>income statement | 16,195   | (14)   | (209)                                    | 242              | (522)  | (125)         | 15,567         |
| Charge to other<br>comprehensive<br>income                 | <u>-</u>                                       | <u>-</u>                                     | <u>-</u>                                 | <u>-</u>         | <u>(2,767)</u>   | <u>-</u>      | <u>(2,767)</u> |
| 30 June 2018   | <u>102,117</u>                                 | <u>7,362</u>                                 | <u>731</u>                               | <u>6,760</u>     | <u>3,111</u>   | <u>127</u>    | <u>120,208</u> |
|  | <b>Allowance for<br/>impairment<br/>losses</b> | <b>Accrued but<br/>unpaid<br/>staff cost</b> | <b>Early<br/>retirement<br/>benefits</b> | <b>Provision</b> | <b>Fair value<br/>changes of<br/>financial<br/>instruments</b> | <b>Others</b> | <b>Total</b>   |
| 1 January 2017   | 75,931   | 6,818  | 1,331                                    | 3,398            | (4,413)  | 64            | 83,129         |
| Credit/(charge) to the<br>consolidated<br>income statement | 2,725  | 558  | (391)                                    | (721)            | 4,588  | 188           | 6,947          |
| Credit to other<br>comprehensive<br>income                 | <u>-</u>                                       | <u>-</u>                                     | <u>-</u>                                 | <u>-</u>         | <u>7,588</u>   | <u>-</u>      | <u>7,588</u>   |
| 31 December 2017   | <u>78,656</u>                                  | <u>7,376</u>                                 | <u>940</u>                               | <u>2,677</u>     | <u>7,763</u>   | <u>252</u>    | <u>97,664</u>  |

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**32 DEFERRED TAXATION (Continued)**

- (2) Deferred income tax assets/(liabilities) and related temporary differences, before offsetting qualifying amounts, are attributable to the following items:

|   | 30 June 2018  |  | 31 December 2017                                    |  |
|---|---|--|---|--|
|   | Deductible/<br>(taxable)<br>temporary<br>difference | Deferred<br>tax assets/<br>(liabilities) | Deductible/<br>(taxable)<br>temporary<br>difference | Deferred<br>tax assets/<br>(liabilities) |
| <b>Deferred tax assets</b>                  |   |  |   |  |
| Allowance for impairment losses             | 408,470   | 102,117                                  | 314,625   | 78,656                                   |
| Fair value changes of financial instruments | 45,339  | 11,335                                   | 63,486  | 15,872                                   |
| Accrued but unpaid staff cost               | 29,448  | 7,362                                    | 29,505  | 7,376                                    |
| Provision                                   | 27,041  | 6,760                                    | 10,709  | 2,677                                    |
| Early retirement benefits                   | 2,925   | 731                                      | 3,762   | 940                                      |
| Others                                      | 713   | 179                                      | 1,095   | 274                                      |
| Subtotal                                    | <u>513,936</u>                                      | <u>128,484</u>                           | <u>423,182</u>                                      | <u>105,795</u>                           |
| <b>Deferred tax liabilities</b>             |   |  |   |  |
| Fair value changes of financial instruments | (32,899)  | (8,224)                                  | (32,437)  | (8,109)                                  |
| Others                                      | (206)   | (52)                                     | (89)  | (22)                                     |
| Subtotal                                    | <u>(33,105)</u>                                     | <u>(8,276)</u>                           | <u>(32,526)</u>                                     | <u>(8,131)</u>                           |
| Net   | <u>480,831</u>                                      | <u>120,208</u>                           | <u>390,656</u>                                      | <u>97,664</u>                            |

**33 OTHER ASSETS**

|  | 30 June 2018   | 31 December 2017 |
|--|----------------|------------------|
| Interest receivable                            | 127,765        | 118,693          |
| Accounts receivable and temporary payments (1) | 86,169         | 35,169           |
| Land use rights (2)                            | 21,350         | 21,798           |
| Investment properties                          | 2,776          | 2,755            |
| Intangible assets                              | 2,635          | 2,737            |
| Long-term deferred expenses                    | 2,316          | 2,672            |
| Value-added tax receivable                     | 1,060          | 1,581            |
| Premiums receivable and reinsurance assets     | 636            | 2,903            |
| Foreclosed assets                              | 380            | 2,666            |
| Others   | 6,489          | 5,926            |
| Total  | <u>251,576</u> | <u>196,900</u>   |

- (1) Accounts receivable and temporary payments primarily include items in the process of clearing and settlement.

- (2) According to the relevant laws and regulations, subsequent to the Bank's transformation into a joint stock company, land use rights previously held by the Predecessor Entity are to be transferred to the Bank. As at 30 June 2018, the registration transfer process of certain land use rights has not been completed. Management believes that the incomplete registration transfer process does not affect the rights of the Bank as the legal successor to those land use rights.

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**34 BORROWINGS FROM CENTRAL BANKS**

As at 30 June 2018, borrowings from central bank mainly include Medium-term Lending Facilities from PBOC amounting to RMB401,500 million (31 December 2017: RMB 464,500 million).

**35 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS**

|                                       | <b>30 June 2018</b> | <b>31 December 2017</b> |
|---------------------------------------|---------------------|-------------------------|
| Deposits from:                        |                     |                         |
| Domestic banks                        | 76,740              | 117,401                 |
| Other domestic financial institutions | 930,743             | 815,908                 |
| Overseas banks                        | 7,796               | 9,262                   |
| Other overseas financial institutions | <u>47,676</u>       | <u>32,159</u>           |
| Total                                 | <u>1,062,955</u>    | <u>974,730</u>          |

**36 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS**

|   | <b>30 June 2018</b> | <b>31 December 2017</b> |
|---|---------------------|-------------------------|
| Placements from:                                |                     |                         |
| Domestic banks and other financial institutions | 116,292             | 92,665                  |
| Overseas banks and other financial institutions | <u>187,441</u>      | <u>187,396</u>          |
| Total   | <u>303,733</u>      | <u>280,061</u>          |

**37 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS**

|   |     | <b>30 June 2018</b> | <b>31 December 2017</b> |
|---|-----|---------------------|-------------------------|
| Financial liabilities held for trading                                |     |                     |                         |
| Precious metal contracts  | (1) | <u>20,090</u>       | <u>21,118</u>           |
| Financial liabilities designated at fair value through profit or loss |     |                     |                         |
| Principal guaranteed wealth management products                       | (2) | 291,401             | 364,151                 |
| Overseas debt securities  |     | <u>3,397</u>        | <u>6,503</u>            |
| Subtotal  |     | <u>294,798</u>      | <u>370,654</u>          |
| Total   |     | <u>314,888</u>      | <u>391,772</u>          |

(1) The financial liabilities held for trading are liabilities related to precious metal contracts.

(2) The Group designates wealth management products with principal guaranteed by the Group as financial liabilities at fair value through profit or loss. The corresponding investments are designated as financial assets at fair value through profit or loss. As at 30 June 2018 and 31 December 2017, the difference between the fair value of these products issued by the Group and the contractual amount payable to the holders of these products upon maturity was not material.

For the six months ended 30 June 2018 and the year ended 31 December 2017, there were no significant changes in the fair value of the Group's financial liabilities designated at fair value through profit or loss attributable to the changes in the Group's own credit risk.

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**38 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS**

|                                 | <b>30 June 2018</b> | <b>31 December 2017</b> |
|---------------------------------|---------------------|-------------------------|
| Analyzed by type of collateral: |                     |                         |
| Debt securities                 | 113,410             | 319,608                 |
| Bills                           | -                   | 181                     |
|                                 | <u>113,410</u>      | <u>319,789</u>          |
| Total                           | <u>113,410</u>      | <u>319,789</u>          |

The collateral pledged under repurchase agreements is disclosed in Note 52 Contingent Liabilities and Commitments - Collateral.

**39 DUE TO CUSTOMERS**

|                      | <b>30 June 2018</b> | <b>31 December 2017</b> |
|----------------------|---------------------|-------------------------|
| Demand deposits      |                     |                         |
| Corporate customers  | 4,803,964           | 4,554,308               |
| Individual customers | 5,023,760           | 4,896,269               |
| Time deposits        |                     |                         |
| Corporate customers  | 1,990,200           | 1,889,604               |
| Individual customers | 4,546,638           | 4,356,685               |
| Pledged deposits     | (1) 336,362         | 305,276                 |
| Others               | 239,009             | 192,137                 |
|                      | <u>16,939,933</u>   | <u>16,194,279</u>       |
| Total                | <u>16,939,933</u>   | <u>16,194,279</u>       |

(1) Analyzed by activity to which pledged deposits are related to:

|                                    | <b>30 June 2018</b> | <b>31 December 2017</b> |
|------------------------------------|---------------------|-------------------------|
| Guarantee and letters of guarantee | 89,073              | 92,174                  |
| Trade finance                      | 117,004             | 80,551                  |
| Bank acceptance                    | 59,636              | 62,906                  |
| Letters of credit                  | 15,690              | 24,856                  |
| Others                             | 54,959              | 44,789                  |
|                                    | <u>336,362</u>      | <u>305,276</u>          |
| Total                              | <u>336,362</u>      | <u>305,276</u>          |

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**40 DEBT SECURITIES ISSUED**

|  |     | <b>30 June 2018</b>   | <b>31 December 2017</b> |
|--|-----|-----------------------|-------------------------|
| Bonds issued                             | (1) | 282,962               | 246,833                 |
| Certificates of deposit issued           | (2) | 210,558               | 196,412                 |
| Commercial papers issued                 | (3) | 23,725                | 22,915                  |
| Interbank certificates of deposit issued | (4) | <u>150,942</u>        | <u>8,857</u>            |
| Total                                    |     | <u><u>668,187</u></u> | <u><u>475,017</u></u>   |

As at 30 June 2018 and 31 December 2017, there was no default related to any debt securities issued by the Group.

(1) The carrying value of the Group's bonds issued are as follows:

|   |        | <b>30 June 2018</b>   | <b>31 December 2017</b> |
|---|--------|-----------------------|-------------------------|
| 2.125% USD fixed rate Green Bonds maturing in October 2018                  | (i)    | 2,647                 | 2,614                   |
| 2.75% USD fixed rate Green Bonds maturing in October 2020                   | (ii)   | 3,308                 | 3,267                   |
| Medium term notes issued  | (iii)  | 38,671                | 45,951                  |
| 4.0% subordinated fixed rate bonds maturing in May 2024                     | (iv)   | 25,000                | 25,000                  |
| 5.3% subordinated fixed rate bonds maturing in June 2026                    | (v)    | 50,000                | 50,000                  |
| 4.99% subordinated fixed rate bonds maturing in December 2027               | (vi)   | 50,000                | 50,000                  |
| 5.8% Tier-two capital fixed rate bonds maturing in August 2024              | (vii)  | 30,000                | 30,000                  |
| 4.45% Tier-two capital fixed rate bonds maturing in October 2027            | (viii) | 40,000                | 40,000                  |
| 4.45% Tier-two capital fixed rate bonds maturing in April 2028              | (ix)   | 40,000                | -                       |
| 5.55% 10 years fixed rate capital replenishment bond maturing in March 2028 | (x)    | <u>3,500</u>          | <u>-</u>                |
| Total nominal value   |        | <u><u>283,126</u></u> | <u><u>246,832</u></u>   |
| Less: Unamortized issuance cost and discounts                               |        | <u>(164)</u>          | <u>1</u>                |
| Carrying value  |        | <u><u>282,962</u></u> | <u><u>246,833</u></u>   |

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**40 DEBT SECURITIES ISSUED (Continued)**

(1) The carrying value of the Group's bonds issued are as follows (Continued):

Pursuant to the approval by relevant regulatory authorities, the bonds issued by the Group are set out as below:

- (i) The USD green bonds issued in London in October 2015 have a tenor of 3 years, with a fixed coupon rate 2.125%, payable semi-annually.
- (ii) The USD green bonds issued in London in October 2015 have a tenor of 5 years, with a fixed coupon rate 2.75%, payable semi-annually.
- (iii) The medium term notes ("MTN") were issued by the Overseas Operations of the Group and are measured at amortized cost. The details of medium term notes issued were as follows:

|                        |  |  | <b>As at 30 June 2018</b>      |  |  |
|------------------------|--|--|--------------------------------|--|--|
|                        | <b>Maturity dates<br/>ranging from</b> | <b>Coupon<br/>rates (%)</b>            | <b>Outstanding<br/>balance</b> |  |  |
| Fixed rate USD MTNs    | September 2018 to<br>June 2021         | 1.88-2.88                              | 19,892                         |  |  |
| Fixed rate RMB MTNs    | December 2018 to<br>March 2021         | 3.60-4.80                              | 1,150                          |  |  |
| Floating rate USD MTNs | September 2018 to<br>February 2020     | 3-month USD LIBOR<br>plus 0.61 to 0.99 | 12,902                         |  |  |
| Fixed rate HKD MTNs    | August 2018 to<br>January 2021         | 1.43-2.52                              | 3,625                          |  |  |
| Floating rate HKD MTNs | September 2020                         | 3-month HKD HIBOR<br>plus 0.70         | 337                            |  |  |
| Fixed rate EUR MTNs    | January 2019                           | -                                      | 765                            |  |  |
| Total                  |  |  | 38,671                         |  |  |

|                        |  |  | <b>As at 31 December 2017</b>  |  |  |
|------------------------|--|--|--------------------------------|--|--|
|                        | <b>Maturity dates<br/>ranging from</b> | <b>Coupon<br/>rates (%)</b>            | <b>Outstanding<br/>balance</b> |  |  |
| Fixed rate USD MTNs    | May 2018 to<br>June 2021               | 1.875-3.60                             | 27,175                         |  |  |
| Fixed rate RMB MTNs    | December 2018 to<br>December 2019      | 2.375-3.80                             | 2,761                          |  |  |
| Floating rate USD MTNs | May 2018 to<br>September 2019          | 3-month USD LIBOR<br>plus 0.75 to 0.98 | 13,068                         |  |  |
| Fixed rate HKD MTNs    | August 2018 to<br>August 2020          | 1.43-2.18                              | 2,613                          |  |  |
| Floating rate HKD MTNs | September 2020                         | 3-month HKD HIBOR<br>plus 0.70         | 334                            |  |  |
| Total                  |  |  | 45,951                         |  |  |

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**40 DEBT SECURITIES ISSUED (Continued)**

(1) The carrying value of the Group's bonds issued are as follows (Continued):

- (iv) The subordinated fixed rate bonds issued in May 2009 have a tenor of 15 years, with a fixed coupon rate of 4.0%, payable annually. The Bank has an option to redeem all of the bonds at face value on 20 May 2019. If the Bank did not exercise this option, the coupon rate of the bonds would increase to 7.0% per annum from 20 May 2019 onwards.
- (v) The subordinated fixed rate bonds issued in June 2011 have a tenor of 15 years, with a fixed coupon rate of 5.3%, payable annually. The Bank has an option to redeem all of the bonds at face value on 7 June 2021. If the Bank did not exercise this option, the coupon rate of the bonds would remain at 5.3% per annum from 7 June 2021 onwards.
- (vi) The subordinated fixed rate bonds issued in December 2012 have a tenor of 15 years, with a fixed coupon rate of 4.99%, payable annually. The Bank has an option to redeem all of the bonds at face value on 20 December 2022. If the Bank did not exercise this option, the coupon rate of the bonds would remain at 4.99% per annum from 20 December 2022 onwards.
- (vii) The Tier-two capital bonds issued in August 2014 have a tenor of 10 years, with a fixed coupon rate of 5.8% payable annually. The Bank has an option to redeem part or all of the bonds at face value on 17 August 2019 if specified redemption conditions as stipulated in the offering documents were met, subject to regulatory approval. If the Bank did not exercise this option, the coupon rate of the bonds would remain at 5.8% per annum from 18 August 2019 onwards. These Tier-two capital bonds have the write-down feature of a Tier-two capital instrument, which allows the Bank to write down the entire principal of the bonds when regulatory triggering events as stipulated in the offering documents occur and any accumulated unpaid interest would become not payable; and they are qualified as Tier-two Capital Instruments in accordance with the CBIRC requirements.
- (viii) The Tier-two capital bonds issued in October 2017 have a tenor of 10 years, with a fixed coupon rate of 4.45% payable annually. The Bank has an option to redeem part or all of the bonds at face value on 16 September 2022 if specified redemption conditions as stipulated in the offering documents were met, subject to regulatory approval. If the Bank did not exercise this option, the coupon rate of the bonds would remain at 4.45% per annum from 17 September 2022 onwards. These Tier-two capital bonds have the write-down feature of a Tier-two capital instrument, which allows the Bank to write down the entire principal of the bonds when regulatory triggering events as stipulated in the offering documents occur and any accumulated unpaid interest would become not payable, and; they are qualified as Tier-two Capital Instruments in accordance with the CBIRC requirements.
- (ix) The Tier-two capital bonds issued in April 2018 have a tenor of 10 years, with a fixed coupon rate of 4.45% payable annually. The Bank has an option to redeem part or all of the bonds at face value on 26 March 2023 if specified redemption conditions as stipulated in the offering documents were met, subject to regulatory approval. If the Bank did not exercise this option, the coupon rate of the bonds would remain at 4.45% per annum from 27 March 2023 onwards. These Tier-two capital bonds have the write-down feature of a Tier-two capital instrument, which allows the Bank to write down the entire principal of the bonds when regulatory triggering events as stipulated in the offering documents occur and any accumulated unpaid interest would become not payable, and; they are qualified as Tier-two Capital Instruments in accordance with the CBIRC requirements.

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#### 40 DEBT SECURITIES ISSUED (Continued)

- (1) The carrying value of the Group's bonds issued are as follows (Continued):
- (x) The fixed rate Capital replenishment debt issued by ABC Life Insurance in March 2018 have a tenor of 10 years, with a fixed coupon rate of 5.55%, payable annually. ABC Life Insurance has an option to redeem all of the bonds at face value on 4 March 2023. If ABC Life Insurance did not exercise this option, the coupon rate of the bonds would increase to 6.55% per annum from 5 March 2023 onwards.
- (2) As at 30 June 2018, the certificates of deposit were issued by the Overseas Operations of the Group and were measured at amortized cost. The terms of the certificates of deposit ranged from two months to eight years, with interest rates ranging from 0% to 4.60%. As at 31 December 2017, the terms of the certificates of deposit ranged from one month to seven years with interest rates ranging from 0% to 5.06% per annum.
- (3) As at 30 June 2018, the commercial papers were issued by the Overseas Operations of the Group and were measured at amortized cost. The terms of the commercial papers ranged from two months to one year, with interest rates ranging from 0% to 4.44%. As at 31 December 2017, the terms of the commercial papers ranged from two month to one years, with interest rates ranging from 0.01% to 2.36% per annum.
- (4) As at 30 June 2018, the interbank certificate of deposit were issued by the Bank's Head Office. The term of the interbank certificate of deposit ranged from one month to one year, with interest rates ranging from 3.50% to 4.78%. As at 31 December 2017, the terms of the interbank certificates of deposit ranged from one month to six month, with interest rates ranging from 4.30% to 4.60% per annum.

#### 41 OTHER LIABILITIES

|                               | 30 June 2018   | 31 December 2017 |
|-------------------------------|----------------|------------------|
| Interest payable              | 202,368        | 228,805          |
| Clearing and settlement       | 73,758         | 47,126           |
| Insurance liabilities         | 69,533         | 73,869           |
| Staff costs payable (1)       | 39,361         | 40,222           |
| Provision                     | 27,041         | 10,709           |
| Income taxes payable          | 25,857         | 32,842           |
| VAT and other taxes payable   | 8,745          | 7,322            |
| Amount payable to the MOF (2) | 4,018          | 3,154            |
| Dormant accounts              | 2,730          | 2,469            |
| Others                        | 46,953         | 44,913           |
| Total                         | <u>500,364</u> | <u>491,431</u>   |



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**41 OTHER LIABILITIES (Continued)**

(1) Staff costs payable

|                               |       | <b>30 June 2018</b> | <b>31 December 2017</b> |
|-------------------------------|-------|---------------------|-------------------------|
| Short-term employee benefits  | (i)   | 35,798              | 35,894                  |
| Defined contribution benefits | (ii)  | 638                 | 566                     |
| Early retirement benefits     | (iii) | 2,925               | 3,762                   |
| <b>Total</b>                  |       | <b>39,361</b>       | <b>40,222</b>           |

(i) Short-term employee benefits

| <b>Six months ended 30 June 2018</b>          |     |                  |                 |                   |                |
|---|-----|------------------|-----------------|-------------------|----------------|
|   |     | <b>1 January</b> | <b>Accruals</b> | <b>Reductions</b> | <b>30 June</b> |
| Salaries, bonuses, allowance and subsidies    | (a) | 26,829           | 37,640          | (39,553)          | 24,916         |
| Housing funds                                 | (a) | 157              | 4,064           | (3,888)           | 333            |
| Social insurance Including:                   | (a) | 171              | 2,675           | (2,588)           | 258            |
| Medical insurance                             |     | 159              | 2,403           | (2,324)           | 238            |
| Maternity insurance                           |     | 7                | 187             | (181)             | 13             |
| Employment injury insurance                   |     | 5                | 85              | (83)              | 7              |
| Labor union fees and staff education expenses |     | 5,344            | 1,663           | (598)             | 6,409          |
| Others  |     | 3,393            | 2,905           | (2,416)           | 3,882          |
| <b>Total</b>                                  |     | <b>35,894</b>    | <b>48,947</b>   | <b>(49,043)</b>   | <b>35,798</b>  |

| <b>2017</b>                                   |     |                  |                 |                   |                    |
|---|-----|------------------|-----------------|-------------------|--------------------|
|   |     | <b>1 January</b> | <b>Accruals</b> | <b>Reductions</b> | <b>31 December</b> |
| Salaries, bonuses, allowance and subsidies    | (a) | 25,524           | 73,140          | (71,835)          | 26,829             |
| Housing funds                                 | (a) | 155              | 8,212           | (8,210)           | 157                |
| Social insurance Including:                   | (a) | 176              | 5,109           | (5,114)           | 171                |
| Medical insurance                             |     | 156              | 4,611           | (4,608)           | 159                |
| Maternity insurance                           |     | 16               | 330             | (339)             | 7                  |
| Employment injury insurance                   |     | 4                | 168             | (167)             | 5                  |
| Labor union fees and staff education expenses |     | 4,418            | 3,269           | (2,343)           | 5,344              |
| Others  |     | 3,683            | 8,799           | (9,089)           | 3,393              |
| <b>Total</b>                                  |     | <b>33,956</b>    | <b>98,529</b>   | <b>(96,591)</b>   | <b>35,894</b>      |

- (a) Salaries, bonuses, allowance and subsidies, housing funds and social insurance are timely distributed and paid in accordance with the relevant laws and regulations and the Group's policy.

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**41 OTHER LIABILITIES (Continued)**

(1) Staff costs payable (Continued)

(ii) Defined contribution benefits

|                        | <b>Six months ended 30 June 2018</b> |                 |                   |                |
|------------------------|--------------------------------------|-----------------|-------------------|----------------|
|                        | <b>1 January</b>                     | <b>Accruals</b> | <b>Reductions</b> | <b>30 June</b> |
| Basic pensions         | 527                                  | 5,808           | (5,765)           | 570            |
| Unemployment insurance | 32                                   | 157             | (145)             | 44             |
| Annuity Scheme         | 7                                    | 1,764           | (1,747)           | 24             |
| <b>Total</b>           | <b>566</b>                           | <b>7,729</b>    | <b>(7,657)</b>    | <b>638</b>     |

|                        | <b>2017</b>      |                 |                   |                    |
|------------------------|------------------|-----------------|-------------------|--------------------|
|                        | <b>1 January</b> | <b>Accruals</b> | <b>Reductions</b> | <b>31 December</b> |
| Basic pensions         | 456              | 11,413          | (11,342)          | 527                |
| Unemployment insurance | 35               | 351             | (354)             | 32                 |
| Annuity Scheme         | 130              | 3,469           | (3,592)           | 7                  |
| <b>Total</b>           | <b>621</b>       | <b>15,233</b>   | <b>(15,288)</b>   | <b>566</b>         |

The defined contribution benefits are timely distributed and paid in accordance with the relevant laws and regulations and the Group's policy.

(iii) Early retirement benefits

|                           | <b>Six months ended 30 June 2018</b> |                 |                   |                |
|---------------------------|--------------------------------------|-----------------|-------------------|----------------|
|                           | <b>1 January</b>                     | <b>Accruals</b> | <b>Reductions</b> | <b>30 June</b> |
| Early retirement benefits | 3,762                                | (292)           | (545)             | 2,925          |

|                           | <b>2017</b>      |                 |                   |                    |
|---------------------------|------------------|-----------------|-------------------|--------------------|
|                           | <b>1 January</b> | <b>Accruals</b> | <b>Reductions</b> | <b>31 December</b> |
| Early retirement benefits | 5,325            | 77              | (1,640)           | 3,762              |

The principal assumptions used for the purpose of the actuarial valuations were as follows:

|  | <b>30 June 2018</b> | <b>31 December 2017</b> |
|--|---------------------|-------------------------|
| Discount rate                              | 3.40%               | 3.80%                   |
| Annual average medical expense growth rate | 8.00%               | 8.00%                   |
| Annual subsidies growth rate               | 8.00%               | 8.00%                   |
| Normal retirement age                      |                     |                         |
| - Male                                     | 60                  | 60                      |
| - Female                                   | 55                  | 55                      |

Assumptions regarding future mortality experience are based on the China Life Insurance Mortality Table (year 2010 - 2013) (published historical statistics in China).

Any difference arising from the actual result or changes in assumptions may affect the amount of expense recognized in the consolidated interim income statement.

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#### 41 OTHER LIABILITIES (Continued)

- (2) Amount payable to the MOF

Pursuant to the “Notice on Relevant Issues Concerning the Disposal of Non-performing Assets of Agricultural Bank of China” (Caijin [2008] No. 138) issued by the MOF, the MOF commissioned the Bank to manage and dispose of non-performing assets transferred. The amount payable to the MOF represents proceeds collected by the Bank from the disposal of these non-performing assets on behalf of the MOF.

#### 42 ORDINARY SHARES

|  | <b>30 June 2018</b>                    |                       |
|--|--|-----------------------|
|  | <b>Number of shares<br/>(millions)</b> | <b>Nominal value</b>  |
| Domestic listed A shares, par value<br>RMB1.00 per share | 319,244                                | 319,244               |
| Overseas listed H shares, par value<br>RMB1.00 per share | <u>30,739</u>                          | <u>30,739</u>         |
| Total  | <u><u>349,983</u></u>                  | <u><u>349,983</u></u> |
|  | <b>31 December 2017</b>                |                       |
|  | <b>Number of shares<br/>(millions)</b> | <b>Nominal value</b>  |
| Domestic listed A shares, par value<br>RMB1.00 per share | 294,055                                | 294,055               |
| Overseas listed H shares, par value<br>RMB1.00 per share | <u>30,739</u>                          | <u>30,739</u>         |
| Total  | <u><u>324,794</u></u>                  | <u><u>324,794</u></u> |

- (1) A shares refer to the ordinary shares listed in the Mainland China. They are offered and traded in RMB. H shares refer to the ordinary shares listed in Hong Kong. Their par value is denominated in RMB when they were initially offered and are currently traded in HKD.

- (2) The Bank has received the Approval on Private Placement of Agricultural Bank of China Limited on A shares (Yin Bao Jian Approval No. [2018] 28) from CBIRC and the Approval Regarding the Private Placement of Agricultural Bank of China Limited (Zheng Jian Approval No. [2018] 936) from the China Securities Regulatory Commission, which approved the Bank’s private placement of A-share ordinary shares. In June 2018, the Bank issued 25.19 billion A shares to specific investors with issuance price of RMB3.97 per share. The gross amount of proceeds from the fund-raising was RMB100 billion. The net proceeds from the fund-raising after deducting issuance cost was RMB99.99 billion, of which RMB25.19 billion was recorded in share capital and RMB74.80 billion was recorded in capital reserve. The lock-up period for the shares subscribed will last for three or five years respectively.

PricewaterhouseCoopers Zhong Tian LLP has verified the foresaid non-public offering and issued the capital verification report Pu Hua Yong Dao Zhong Tian (Yan) Zi (2018) No. 0411 for the above shares issued.

- (3) As at 30 June 2018, the Bank’s A Shares and H Shares were not subject to lock-up restriction, except for the ordinary shares private issued in June 2018 (as at 31 December 2017, all of the Bank’s A Shares and H Shares were not subject to lock-up restriction).

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**43 PREFERENCE SHARES**

| Financial instruments in issue     | Dividend rate   | Issued price (RMB yuan) | Issued number of shares (millions) | Issued nominal value (millions) | Maturity date    | Conversion                              |
|------------------------------------|---|-------------------------|------------------------------------|---------------------------------|------------------|---|
| Preference shares - first tranche  | 6% per annum for the first five years after issuance, and re-priced every 5 years as stated below   | 100                     | 400                                | 40,000                          | No maturity date | No conversion during the interim period |
| Preference shares - second tranche | 5.5% per annum for the first five years after issuance, and re-priced every 5 years as stated below | 100                     | 400                                | 40,000                          | No maturity date | No conversion during the interim period |

The Bank was authorized to issue 800 million preference shares of RMB100 each, pursuant to the approval by its ordinary equity holders and relevant regulatory authorities.

The first tranche of 400 million preference shares was issued at par in November 2014. The carrying amount, net of direct issuance expenses, was RMB39,944 million as at 30 June 2018. The first tranche of preference shares bears a dividend rate of 6% per annum; dividends are non-cumulative and where payable, is paid annually, for the first five years from issuance. The dividend rate will be re-priced every five years thereafter with reference to the five-year PRC treasury bonds yield plus a fixed premium of 2.29%.

The second tranche of 400 million preference shares was issued at par in March 2015. The carrying amount, net of direct issuance expenses, was RMB39,955 million as at 30 June 2018. The second tranche of preference shares bears a dividend rate of 5.5% per annum; dividends are non-cumulative and where payable, is paid annually, for the first five years from issuance. The dividend rate will be re-priced every five years thereafter with reference to the five-year PRC treasury bonds yield plus a fixed premium of 2.24%.

There were no changes in the carrying amounts of the preference shares since issuance.

As authorized by the ordinary equity holders in the annual general meeting, the Board of Directors has the sole discretion to declare and distribute dividends on preference shares. The Bank shall not distribute any dividends to its ordinary equity holders before it declares such dividends to preference shareholders for the relevant period. The distribution of preference shares dividend is at the Bank's discretion and is non-cumulative. Preference shareholders are not entitled to participate in the distribution of retained earnings except for the dividends stated above.

The Bank has redemption option when specified conditions as stipulated in the offering documents are met, subject to regulatory approval, whereas preference shareholders have no right to require the Bank to redeem the preference shares.

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**43 PREFERENCE SHARES (Continued)**

Upon liquidation, the claims of preference shareholders have priority over ordinary equity holders on the residual assets of the Bank, but are subordinated to those of depositors, general creditors, Tier-two Capital Instruments holders or any other subordinated debt holders with equivalent rights.

Upon occurrence of the triggering events as stipulated in paragraph 2(3) of the Guidance of the China Banking Regulatory Commission on Commercial Banks' Innovation on Capital Instruments (CBRC No. 56 [2012]) and subject to regulatory approval, preference shares shall be mandatorily converted into ordinary A shares of the Bank at the conversion price agreed, partially or entirely. The initial conversion price of the preference shares issued by the Bank was RMB2.43 per share. The conversion price of the preference shares will be adjusted where certain events occur including bonus issues, rights issue, capitalization of reserves and new issuances of ordinary shares, subject to terms and formulas provided for in the offering documents, to maintain the relative interests between preference shareholders and ordinary equity holders. In June 2018, the Bank has issued 25.19 billion ordinary A shares to specific investors. Upon completion of the private placement of ordinary shares by the Bank, the mandatory conversion price of the preference shares issued by the Bank will be adjusted from RMB2.43 per share to RMB2.46 per share.

These preference shares are classified as equity instruments, and presented as equity in the condensed consolidated interim statement of financial position; and are qualified as Additional Tier-one Capital Instruments in accordance with the CBIRC requirements.

**44 CAPITAL RESERVE**

The capital reserve represents the premium related to ordinary shares publicly issued by the Bank in 2010 and private placement of ordinary shares to the specific stakeholders in 2018. Share premium was recorded in the capital reserve after deducting direct issue expenses, which consisted primarily of underwriting fees and professional fees.

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**45 INVESTMENT REVALUATION RESERVE**

|   | <b>Six months ended 30 June 2018</b> |                     |                        |
|---|--------------------------------------|---------------------|------------------------|
|   | <b>Gross amount</b>                  | <b>Tax effect</b>   | <b>Net effect</b>      |
| 31 December 2017  | (26,135)                             | 6,445               | (19,690)               |
| Change in accounting policy   | <u>13,003</u>                        | <u>(3,112)</u>      | <u>9,891</u>           |
| 1 January 2018  | (13,132)                             | 3,333               | (9,799)                |
| Fair value changes on debt instruments at fair value through other comprehensive income   |                                      |                     |                        |
| - Amount of gains recognized directly in other comprehensive income                       | 12,072                               | (2,727)             | 9,345                  |
| - Amount removed from other comprehensive income and recognized in profit or loss         | (4)                                  | 1                   | (3)                    |
| Fair value changes on equity instruments at fair value through other comprehensive income |                                      |                     |                        |
| - Amount of gains recognized directly in other comprehensive income                       | <u>161</u>                           | <u>(40)</u>         | <u>121</u>             |
| 30 June 2018  | <u><u>(903)</u></u>                  | <u><u>567</u></u>   | <u><u>(336)</u></u>    |
|   | <b>2017</b>                          |                     |                        |
|   | <b>Gross amount</b>                  | <b>Tax effect</b>   | <b>Net effect</b>      |
| 1 January 2017  | 4,775                                | (1,197)             | 3,578                  |
| Fair value changes on available-for-sale financial assets:                                |                                      |                     |                        |
| - Amount of losses recognized directly in other comprehensive income                      | (31,348)                             | 7,752               | (23,596)               |
| - Amount removed from other comprehensive income and recognized in profit or loss         | <u>438</u>                           | <u>(110)</u>        | <u>328</u>             |
| 31 December 2017  | <u><u>(26,135)</u></u>               | <u><u>6,445</u></u> | <u><u>(19,690)</u></u> |

**46 SURPLUS RESERVE**

Under PRC Law, the Bank is required to transfer 10% of its net profit determined under the PRC GAAP to a non-distributable statutory surplus reserve. Appropriation to the statutory surplus reserve may cease when the balance of this reserve has reached 50% of share capital. In addition, certain subsidiaries and overseas branches also appropriate surplus reserves in accordance with local requirements.

Subject to the approval of the ordinary equity holders, the statutory surplus reserves can be used for replenishing accumulated losses or increasing the Bank's ordinary share capital. The statutory surplus reserves amount used to increase the ordinary share capital is limited to a level where the balance of the statutory surplus reserves after such capitalization is not less than 25% of the ordinary share capital.

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#### 47 GENERAL RESERVE

Pursuant to Caijin [2012] No. 20 “Requirements on Impairment Allowance for Financial Institutions” (the “Requirement”) issued by the MOF, effective 1 July 2012, in addition to impairment allowance, the Bank establishes a general reserve within ordinary equity holders’ equity through the appropriation of profit to address unidentified potential impairment risks. The general reserve should not be less than 1.5% of the aggregate amount of risk assets as defined by the Requirement. The general reserve includes regulatory reserve appropriated by the Bank’s overseas branches (“Overseas Institutions”) pursuant to local regulatory requirements.

Pursuant to relevant PRC regulatory requirements, some domestic subsidiaries of the Bank are required to appropriate certain amounts of their net profit as general reserves.

For the six months ended 30 June 2018, the Group transferred RMB8,602 million (Six months ended 30 June 2017: RMB32,158 million) to the general reserve pursuant to the regulatory requirements in the PRC and overseas jurisdictions. Of this amount, RMB8,380 million (Six months ended 30 June 2017: RMB31,947 million) related to the appropriation proposed for the year ended 31 December 2017 which was approved in the annual general meeting held on 11 May 2018.

#### 48 CASH AND CASH EQUIVALENTS

For the purpose of the condensed consolidated interim statement of cash flows, cash and cash equivalents include the following balances with an original maturity of three months or less:

|   | <b>30 June 2018</b>   | <b>30 June 2017</b>   |
|---|-----------------------|-----------------------|
| Cash  | 103,882               | 109,752               |
| Balance with central banks  | 223,753               | 65,985                |
| Deposits with banks and other financial institutions                | 69,477                | 57,483                |
| Placements with and loans to banks and other financial institutions | 132,727               | 76,110                |
| Financial assets held under resale agreements                       | <u>337,764</u>        | <u>561,026</u>        |
| Total   | <u><u>867,603</u></u> | <u><u>870,356</u></u> |

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**49 OPERATING SEGMENTS**

Operating segments are identified on the basis of internal management reports with respect to the components of the Group that are regularly reviewed by the Board and relevant management committees, which constitute the chief operating decision makers, for the purposes of allocating resources to segments and assessing their performance. The Group's chief operating decision makers review three different sets of financial information based on (i) geographical locations, (ii) business activities and (iii) County Area and Urban Area banking business.

The measurement of segment assets and liabilities, as well as segment revenue, expense and results is based on the Group's accounting policies. There is no difference between the accounting policies used in the preparation of the condensed consolidated interim financial statements and those used in preparing the operating segment information.

Transactions between segments are conducted under normal commercial terms and conditions. Internal charges and transfer pricing are determined with reference to market rates and have been reflected in the performance of each segment.

Segment revenue, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

**Geographical operating segments**

The details of the geographical operating segments are as follows:

Head Office

Yangtze River Delta: Shanghai, Jiangsu, Zhejiang, Ningbo

Pearl River Delta: Guangdong, Shenzhen, Fujian, Xiamen

Bohai Rim: Beijing, Tianjin, Hebei, Shandong, Qingdao

Central China: Shanxi, Hubei, Henan, Hunan, Jiangxi, Hainan, Anhui

Western China: Chongqing, Sichuan, Guizhou, Yunnan, Shaanxi, Gansu, Qinghai, Ningxia, Xinjiang (including Xinjiang Bingtuan), Tibet, Inner Mongolia, Guangxi

Northeastern China: Liaoning, Heilongjiang, Jilin, Dalian

Overseas and Others: Subsidiaries and overseas branches



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**49 OPERATING SEGMENTS (Continued)**

**Geographical operating segments (Continued)**

| For the six months ended<br>30 June 2018   | Head<br>Office | Yangtze<br>River Delta | Pearl River<br>Delta | Bohai<br>Rim | Central<br>China | Western<br>China | Northeastern<br>China | Overseas<br>and Others | Eliminations | Consolidated<br>total |
|--|----------------|------------------------|----------------------|--------------|------------------|------------------|-----------------------|------------------------|--------------|-----------------------|
| External interest income   | 134,290        | 54,844                 | 37,190               | 37,043       | 36,086           | 56,035           | 9,573                 | 13,233                 | -            | 378,294               |
| External interest expense  | (23,996)       | (28,534)               | (15,508)             | (21,792)     | (18,836)         | (21,587)         | (6,318)               | (7,890)                | -            | (144,461)             |
| Inter-segment interest<br>(expense)/income   | (111,664)      | 23,672                 | 14,039               | 25,273       | 21,724           | 21,644           | 6,691                 | (1,379)                | -            | -                     |
| Net interest income  | (1,370)        | 49,982                 | 35,721               | 40,524       | 38,974           | 56,092           | 9,946                 | 3,964                  | -            | 233,833               |
| Fee and commission income  | 9,452          | 8,649                  | 8,123                | 5,573        | 5,866            | 8,278            | 2,121                 | 434                    | -            | 48,496                |
| Fee and commission expense   | (579)          | (1,183)                | (669)                | (673)        | (638)            | (919)            | (152)                 | (46)                   | -            | (4,859)               |
| Net fee and commission income  | 8,873          | 7,466                  | 7,454                | 4,900        | 5,228            | 7,359            | 1,969                 | 388                    | -            | 43,637                |
| Net trading gain/(loss)  | 5,352          | 341                    | 11                   | (7)          | (27)             | -                | 2                     | 2,134                  | -            | 7,806                 |
| Net gain/(loss) on financial<br>instruments designated at fair value<br>through profit or loss | 3,033          | 18                     | 33                   | 5            | -                | (1)              | -                     | 42                     | -            | 3,130                 |
| Net gain/(loss) on investment securities   | 1,316          | (99)                   | 1                    | (10)         | (4)              | (10)             | -                     | (246)                  | -            | 948                   |
| Other operating (expense)/income   | (1,710)        | 1,326                  | 2,041                | 335          | 299              | 813              | 81                    | 15,411                 | -            | 18,596                |
| Operating income   | 15,494         | 59,034                 | 45,261               | 45,747       | 44,470           | 64,253           | 11,998                | 21,693                 | -            | 307,950               |
| Operating expenses   | (5,373)        | (14,792)               | (10,543)             | (12,746)     | (14,507)         | (20,419)         | (6,073)               | (16,546)               | -            | (100,999)             |
| Impairment losses on assets  | 155            | (14,306)               | (5,102)              | (15,064)     | (10,657)         | (17,346)         | (3,888)               | 803                    | -            | (65,405)              |
| Operating profit   | 10,276         | 29,936                 | 29,616               | 17,937       | 19,306           | 26,488           | 2,037                 | 5,950                  | -            | 141,546               |
| Share of result of associate   | 6              | -                      | -                    | -            | -                | -                | -                     | -                      | -            | 6                     |
| Profit before tax  | 10,282         | 29,936                 | 29,616               | 17,937       | 19,306           | 26,488           | 2,037                 | 5,950                  | -            | 141,552               |
| Income tax expense   | -              | -                      | -                    | -            | -                | -                | -                     | -                      | -            | (25,576)              |
| Profit for the period  | -              | -                      | -                    | -            | -                | -                | -                     | -                      | -            | 115,976               |
| Depreciation and amortization<br>included in operating expenses                                | 691            | 1,254                  | 953                  | 1,307        | 1,410            | 1,928            | 577                   | 116                    | -            | 8,236                 |
| Capital expenditure  | 296            | 447                    | 329                  | 261          | 321              | 528              | 128                   | 1,138                  | -            | 3,448                 |
| <b>As at 30 June 2018</b>  |                |                        |                      |              |                  |                  |                       |                        |              |                       |
| Segment assets   | 5,136,622      | 4,592,221              | 2,873,788            | 3,932,901    | 3,226,475        | 4,545,997        | 928,613               | 956,049                | (4,392,109)  | 21,800,557            |
| Including: Investment in associates and<br>joint venture                                       | 233            | -                      | -                    | -            | -                | -                | -                     | 1,715                  | -            | 1,948                 |
| Unallocated assets   | -              | -                      | -                    | -            | -                | -                | -                     | -                      | -            | 120,294               |
| Total assets   | -              | -                      | -                    | -            | -                | -                | -                     | -                      | -            | 21,920,851            |
| Include: non-current assets (1)  | 11,361         | 30,898                 | 16,895               | 28,196       | 26,892           | 40,369           | 11,389                | 17,046                 | -            | 183,046               |
| Segment liabilities  | (3,569,469)    | (4,616,409)            | (2,880,370)          | (3,962,402)  | (3,243,164)      | (4,581,101)      | (938,973)             | (925,418)              | 4,392,109    | (20,325,197)          |
| Unallocated liabilities  | -              | -                      | -                    | -            | -                | -                | -                     | -                      | -            | (25,943)              |
| Total liabilities  | -              | -                      | -                    | -            | -                | -                | -                     | -                      | -            | (20,351,140)          |
| Credit commitments   | 35,403         | 510,562                | 256,114              | 325,462      | 229,401          | 314,771          | 55,707                | 85,971                 | -            | 1,813,391             |

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(Amounts in millions of Renminbi, unless otherwise stated)

**49 OPERATING SEGMENTS (Continued)**

**Geographical operating segments (Continued)**

| For the six months ended<br>30 June 2017   | Head<br>Office | Yangtze<br>River Delta | Pearl River<br>Delta | Bohai<br>Rim | Central<br>China | Western<br>China | Northeastern<br>China | Overseas<br>and Others | Eliminations | Consolidated<br>total |
|--|----------------|------------------------|----------------------|--------------|------------------|------------------|-----------------------|------------------------|--------------|-----------------------|
| External interest income   | 130,784        | 48,746                 | 32,283               | 32,833       | 30,799           | 49,569           | 8,500                 | 11,086                 | -            | 344,600               |
| External interest expense  | (16,462)       | (27,677)               | (15,454)             | (21,971)     | (18,401)         | (20,612)         | (6,470)               | (6,230)                | -            | (133,277)             |
| Inter-segment interest (expense)/income  | (98,289)       | 20,325                 | 11,996               | 22,378       | 19,159           | 18,333           | 6,459                 | (361)                  | -            | -                     |
| Net interest income  | 16,033         | 41,394                 | 28,825               | 33,240       | 31,557           | 47,290           | 8,489                 | 4,495                  | -            | 211,323               |
| Fee and commission income  | 9,838          | 9,294                  | 6,835                | 5,990        | 5,684            | 7,724            | 1,664                 | 233                    | -            | 47,262                |
| Fee and commission expense   | (453)          | (942)                  | (790)                | (749)        | (684)            | (978)            | (163)                 | (38)                   | -            | (4,797)               |
| Net fee and commission income  | 9,385          | 8,352                  | 6,045                | 5,241        | 5,000            | 6,746            | 1,501                 | 195                    | -            | 42,465                |
| Net trading gain/(loss)  | 206            | (75)                   | 10                   | (1)          | (17)             | 25               | 44                    | (1,562)                | -            | (1,370)               |
| Net (loss)/gain on financial<br>instruments designated at fair value<br>through profit or loss | (38)           | (13)                   | 24                   | -            | (1)              | 6                | -                     | 629                    | -            | 607                   |
| Net (loss)/gain on investment securities   | (96)           | -                      | -                    | 48           | -                | -                | -                     | 356                    | -            | 308                   |
| Other operating income   | 1,321          | 545                    | 447                  | 215          | 202              | 1,930            | 34                    | 21,292                 | -            | 25,986                |
| Operating income   | 26,811         | 50,203                 | 35,351               | 38,743       | 36,741           | 55,997           | 10,068                | 25,405                 | -            | 279,319               |
| Operating expenses   | (4,370)        | (14,220)               | (9,920)              | (12,577)     | (13,613)         | (20,012)         | (5,861)               | (20,841)               | -            | (101,414)             |
| Impairment losses on assets  | (217)          | 1,481                  | (4,789)              | (20,092)     | (6,228)          | (12,400)         | (2,231)               | (221)                  | -            | (44,697)              |
| Operating profit   | 22,224         | 37,464                 | 20,642               | 6,074        | 16,900           | 23,585           | 1,976                 | 4,343                  | -            | 133,208               |
| Share of result of associate   | 2              | -                      | -                    | -            | -                | -                | -                     | -                      | -            | 2                     |
| Profit before tax  | 22,226         | 37,464                 | 20,642               | 6,074        | 16,900           | 23,585           | 1,976                 | 4,343                  | -            | 133,210               |
| Income tax expense   | -              | -                      | -                    | -            | -                | -                | -                     | -                      | -            | (24,540)              |
| Profit for the period  | -              | -                      | -                    | -            | -                | -                | -                     | -                      | -            | 108,670               |
| Depreciation and amortization<br>included in operating expenses                                | 818            | 1,441                  | 1,022                | 1,426        | 1,565            | 2,062            | 616                   | 156                    | -            | 9,106                 |
| Capital expenditure  | 262            | 262                    | 535                  | 203          | 428              | 572              | 116                   | 1,254                  | -            | 3,632                 |
| <b>As at 31 December 2017</b>  |                |                        |                      |              |                  |                  |                       |                        |              |                       |
| Segment assets   | 5,245,493      | 4,685,961              | 2,721,293            | 3,673,909    | 3,087,743        | 4,353,179        | 946,065               | 926,250                | (4,684,262)  | 20,955,631            |
| Including: Investment in associate   | 227            | -                      | -                    | -            | -                | -                | -                     | -                      | -            | 227                   |
| Unallocated assets   | -              | -                      | -                    | -            | -                | -                | -                     | -                      | -            | 97,751                |
| Total assets   | -              | -                      | -                    | -            | -                | -                | -                     | -                      | -            | 21,053,382            |
| Include: non-current assets (1)  | 11,782         | 31,931                 | 17,599               | 29,337       | 28,021           | 41,821           | 11,843                | 12,875                 | -            | 185,209               |
| Segment liabilities  | (3,874,946)    | (4,691,262)            | (2,720,278)          | (3,690,361)  | (3,084,338)      | (4,362,114)      | (950,890)             | (901,129)              | 4,684,262    | (19,591,056)          |
| Unallocated liabilities  | -              | -                      | -                    | -            | -                | -                | -                     | -                      | -            | (32,929)              |
| Total liabilities  | -              | -                      | -                    | -            | -                | -                | -                     | -                      | -            | (19,623,985)          |
| Credit commitments   | 39,053         | 488,442                | 241,298              | 334,741      | 201,770          | 287,590          | 66,396                | 89,588                 | -            | 1,748,878             |

(1) Non-current assets include property and equipment, investment properties, land use rights, intangible assets and other long-term assets.

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**49 OPERATING SEGMENTS (Continued)**

**Business operating segments**

The details of the business operating segments are as follows:

*Corporate banking*

The corporate banking segment provides financial products and services to corporations, government agencies and financial institutions. The range of products and services includes corporate loans and advances, trade finance, deposit products, corporate wealth management services and other types of corporate intermediary services.

*Personal banking*

The personal banking segment provides financial products and services to individual customers. The range of products and services includes personal loans, deposit products, card business, personal wealth management services and other types of personal intermediary services.

*Treasury operations*

The Group's treasury operations conduct money market and repurchase transactions, debt instruments investments, precious metal transactions and derivative transactions for its own accounts or on behalf of customers.

*Others*

Others comprise components of the Group that are not attributable to any of the above segments, along with certain assets, liabilities, income or expenses of the Head Office that could not be allocated on a reasonable basis.

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FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Amounts in millions of Renminbi, unless otherwise stated)

**49 OPERATING SEGMENTS (Continued)**

**Business operating segments (Continued)**

|   | Corporate<br>banking | Personal<br>banking | Treasury<br>operations | Others           | Consolidated<br>total |
|---|----------------------|---------------------|------------------------|------------------|-----------------------|
| <b>For the six months ended 30 June 2018</b>  |                      |                     |                        |                  |                       |
| External interest income  | 153,079              | 91,612              | 130,731                | 2,872            | 378,294               |
| External interest expense   | (43,273)             | (72,946)            | (26,910)               | (1,332)          | (144,461)             |
| Inter-segment interest income/(expense)   | 6,395                | 80,015              | (86,410)               | -                | -                     |
| Net interest income   | <u>116,201</u>       | <u>98,681</u>       | <u>17,411</u>          | <u>1,540</u>     | <u>233,833</u>        |
| Fee and commission income   | 25,729               | 21,795              | -                      | 972              | 48,496                |
| Fee and commission expense  | (2,374)              | (2,455)             | (1)                    | (29)             | (4,859)               |
| Net fee and commission income   | <u>23,355</u>        | <u>19,340</u>       | <u>(1)</u>             | <u>943</u>       | <u>43,637</u>         |
| Net trading gain  | -                    | -                   | 5,349                  | 2,457            | 7,806                 |
| Net gain on financial instruments<br>designated at fair value through<br>profit or loss | 19                   | 73                  | 3,038                  | -                | 3,130                 |
| Net (loss)/gain on investment securities  | (116)                | -                   | 1,042                  | 22               | 948                   |
| Other operating income  | <u>757</u>           | <u>728</u>          | <u>2,231</u>           | <u>14,880</u>    | <u>18,596</u>         |
| Operating income  | 140,216              | 118,822             | 29,070                 | 19,842           | 307,950               |
| Operating expenses  | (33,831)             | (41,595)            | (9,739)                | (15,834)         | (100,999)             |
| Impairment losses on assets   | <u>(52,260)</u>      | <u>(14,959)</u>     | <u>1,497</u>           | <u>317</u>       | <u>(65,405)</u>       |
| Operating profit  | 54,125               | 62,268              | 20,828                 | 4,325            | 141,546               |
| Share of result of associate  | -                    | -                   | -                      | 6                | 6                     |
| Profit before tax   | <u>54,125</u>        | <u>62,268</u>       | <u>20,828</u>          | <u>4,331</u>     | <u>141,552</u>        |
| Income tax expense  |                      |                     |                        |                  | <u>(25,576)</u>       |
| Profit for the period   |                      |                     |                        |                  | <u>115,976</u>        |
| Depreciation and amortization included in<br>operating expenses                         | 1,846                | 4,843               | 1,461                  | 86               | 8,236                 |
| Capital expenditure   | <u>473</u>           | <u>1,439</u>        | <u>471</u>             | <u>1,065</u>     | <u>3,448</u>          |
| <b>As at 30 June 2018</b>   |                      |                     |                        |                  |                       |
| Segment assets  | 6,928,530            | 4,814,412           | 9,777,644              | 279,971          | 21,800,557            |
| Including: Investment in associates<br>and joint venture                                | -                    | -                   | -                      | 1,948            | 1,948                 |
| Unallocated assets  |                      |                     |                        |                  | <u>120,294</u>        |
| Total assets  |                      |                     |                        |                  | <u>21,920,851</u>     |
| Segment liabilities   | <u>(7,882,358)</u>   | <u>(10,476,927)</u> | <u>(1,794,669)</u>     | <u>(171,243)</u> | <u>(20,325,197)</u>   |
| Unallocated liabilities   |                      |                     |                        |                  | <u>(25,943)</u>       |
| Total liabilities   |                      |                     |                        |                  | <u>(20,351,140)</u>   |
| Credit commitments  | <u>1,231,591</u>     | <u>581,800</u>      | -                      | -                | <u>1,813,391</u>      |

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**49 OPERATING SEGMENTS (Continued)**

**Business operating segments (Continued)**

|  | Corporate<br>banking | Personal<br>banking | Treasury<br>operations | Others        | Consolidated<br>total      |
|--|----------------------|---------------------|------------------------|---------------|----------------------------|
| <b>For the six months ended 30 June 2017</b>   |                      |                     |                        |               |                            |
| External interest income   | 139,875              | 75,398              | 126,229                | 3,098         | 344,600                    |
| External interest expense  | (41,786)             | (71,749)            | (18,799)               | (943)         | (133,277)                  |
| Inter-segment interest income/(expense)  | 1,279                | 80,133              | (81,412)               | -             | -                          |
| Net interest income  | <u>99,368</u>        | <u>83,782</u>       | <u>26,018</u>          | <u>2,155</u>  | <u>211,323</u>             |
| Fee and commission income  | 23,196               | 23,361              | -                      | 705           | 47,262                     |
| Fee and commission expense   | (2,133)              | (2,641)             | (1)                    | (22)          | (4,797)                    |
| Net fee and commission income  | <u>21,063</u>        | <u>20,720</u>       | <u>(1)</u>             | <u>683</u>    | <u>42,465</u>              |
| Net trading (loss)/gain  | -                    | -                   | (1,382)                | 12            | (1,370)                    |
| Net gain/(loss) on financial instruments<br>designated at fair value through<br>profit or loss | 125                  | (221)               | 72                     | 631           | 607                        |
| Net (loss)/gain on investment securities   | -                    | -                   | (46)                   | 354           | 308                        |
| Other operating income   | <u>1,093</u>         | <u>1,077</u>        | <u>4,502</u>           | <u>19,314</u> | <u>25,986</u>              |
| Operating income   | 121,649              | 105,358             | 29,163                 | 23,149        | 279,319                    |
| Operating expenses   | (30,360)             | (39,986)            | (10,693)               | (20,375)      | (101,414)                  |
| Impairment losses on assets  | <u>(46,135)</u>      | <u>2,790</u>        | <u>(1,190)</u>         | <u>(162)</u>  | <u>(44,697)</u>            |
| Operating profit   | 45,154               | 68,162              | 17,280                 | 2,612         | 133,208                    |
| Share of result of associate   | -                    | -                   | -                      | 2             | 2                          |
| Profit before tax  | <u>45,154</u>        | <u>68,162</u>       | <u>17,280</u>          | <u>2,614</u>  | <u>133,210</u>             |
| Income tax expense   |                      |                     |                        |               | <u>(24,540)</u>            |
| Profit for the period  |                      |                     |                        |               | <u><u>108,670</u></u>      |
| Depreciation and amortization included in<br>operating expenses                                | 1,736                | 5,384               | 1,862                  | 124           | 9,106                      |
| Capital expenditure  | <u>558</u>           | <u>1,730</u>        | <u>598</u>             | <u>746</u>    | <u>3,632</u>               |
| <b>As at 31 December 2017</b>  |                      |                     |                        |               |                            |
| Segment assets   | 6,584,597            | 4,468,376           | 9,635,618              | 267,040       | 20,955,631                 |
| Including: Investment in associate   | -                    | -                   | -                      | 227           | 227                        |
| Unallocated assets   |                      |                     |                        |               | <u>97,751</u>              |
| Total assets   |                      |                     |                        |               | <u><u>21,053,382</u></u>   |
| Segment liabilities  | (7,306,002)          | (10,302,042)        | (1,826,344)            | (156,668)     | (19,591,056)               |
| Unallocated liabilities  |                      |                     |                        |               | <u>(32,929)</u>            |
| Total liabilities  |                      |                     |                        |               | <u><u>(19,623,985)</u></u> |
| Credit commitments   | <u>1,234,005</u>     | <u>514,873</u>      | -                      | -             | <u>1,748,878</u>           |

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**49 OPERATING SEGMENTS (Continued)**

**County Area and Urban Area segments**

The Group's operating segments organized by County Area and Urban Area banking business are set out as follows:

*County Area banking business*

The Group's County Area banking business provides a broad range of financial products and services to customers in designated County Area, through its operating branches in the counties or county-level cities throughout the PRC. The products and services mainly comprise loans, deposits, bank cards, and other types of intermediary services.

*Urban Area banking business*

The Group's Urban Area banking business comprises all banking activities outside of the County Area banking business, overseas branches and subsidiaries.

|  | <b>County<br/>banking<br/>business</b> | <b>Urban<br/>banking<br/>business</b> | <b>Eliminations</b> | <b>Consolidated<br/>total</b> |
|--|--|---------------------------------------|---------------------|-------------------------------|
| <b>For the six months ended 30 June 2018</b>   |  |                                       |                     |                               |
| External interest income   | 84,584                                 | 293,710                               | -                   | 378,294                       |
| External interest expense  | (44,575)                               | (99,886)                              | -                   | (144,461)                     |
| Inter-segment interest income/(expense)  | 56,149                                 | (56,149)                              | -                   | -                             |
| Net interest income  | <u>96,158</u>                          | <u>137,675</u>                        | -                   | <u>233,833</u>                |
| Fee and commission income  | 18,620                                 | 29,876                                | -                   | 48,496                        |
| Fee and commission expense   | (1,964)                                | (2,895)                               | -                   | (4,859)                       |
| Net fee and commission income  | <u>16,656</u>                          | <u>26,981</u>                         | -                   | <u>43,637</u>                 |
| Net trading gain   | 18                                     | 7,788                                 | -                   | 7,806                         |
| Net gain on financial instruments<br>designated at fair value through profit or loss | 11                                     | 3,119                                 | -                   | 3,130                         |
| Net (loss)/gain on investment securities   | (7)                                    | 955                                   | -                   | 948                           |
| Other operating income   | 1,965                                  | 16,631                                | -                   | 18,596                        |
| Operating income   | 114,801                                | 193,149                               | -                   | 307,950                       |
| Operating expenses   | (38,219)                               | (62,780)                              | -                   | (100,999)                     |
| Impairment losses on assets  | (34,130)                               | (31,275)                              | -                   | (65,405)                      |
| Operating profit   | 42,452                                 | 99,094                                | -                   | 141,546                       |
| Share of result of associate   | -                                      | 6                                     | -                   | 6                             |
| Profit before tax  | <u>42,452</u>                          | <u>99,100</u>                         | -                   | <u>141,552</u>                |
| Income tax expense   |  |                                       |                     | (25,576)                      |
| Profit for the period  |  |                                       |                     | <u>115,976</u>                |
| Depreciation and amortization included in<br>operating expenses                      | 3,769                                  | 4,467                                 | -                   | 8,236                         |
| Capital expenditure  | 642                                    | 2,806                                 | -                   | 3,448                         |
| <b>As at 30 June 2018</b>  |  |                                       |                     |                               |
| Segment assets   | 7,941,946                              | 13,979,729                            | (121,118)           | 21,800,557                    |
| Including: Investment in associates and joint<br>venture                             | -                                      | 1,948                                 | -                   | 1,948                         |
| Unallocated assets   |  |                                       |                     | <u>120,294</u>                |
| Total assets   |  |                                       |                     | <u>21,920,851</u>             |
| Segment liabilities  | (7,453,811)                            | (12,992,504)                          | 121,118             | (20,325,197)                  |
| Unallocated liabilities  |  |                                       |                     | <u>(25,943)</u>               |
| Total liabilities  |  |                                       |                     | <u>(20,351,140)</u>           |
| Credit commitments   | 489,989                                | 1,323,402                             | -                   | 1,813,391                     |

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**49 OPERATING SEGMENTS (Continued)**

**County Area and Urban Area segments (Continued)**

|  | County area<br>banking<br>business | Urban area<br>banking<br>business | Eliminations | Consolidated<br>total      |
|--|------------------------------------|-----------------------------------|--------------|----------------------------|
| <b>For the six months ended 30 June 2017</b>   |                                    |                                   |              |                            |
| External interest income   | 76,052                             | 268,548                           | -            | 344,600                    |
| External interest expense  | (43,054)                           | (90,223)                          | -            | (133,277)                  |
| Inter-segment interest income/(expense)  | 50,408                             | (50,408)                          | -            | -                          |
| Net interest income  | <u>83,406</u>                      | <u>127,917</u>                    | -            | <u>211,323</u>             |
| Fee and commission income  | 18,315                             | 28,947                            | -            | 47,262                     |
| Fee and commission expense   | (1,862)                            | (2,935)                           | -            | (4,797)                    |
| Net fee and commission income  | <u>16,453</u>                      | <u>26,012</u>                     | -            | <u>42,465</u>              |
| Net trading gain/(loss)  | 60                                 | (1,430)                           | -            | (1,370)                    |
| Net gain on financial instruments<br>designated at fair value through profit or loss | 3                                  | 604                               | -            | 607                        |
| Net gain on investment securities  | -                                  | 308                               | -            | 308                        |
| Other operating income   | 2,367                              | 23,619                            | -            | 25,986                     |
| Operating income   | 102,289                            | 177,030                           | -            | 279,319                    |
| Operating expenses   | (37,094)                           | (64,320)                          | -            | (101,414)                  |
| Impairment losses on assets  | (22,668)                           | (22,029)                          | -            | (44,697)                   |
| Operating profit   | 42,527                             | 90,681                            | -            | 133,208                    |
| Share of result of associate   | -                                  | 2                                 | -            | 2                          |
| Profit before tax  | <u>42,527</u>                      | <u>90,683</u>                     | -            | <u>133,210</u>             |
| Income tax expense   |                                    |                                   |              | <u>(24,540)</u>            |
| Profit for the period  |                                    |                                   |              | <u><u>108,670</u></u>      |
| Depreciation and amortization included in<br>operating expenses                      | 4,196                              | 4,910                             | -            | 9,106                      |
| Capital expenditure  | 739                                | 2,893                             | -            | 3,632                      |
| <b>At 31 December 2017</b>   |                                    |                                   |              |                            |
| Segment assets   | 7,585,643                          | 13,400,362                        | (30,374)     | 20,955,631                 |
| Including: Investment in associate   | -                                  | 227                               | -            | 227                        |
| Unallocated assets   |                                    |                                   |              | <u>97,751</u>              |
| Total assets   |                                    |                                   |              | <u><u>21,053,382</u></u>   |
| Segment liabilities  | (7,097,974)                        | (12,523,456)                      | 30,374       | (19,591,056)               |
| Unallocated liabilities  |                                    |                                   |              | <u>(32,929)</u>            |
| Total liabilities  |                                    |                                   |              | <u><u>(19,623,985)</u></u> |
| Credit commitments   | <u>449,431</u>                     | <u>1,299,447</u>                  | -            | <u>1,748,878</u>           |

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#### 50 RELATED PARTY TRANSACTIONS

##### (1) The Group and the MOF

As at 30 June 2018, the MOF directly owned 39.21% (31 December 2017: 39.21%) of the ordinary shares of the Bank.

The MOF is a Chinese government ministry, primarily responsible for managing state fiscal revenue and expenditures, and establishing and enforcing taxation policies. It reports to the Chinese State Council.

The Group had the following balances and transactions with the MOF in its ordinary course of business under normal commercial terms:

|   | 30 June 2018                    | 31 December 2017 |
|---|---------------------------------|------------------|
| <b>Assets</b>                                       |                                 |                  |
| Treasury bonds and special government bond          | 586,334                         | 604,345          |
| Receivable from the MOF (Note 27 and 29)            | 290,891                         | 271,678          |
| Interest receivable                                 |                                 |                  |
| - treasury bonds and special government bond        | 5,531                           | 6,132            |
| - receivable from the MOF                           | 4,592                           | 125              |
| Other accounts receivable                           | 9,156                           | 10,147           |
| <b>Liabilities</b>                                  |                                 |                  |
| Amount payable to the MOF (Note 41)                 | 4,018                           | 3,154            |
| Customer deposits                                   | 14,807                          | 8,127            |
| Interest payable                                    | 161                             | 44               |
| Other liability                                     |                                 |                  |
| - redemption of treasury bonds on behalf of the MOF | 78                              | 87               |
|   | <u>78</u>                       | <u>87</u>        |
|   | <b>Six months ended 30 June</b> |                  |
|   | <b>2018</b>                     | <b>2017</b>      |
| Interest income                                     | 13,479                          | 27,566           |
| Interest expense                                    | (169)                           | (91)             |
| Fee and commission income                           | 2,219                           | 362              |
| Investment income                                   | 129                             | -                |
|   | <u>129</u>                      | <u>-</u>         |

Interest rate ranges for transactions with the MOF during the interim period are as follows:

|  | <b>Six months ended 30 June</b> |                    |
|--|---------------------------------|--------------------|
|  | <b>2018</b>                     | <b>2017</b>        |
|  | %                               | %                  |
| Treasury bonds and receivable from the MOF | 2.25-5.41                       | 2.10-9.00          |
| Customer deposits                          | 0.0001-3.12                     | 0.0001-1.95        |
|  | <u>0.0001-3.12</u>              | <u>0.0001-1.95</u> |

The Group's redemption commitment for treasury bonds underwriting is disclosed in Note 52 Contingent Liabilities and Commitments.



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### 50 RELATED PARTY TRANSACTIONS (Continued)

#### (2) The Group and Huijin

Central Huijin Investment Ltd. (“Huijin”) is a wholly-owned subsidiary of China Investment Corporation Limited, which is incorporated in Beijing, the PRC. Huijin was established to hold certain equity interests in state-owned financial institutions as authorized by the Chinese State Council and does not engage in other commercial activities. Huijin exercises its legal rights and assumes obligations related to the Bank on behalf of the PRC Government.

As at 30 June 2018, Huijin directly owned 40.03% (31 December 2017: 40.03%) of the ordinary shares of the Bank.

#### Transactions with Huijin

The Group had the following balances and transactions with Huijin in its ordinary course of business under normal commercial terms:

|  | 30 June 2018                    | 31 December 2017 |
|--|---------------------------------|------------------|
| <b>Assets</b>  |                                 |                  |
| Loans and advances to customers                                    | 28,000                          | 28,000           |
| Investment in debt securities                                      | 26,706                          | 13,839           |
| Interest receivable  | 617                             | 771              |
| <b>Liabilities</b>   |                                 |                  |
| Principal guaranteed wealth management products issued by the Bank | -                               | 15,000           |
| Customer deposits  | 4,081                           | 5,301            |
| Interest payable   | 104                             | 122              |
|  | <b>Six months ended 30 June</b> |                  |
|  | <b>2018</b>                     | <b>2017</b>      |
| Interest income  | 904                             | 121              |
| Interest expense   | (70)                            | (63)             |
| Investment income  | 4                               | -                |

Interest rate ranges for transactions with Huijin during the interim period are as follows:

|  | <b>Six months ended 30 June</b> |             |
|--|---------------------------------|-------------|
|  | <b>2018</b>                     | <b>2017</b> |
|  | %                               | %           |
| Loans and advances to customers                                    | 3.92-4.35                       | 3.92        |
| Investment in debt securities                                      | 2.75-5.15                       | 3.16-4.20   |
| Principal guaranteed wealth management products issued by the Bank | 4.37-4.41                       | 2.95-3.73   |
| Customer deposits  | 0.30-1.76                       | 0.30-1.76   |

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#### 50 RELATED PARTY TRANSACTIONS (Continued)

##### (2) The Group and Huijin (Continued)

###### Transactions with companies under Huijin

Huijin has equity interests in certain other banks and financial institutions under the direction of the Chinese government. The Group enters into transactions with these banks and financial institutions in the ordinary course of business under normal commercial terms. Corresponding balances with these banks and financial institutions were as follows:

|  | 30 June 2018 | 31 December 2017 |
|--|--------------|------------------|
| <b>Assets</b>  |              |                  |
| Deposits with banks and other financial institutions                   | 15,786       | 28,959           |
| Precious metal leasing   | 77           | 2,061            |
| Placements with and loans to banks and other financial institutions    | 42,559       | 42,563           |
| Derivative financial assets  | 3,214        | 4,642            |
| Financial assets held under resale agreements                          | 14,607       | 30,335           |
| Loans and advances to customers  | 24,700       | 17,548           |
| Investment securities  | 793,614      | 742,623          |
| <b>Liabilities</b>   |              |                  |
| Deposits from banks and other financial institutions                   | 98,690       | 39,220           |
| Placements from banks and other financial institutions                 | 70,497       | 44,498           |
| Derivative financial liabilities                                       | 4,791        | 1,929            |
| Financial assets sold under repurchase agreements                      | 1,056        | 16,405           |
| <b>Equity</b>  |              |                  |
| Preference shares  | <u>2,000</u> | <u>2,000</u>     |
| <b>Off-balance sheet items</b>   |              |                  |
| Non-principal guaranteed wealth management products issued by the Bank | <u>2,478</u> | <u>2,943</u>     |

##### (3) 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 authorities, agencies, affiliates and other State controlled entities. These transactions are entered into under normal commercial terms and conditions and mainly include provision of credit and guarantee, deposits, foreign exchange transactions, derivative transactions, agency services, underwriting and distribution of bonds issued by government agencies, purchase, sales and redemption of investment securities issued by government agencies.

Management considers that these transactions are activities conducted in the ordinary course of business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and those entities are government related. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are government authorities, agencies, affiliates and other State controlled entities.

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**50 RELATED PARTY TRANSACTIONS (Continued)**

(4) The Bank and its subsidiaries

The Bank had the following balances and transactions with its subsidiaries in its ordinary course of business under normal commercial terms:

|   | <b>30 June 2018</b> | <b>31 December 2017</b> |
|---|---------------------|-------------------------|
| <b>Assets</b>   |                     |                         |
| Placements with and loans to banks and other financial institutions | 13,097              | 11,067                  |
| Loans and advances to customers                                     | 3,721               | 3,649                   |
| Interest receivable   | 192                 | 68                      |
| Other assets  | 32                  | 7                       |
| <b>Liabilities</b>  |                     |                         |
| Deposits from banks and other financial institutions                | 4,014               | 4,771                   |
| Placements from banks and other financial institutions              | 337                 | 160                     |
| Deposits from customers   | 3,849               | 2,117                   |
| Interest payable  | 49                  | 42                      |
| Other liabilities   | 529                 | -                       |
| <b>Off-balance sheet items</b>                                      |                     |                         |
| Letters of guarantee issued and guarantees                          | 10,481              | 10,357                  |
| <b>Six months ended 30 June</b>                                     |                     |                         |
|   | <b>2018</b>         | <b>2017</b>             |
| Interest income   | 109                 | 103                     |
| Fee and commission income   | 711                 | 765                     |
| Other operating income  | 5                   | 9                       |
| Interest expense  | (39)                | (17)                    |
| Fee and commission expense  | -                   | (4)                     |
| Operating expense   | (5)                 | (5)                     |
| <b>Six months ended 30 June</b>                                     |                     |                         |
|   | <b>2018</b>         | <b>2017</b>             |
|   | %                   | %                       |
| Placements with and loans to banks and other financial institutions | 0.01-5.25           | 0.01-10.10              |
| Loans and advances to customers                                     | 2.04-4.79           | 1.73-3.92               |
| Deposits from banks and other financial institutions                | 0.01-4.75           | 0.01-4.75               |
| Placements from banks and other financial institutions              | 0-3.70              | 0.10                    |
| Customer deposits   | 0.30-3.85           | 0.30-2.94               |

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**50 RELATED PARTY TRANSACTIONS (Continued)**

(5) The Group and its associates and joint venture

The Group had the following balances and transactions with its associates and joint venture in its ordinary course of business under normal commercial terms:

|  | <b>30 June 2018</b>             | <b>31 December 2017</b> |
|--|---------------------------------|-------------------------|
| Placements with banks and other financial institutions | -                               | 133                     |
|  | <b>Six months ended 30 June</b> |                         |
|  | <b>2018</b>                     | <b>2017</b>             |
|  | %                               | %                       |
| Placements with banks and other financial institutions | -                               | 0.02                    |

For the six months ended 30 June 2018 and 30 June 2017, transaction profit or loss between the Group and its associates and joint venture was not significant.

(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. Key management personnel of the Group, their close relatives, and entities that are controlled, jointly controlled, or significantly influenced by either the key management personnel of the Group or their close relatives, are considered as related parties of the Group. The Group enters into banking transactions with key management personnel and their related parties in the normal course of business. As at 30 June 2018, the balance of loans and advances to the key management personnel and their related parties is RMB4.17 million (31 December 2017: RMB3.06 million).

(7) The Group and the Annuity Scheme

The Group had the following balances and transactions with the Annuity Scheme set up by the Bank apart from the obligation for defined contribution to the Annuity Scheme:

|  | <b>30 June 2018</b>             | <b>31 December 2017</b> |
|--|---------------------------------|-------------------------|
| Deposits from Annuity Scheme   | -                               | 135                     |
|  | <b>Six months ended 30 June</b> |                         |
|  | <b>2018</b>                     | <b>2017</b>             |
| Interest expense   | -                               | (149)                   |
| Interest rate range for transaction with the Annuity Scheme during the interim period is as follows: |                                 |                         |
|  | <b>Six months ended 30 June</b> |                         |
|  | <b>2018</b>                     | <b>2017</b>             |
|  | %                               | %                       |
| Deposits from Annuity Scheme   | -                               | 0.03-6.20               |

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

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**51 STRUCTURED ENTITIES**

(1) Consolidated structured entities

Principal guaranteed wealth management products sponsored and managed by the Group

Principal guaranteed wealth management products sponsored and managed by the Group represent products to which the Group has guaranteed the investor's principal investment, regardless of their actual performance. Investments made by these products and the corresponding liabilities to the investors of these products are presented in financial assets and financial liabilities at fair value through profit or loss, respectively.

Other consolidated structured entities

Other structured entities consolidated by the Group include certain asset management plans, funds and securitization products issued, managed and/or invested by the Group. The Group controls these entities because the Group has power over, is exposed to, or has rights to, variable returns from its involvement with these entities and has the ability to use its power over these entities to affect the amount of the Group's returns.

As at 30 June 2018, the total assets of these consolidated structured entities were RMB 458,551 million (31 December 2017: RMB482,441 million).

(2) Unconsolidated structured entities

Unconsolidated structured entities sponsored and managed by the Group

Unconsolidated structured entities sponsored and managed by the Group mainly include non-principal guaranteed wealth management products ("WMPs"), which are not subject to any guarantee by the Group of the principal invested or interest to be paid. The WMPs invest in a range of primarily fixed-rate assets, most typically money market instruments, debt securities and loan assets. As the manager of these WMPs, the Group invests, on behalf of the investors in these WMPs, the funds raised in the assets as described in the investment plan related to each WMP and receives fee and commission income.

As at 30 June 2018, the total assets invested by these WMPs amounted to RMB1,508,318 million (31 December 2017: RMB1,580,527 million) and the corresponding outstanding WMPs issued by the Group amounted to RMB1,185,038 million (31 December 2017: RMB1,368,878 million). For the six months ended 30 June 2018, the Group's interest in these WMPs included net fee and commission income of RMB1,753 million (Six months ended 30 June 2017: RMB4,583 million) and net interest income of RMB378 million (Six months ended 30 June 2017: RMB548 million), which related to placements and repo transactions entered into by the Group with these WMP Vehicles.

The Group has entered into placements and repo transactions at market interest rates with these WMPs. The average balance for the six months ended 30 June 2018 and the outstanding balance as at 30 June 2018 of these transactions were RMB10,577 million (weighted average outstanding period of 5.28 days) (2017: RMB23,168 million and 5.31 days) and RMB151,587 million (31 December 2017: RMB84,862 million), respectively. The Group was under no obligation to enter into these transactions. As at 30 June 2018 and 31 December 2017, the outstanding balance of these transactions was presented in placements with and loans to banks and other financial institutions and financial assets held under resale agreements, which represented the Group's maximum exposure to the WMPs.

There were no contractual liquidity arrangements, guarantees or other commitments among or between the Group, WMPs or any third parties that could increase the level of the Group's risk from WMPs disclosed above during the period ended 30 June 2018 and the year ended 31 December 2017. The Group was not required to absorb any losses incurred by WMPs. During the period ended 30 June 2018 and the year ended 31 December 2017, no loss was incurred by these WMPs relating to the Group's interests in these WMPs, and the WMPs did not experience difficulty in financing their activities.

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#### 51 STRUCTURED ENTITIES (Continued)

##### (2) Unconsolidated structured entities (Continued)

###### Unconsolidated structured entities held by the Group

The Group invests in other unconsolidated structured entities which are sponsored and managed by other entities for investment return, and records trading gains or losses and interest income therefrom. These unconsolidated structured entities primarily include asset management plans, funds and asset-backed securities. As at 30 June 2018, the related carrying amount of investments and the maximum exposure by the Group to these other unconsolidated structured entities was RMB47,444 million (31 December 2017: RMB45,230 million), included under the financial assets at fair value through profit or loss, financial investments at fair value through other comprehensive income and financial investments at amortized costs categories in the consolidated statement of financial position as at 30 June 2018 (31 December 2017: included under the financial assets designated at fair value through profit or loss, the available-for-sale financial assets, the held-to-maturity investments and the debt instruments classified as receivables categories in the consolidated statement of financial position). The information on the size of total assets of these unconsolidated structured entities was not readily available from the public domain.

#### 52 CONTINGENT LIABILITIES AND COMMITMENTS

##### Legal proceedings and others

The Bank and its subsidiaries are involved as defendants in certain lawsuits arising from their normal business operations. As at 30 June 2018, provisions of RMB6,161 million were made by the Group (31 December 2017: RMB6,240 million) based on court judgments or advice of legal counsel, and included in Note 41 Other Liabilities. Management of the Group believes that the final result of these lawsuits will not have a material impact on the financial position or operations of the Group.

On 28 September 2016, the Bank and its New York Branch entered into a Cease and Desist Order with the Board of Governors of the Federal Reserve System of the United States. On 4 November 2016, the Bank and its New York Branch entered into a Consent Order with New York State Department of Financial Services (the "Department") and paid a civil monetary penalty to the Department accordingly. As at 31 December 2016, the above-mentioned civil monetary penalty was paid and reflected in the consolidated financial statements for the year ended 31 December 2016.

The Bank and its New York Branch are taking affirmative actions to respond to other requirements under these two orders. As at the date of these financial statements, the Group is of the view that it is not practicable to estimate whether there will be any further regulatory actions undertaken by the US regulators as this will be dependent upon the regulatory conclusion after the Bank's and its New York Branch's actions towards the other requirements under these two orders. As such, the Group did not accrue any further provision over this matter as at 30 June 2018.

##### Capital commitments

|                                 | 30 June 2018 | 31 December 2017 |
|---------------------------------|--------------|------------------|
| Contracted but not provided for | 4,453        | 5,062            |

In addition, as at 30 June 2018 and 31 December 2017, the Group did not have outstanding equity investment commitments for its investee companies.

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**52 CONTINGENT LIABILITIES AND COMMITMENTS (Continued)**

**Credit commitments**

|   | <b>30 June 2018</b> | <b>31 December 2017</b> |
|---|---------------------|-------------------------|
| Loan commitments                                |                     |                         |
| - With an original maturity of less than 1 year | 58,247              | 58,038                  |
| - With an original maturity of 1 year or above  | 704,867             | 669,524                 |
|   | <u>763,114</u>      | <u>727,562</u>          |
| Subtotal  | 763,114             | 727,562                 |
| Bank acceptance                                 | 210,995             | 233,788                 |
| Credit card commitments                         | 485,344             | 426,668                 |
| Guarantee and letters of guarantee              | 216,065             | 220,826                 |
| Letters of credit                               | 137,873             | 140,034                 |
|   | <u>1,813,391</u>    | <u>1,748,878</u>        |
| Total   | <u>1,813,391</u>    | <u>1,748,878</u>        |

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 bank acceptance.

**Credit risk weighted amount for credit commitments**

Credit risk weighted amount for credit commitments represents the counterparty credit risk associated with credit commitments and is calculated in accordance with the "Capital Rules for Commercial Banks (Provisional)" issued by the CBIRC which was effective 1 January 2013 and is dependent on, among other factors, creditworthiness of counterparties and maturity characteristics of each type of contract. As at 30 June 2018 and 31 December 2017, credit risk weighted amount for credit commitments was measured under the Internal Ratings - Based approach.

|  | <b>30 June 2018</b> | <b>31 December 2017</b> |
|--|---------------------|-------------------------|
| Credit risk weighted amount for credit commitments | <u>908,955</u>      | <u>866,063</u>          |

**Operating lease commitments**

At the end of each reporting period, the Group, as a lessee, had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

|               | <b>30 June 2018</b> | <b>31 December 2017</b> |
|---------------|---------------------|-------------------------|
| Within 1 year | 3,792               | 3,892                   |
| 1 to 2 years  | 2,758               | 2,950                   |
| 2 to 3 years  | 1,883               | 2,023                   |
| 3 to 5 years  | 1,955               | 2,069                   |
| Above 5 years | 880                 | 1,005                   |
|               | <u>11,268</u>       | <u>11,939</u>           |
| Total         | <u>11,268</u>       | <u>11,939</u>           |

For the six months ended 30 June 2018, operating lease expense recognized as operating expense by the Group was RMB2,262 million (Six months ended 30 June 2017: RMB2,358 million), and is included in Note 11 Operating Expenses.

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#### 52 CONTINGENT LIABILITIES AND COMMITMENTS (Continued)

##### Finance lease commitments

As at 30 June 2018, no non-cancellable finance lease commitments of the Group, as a lessor (31 December 2017: None).

As at 30 June 2018, the gross amount of finance lease receivables included in the Group's loans and advances were RMB35,733 million (31 December 2017: RMB36,500 million), with the remaining maturity as follows:

|               | 30 June 2018  | 31 December 2017 |
|---------------|---------------|------------------|
| Overdue       | 833           | 3,317            |
| Within 1 year | 5,397         | 6,235            |
| 1 to 5 years  | 19,209        | 17,245           |
| Above 5 years | 10,294        | 9,703            |
| Total         | <u>35,733</u> | <u>36,500</u>    |

##### Collateral

###### *Assets pledged*

At the end of each reporting period, the carrying amounts of assets pledged as collateral under repurchase agreements are as follows:

|                 | 30 June 2018   | 31 December 2017 |
|-----------------|----------------|------------------|
| Debt securities | 120,647        | 328,469          |
| Bills           | -              | 183              |
| Total           | <u>120,647</u> | <u>328,652</u>   |

The financial assets sold under repurchase agreements by the Group is disclosed in Note 38 Financial Assets Sold under Repurchase Agreements. Repurchase agreements are due within 12 months from the effective dates of these agreements.

Financial assets sold under repurchase agreements included certain transactions under which, title of the pledged securities has been transferred to counterparties. These transactions have been disclosed in Note 53 Transferred Financial Assets.

In addition, debt securities and deposits with banks and other financial institutions pledged in accordance with regulatory requirements or as collateral for derivative transactions and borrowings from central banks etc. by the Group as at 30 June 2018 amounted to RMB662,675 million in total (31 December 2017: RMB703,492 million).

###### *Collateral accepted*

The Group received debt securities and bills as collateral in connection with the securities lending transactions and the purchase of assets under resale agreements (Note 23 Financial Assets Held Under Resale Agreements). The Group did not hold any collateral that can be resold or re-pledged as at 30 June 2018 and 31 December 2017.



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**52 CONTINGENT LIABILITIES AND COMMITMENTS (Continued)**

**Redemption commitment for treasury bonds**

The Group is entrusted by the MOF to underwrite certain treasury bonds. The investors of these treasury bonds have a right to redeem the bonds at par at any time prior to maturity and the Group is committed to honor such redemption requests. The redemption price is calculated as the par value of the bond plus unpaid interest in accordance with the terms of the related early redemption arrangement.

As at 30 June 2018, the nominal value of treasury bonds the Group was obligated to redeem prior to maturity was RMB63,833 million (31 December 2017: RMB65,419 million). The original maturities of these bonds vary from 3 to 5 years. Management of the Group expects the amount of redemption before the maturity dates of these bonds will not be material.

The MOF will not provide funding for the early redemption of these bonds on a back-to-back basis, but will settle the principal and interest upon maturity.

**Commitment on security underwriting**

As at 30 June 2018 and 31 December 2017, the Group did not have unfulfilled commitment in respect of securities underwriting business.

**53 TRANSFERRED FINANCIAL ASSETS**

The Group enters into transactions in the normal course of business whereby it transfers recognized financial assets to third parties or to structured entities. In some cases these transfers may give rise to full or partial de-recognition of the financial assets concerned. In other cases where the transferred assets do not qualify for de-recognition as the Group retains substantially all the risks and rewards of these assets, the Group continues to recognize the transferred assets.

**Securitization transactions**

The Group enters into securitization transactions by which it transfers loans to structured entities which issue asset-backed securities to investors. The Group assessed among other factors, whether or not to derecognize the transferred assets by evaluating the extent to which it retains the risks and rewards of the assets and whether it has relinquished control over these assets.

As at 30 June 2018, the unexpired asset-backed securities included accumulative loans transferred by the Group before impairment allowance of RMB22,085 million (31 December 2017: RMB24,531 million). RMB11,723 million of this balance (31 December 2017: RMB11,723 million) was in respect of non-performing loans and the Group concluded that these loans transferred were qualified for full de-recognition. The remaining balance of RMB10,363 million (31 December 2017: RMB12,808 million) was in respect of performing loans and the Group concluded that it had continuing involvement in these assets. As at 30 June 2018, the Group continued to recognize assets of RMB1,070 million (31 December 2017: RMB2,941 million) under loans and advances to customers. The Group also recognized other assets and other liabilities of the same amount arising from such continuing involvement.

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**53 TRANSFERRED FINANCIAL ASSETS (Continued)**

**Transfer of non-performing loans**

During the period ended 30 June 2018, the Group transferred non-performing loans through disposal to third parties, with gross loan balance of RMB12,175 million (During the period ended 30 June 2017: RMB15,037 million). The Group carried out an assessment and concluded that these transferred assets qualified for full de-recognition.

**Financial assets sold under repurchase agreements**

The Group did not derecognize financial assets transferred as collateral in connection with repurchase agreements. As at 30 June 2018, of these collateral pledged disclosed in Note 52 Contingent Liabilities and Commitments - Collateral, RMB45,444 million (31 December 2017: RMB40,647 million) represented debt securities whereby legal title has been transferred to counterparties.

**Securities lending transactions**

For debt securities lent to counterparties under securities lending agreements, the counterparties are allowed to sell or repledge these securities in the absence of default by the Group, but have an obligation to return the securities at the maturity of the contract. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognized them. As at 30 June 2018, the carrying amount of debt securities lent to counterparties was RMB55,338 million (31 December 2017: RMB67,373 million).

**54 FINANCIAL RISK MANAGEMENT**

**Overview**

The Group's primary risk management objective is to maintain risk within acceptable parameters to meet the requirements of regulators, depositors and other stakeholders, as well as to maximize return for investors within an acceptable level of risk.

The Group has designed risk management policies, which address, among other things, the establishment of risk limits and controls to identify, analyze, monitor and report risks. Relevant and timely information used to conduct these risk management activities is provided through information systems maintained by the Group and intended to address the Group's information needs in this area. The Group regularly reviews its risk management policies and systems to address changes in markets, products and emerging best practices.

The most significant types of risk to which the Group is exposed are credit risk, market risk and liquidity risk. Market risk includes foreign exchange rate risk, interest rate risk and other price risk.

**Risk management framework**

The Board of Directors is responsible for establishing the overall risk appetite of the Group and reviewing and approving its risk management objectives and strategies.

Within this framework, the Group's senior management has overall responsibility for managing all aspects of risk, including implementing risk management strategies, initiatives and credit policies and approving internal rules, measures and procedures related to risk management. The Risk Management Department of the Group implements procedures for managing the significant risks to which the Group is exposed.

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**54 FINANCIAL RISK MANAGEMENT (Continued)**

**54.1 Credit risk**

**Credit risk management**

Credit risk represents the potential loss that may arise from a customer or counterparty's failure to meet its obligations when due. Credit risk can also arise from operational failures that result in an unauthorized or inappropriate advance, commitment or investment. The Group's major credit risks arise from loans and receivables, treasury operations and off-balance sheet related credit risk exposures.

The Group's credit risk management and governance structure comprise the Board of Directors and its Risk Management Committee, Senior Management and its Risk Management Committee, Credit Approval Committee and Asset Disposal Committee, as well as the Risk Management Department, Credit Management Department, Credit Approval Department and related front-office customer departments. The Group's credit risk management function operates under centralized management and authorization under a range of specified limits.

The Group performs standardized credit management procedures, including credit due diligence and proposal submission, credit underwriting review, loan disbursement, post-lending monitoring and non-performing loan 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.

The Group writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include ceasing enforcement activity and where the Group's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

During the reporting period, the bank focuses on optimizing the structure of its credit business and taking precautions against and reducing material risks in order to push forward a high-quality development in credit operation. Strengthening the control over excess capacity and high-risk industries would facilitate risk resolution steadily. Also the bank is promoting the "optimizing-sheet project", which focuses on improving the quality of assets by reinforcing liquidation process.

Apart from the credit risk exposures on credit-related assets, the credit risk arising from treasury operation 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 subject to different level of management authority, and by timely reviewing and adjusting those limits in credit system. In addition, the Group also provide loan commitments and financial guarantee services to customers which may require the Group to make payments on behalf of customers upon their failure to perform under the terms of the related contract. Risks arising from loan commitments and financial guarantees are similar to those associated with loans and advances. These transactions are, therefore, subject to the same risk management policies and procedures.

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**54 FINANCIAL RISK MANAGEMENT (Continued)**

**54.1 Credit risk (Continued)**

**Measurement of ECL**

After IFRS 9 was adopted on 1 January 2018, the Group applies the ECL model to calculate loss allowances for its debt financial instruments carried at amortized cost and FVOCI, as well as loan commitments and financial guarantee contracts.

Methods applied by the Group in assessing the expected credit losses of its financial assets include risk parameters and the discounted cash flow model. Credit assets for personal clients and Stage I and Stage II credit assets for corporate clients are assessed using risk parameters, while Stage III credit assets for corporate clients are subject to the discounted cash flow method.

The Group assesses ECL in light of forward-looking information and uses complex models and assumptions in calculating the expected credit losses. These models and assumptions relate to the future macroeconomic conditions and the borrowers' creditworthiness (e.g., the likelihood of default by customers and the corresponding losses). In assessing the expected credit risks in accordance with accounting standards, the Group uses the judgments, assumptions and estimates where appropriate, including:

- Parameters for measuring ECL
- Criteria for determining whether or not credit risk has significantly increased
- Definition of credit-impaired financial asset
- Forward-looking information

**Parameters of ECL measurement**

According to whether there is a significant increase in credit risk and whether a financial asset has become credit-impaired, the Group recognizes an impairment allowance based on the expected credit loss for the next 12 months or the entire lifetime of the financial asset. The key parameters of ECL measurement include probability of default (PD), loss given default (LGD) and exposure at default (EAD). The Group establishes its PD model, LGD model and EAD model based on the internal rating based system as currently used for its risk management purpose, in accordance with the requirements of IFRS 9, in light of quantitative analyses of historical statistics (such as counterparty ratings, guarantee methods and collateral types, repayment methods, etc.) and forward-looking information.

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**54 FINANCIAL RISK MANAGEMENT (Continued)**

**54.1 Credit risk (Continued)**

**Measurement of ECL (Continued)**

Parameters of ECL measurement (Continued)

The parameters are defined as follows:

- PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation. The PD is determined based on the adjusted results of the internal rating-based model, with forward-looking information incorporated, to reflect the borrower's point-in-time probability of default under the current macroeconomic environment.
- LGD represents the Group's expectation of the extent of loss on defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD).
- EAD is based on the amounts the group expects to be owed at the time of default.

Criteria for significant increases in credit risk

The Group assesses whether or not the credit risk of the relevant financial instruments has increased significantly since the initial recognition at each balance sheet date. For the purpose of staging assessment of its financial assets, the Group thoroughly considers various reasonable and supportable information that may reflect whether or not there has been a significant change in their credit risk, including forward-looking information. Key factors considered include regulatory and operating environments, internal and external credit ratings, solvency, viability as a going concern, terms of loan contracts, repayment behaviors, among others. Based on the single financial instrument or the combination of financial instruments with similar characteristics of credit risk, the Group compares the risk of default of financial instruments on the balance sheet date with that on the initial recognition date in order to figure out the changes of default risk in the expected lifetime of financial instruments.

The Group sets quantitative and qualitative criteria to help determine whether or not the credit risk of a financial instrument has increased significantly since its initial recognition. The criteria include changes in the borrower's PD and changes in its credit risk classification etc. The Group does not rebut the presumption that credit risk has significantly increased if contractual payments are more than 30 days past due.

The Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. The Group recognizes a financial instrument as having low credit risk if its internal rating is consistent with the globally accepted definition for low credit risk.

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**54 FINANCIAL RISK MANAGEMENT (Continued)**

**54.1 Credit risk (Continued)**

**Measurement of ECL (Continued)**

*The definition of credit-impaired financial asset*

The criteria with a date of transition of 1 January 2018 adopted by the Group to determine whether a credit impairment occurs under IFRS 9 is consistent with the internal credit risk management objectives for relevant financial instrument, in addition to consideration of quantitative and qualitative indicators. In assessing whether a borrower has become credit-impaired, the Group mainly considers the following factors:

- Significant financial difficulty of the issuer or the borrower;
- A breach of contract, such as a default or past due event in relation to interest or principal payment;
- The lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- It is becoming 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;
- The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses;
- The borrower is overdue for more than 90 days in any principal, advances, interest or investment in corporate bonds due to the Group.

The credit impairment of a financial asset may be caused by the combined effect of multiple events rather than any single discrete event.

*Forward-looking information*

The assessment of whether or not there has been a significant increase in credit risk and the calculation of ECL both involve forward-looking information. Through the analysis of historical data, the Group identifies the key economic indicators that affect the credit risk and ECL of various business types, including Gross Domestic Product (GDP), Money Supply (M2) and Consumer Price Index (CPI), etc.

The impact of these economic indicators on the PDs and the LGDs varies from one type of business to another. The Group comprehensively considers internal and external data, expert forecasts and statistical analyses to determine the relationships between these economic indicators and the PDs and LGDs. The Group assess and forecasts these economic indicators at least on an annual basis, calculates the best estimates for the future, and regularly reviews the assessment results.

Based on statistical analyses and expert judgements, the Group determines the weightings of multiple scenarios and the corresponding macro-economic forecast under each scenario. The Group uses the weighted 12-month ECL (Stage I) or weighted lifetime ECL (Stage II and Stage III) to measure relevant impairment allowances. These weighted credit losses are calculated by multiplying the expected credit loss under each scenario by the corresponding scenario weighting.

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#### 54 FINANCIAL RISK MANAGEMENT (Continued)

##### 54.1 Credit risk (Continued)

###### Maximum exposure to credit risk before taking into account any collateral held or other credit enhancements

The maximum exposure to credit risk represents the credit risk exposure to the Group at the end of each reporting period, without taking into account any collateral held or other credit enhancements. The exposure to credit risk at the end of each reporting period primarily arises from credit and treasury operations; as well as off-balance sheet items such as loan commitments, credit card commitments, bank acceptance, guarantee and letters of guarantee and letters of credit, as credit risks arising from these items are similar to those associated with loans and receivables.

A summary of the maximum exposure to credit risk is as follows:

|  | 30 June 2018 | 31 December 2017 |
|--|--------------|------------------|
| Balances with central banks  | 2,859,672    | 2,788,122        |
| Deposits with banks and other financial institutions                   | 104,728      | 130,245          |
| Placements with and loans to banks and other financial institutions    | 424,382      | 505,269          |
| Financial asset at fair value through profit or loss                   | 607,145      | N/A              |
| Financial assets held for trading                                      | N/A          | 193,551          |
| Financial assets designated at fair value through profit or loss       | N/A          | 368,051          |
| Derivative financial assets  | 31,190       | 28,284           |
| Financial assets held under resale agreements                          | 367,812      | 540,386          |
| Loans and advances to customers  | 11,001,367   | 10,316,311       |
| Financial investments at fair value through other comprehensive income | 1,541,400    | N/A              |
| Available-for-sale financial assets                                    | N/A          | 1,398,884        |
| Financial investments at amortized costs                               | 4,223,651    | N/A              |
| Held-to-maturity investments   | N/A          | 3,489,135        |
| Debt instruments classified as receivables                             | N/A          | 659,223          |
| Other financial assets   | 214,139      | 155,111          |
|  | <hr/>        | <hr/>            |
| Subtotal   | 21,375,486   | 20,572,572       |
| Credit commitments   | 1,793,446    | 1,745,342        |
|  | <hr/>        | <hr/>            |
| Total  | 23,168,932   | 22,317,914       |
|  | <hr/> <hr/>  | <hr/> <hr/>      |

The Group has implemented specific policies and credit enhancement practices to mitigate credit risk exposure to an acceptable level. The most typical practice is obtaining guarantee deposits, collateral and guarantees. The amount and type of acceptable collateral are determined by credit risk evaluations of borrowers or counterparties. The Group implements guidelines on the acceptability of specific classes of collateral and evaluation parameters.

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**54 FINANCIAL RISK MANAGEMENT (Continued)**

**54.1 Credit risk (Continued)**

**Maximum exposure to credit risk before taking into account any collateral held or other credit enhancements (Continued)**

The main types of collateral obtained are as follows:

- Mortgage loans to retail customers are generally collateralized by mortgages over residential properties;
- Other personal lending and corporate loans and advances are primarily collateralized by charges over land and properties or other assets of the borrowers; and
- Financial assets held under resale agreements transactions are primarily collateralized by debt securities and bills.

The Group monitors the market value of collateral periodically and requests for additional collateral in accordance with the underlying agreement when necessary.

**Loans and advances to customers**

The following tables set out the concentration of risk for loans and advances to customers by geographical area and industry.

- (1) The composition of loans and advances to customers by geographical area is analyzed as follows:

|                                       | <b>30 June 2018</b> |                   | <b>31 December 2017</b> |                   |
|---------------------------------------|---------------------|-------------------|-------------------------|-------------------|
|                                       | <b>Amount</b>       | <b>% of total</b> | <b>Amount</b>           | <b>% of total</b> |
| Corporate loans and advances          |                     |                   |                         |                   |
| Head Office                           | 295,747             | 4.2               | 246,123                 | 3.7               |
| Yangtze River Delta                   | 1,512,562           | 21.3              | 1,420,351               | 21.2              |
| Pearl River Delta                     | 799,517             | 11.2              | 762,152                 | 11.3              |
| Bohai Rim                             | 1,114,616           | 15.6              | 1,061,001               | 15.8              |
| Central China                         | 986,469             | 13.9              | 929,075                 | 13.8              |
| Western China                         | 1,701,005           | 23.9              | 1,629,197               | 24.3              |
| Northeastern China                    | 295,862             | 4.2               | 287,187                 | 4.3               |
| Overseas and Others                   | 410,559             | 5.7               | 379,633                 | 5.6               |
| Subtotal                              | <u>7,116,337</u>    | <u>100.0</u>      | <u>6,714,719</u>        | <u>100.0</u>      |
| Personal loans and advances           |                     |                   |                         |                   |
| Head Office                           | 68                  | -                 | 74                      | -                 |
| Yangtze River Delta                   | 1,057,072           | 24.3              | 994,938                 | 25.0              |
| Pearl River Delta                     | 946,047             | 21.8              | 873,154                 | 21.8              |
| Bohai Rim                             | 663,283             | 15.3              | 621,563                 | 15.5              |
| Central China                         | 665,499             | 15.3              | 590,247                 | 14.7              |
| Western China                         | 848,258             | 19.5              | 778,946                 | 19.4              |
| Northeastern China                    | 156,966             | 3.6               | 141,351                 | 3.5               |
| Overseas and Others                   | 9,608               | 0.2               | 5,619                   | 0.1               |
| Subtotal                              | <u>4,346,801</u>    | <u>100.0</u>      | <u>4,005,892</u>        | <u>100.0</u>      |
| Gross loans and advances to customers | <u>11,463,138</u>   |                   | <u>10,720,611</u>       |                   |



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**54 FINANCIAL RISK MANAGEMENT (Continued)**

**54.1 Credit risk (Continued)**

**Loans and advances to customers (Continued)**

(2) The composition of loans and advances to customers by industry is analyzed as follows:

|   | <b>30 June 2018</b> |                   | <b>31 December 2017</b> |                   |
|---|---------------------|-------------------|-------------------------|-------------------|
|   | <b>Amount</b>       | <b>% of total</b> | <b>Amount</b>           | <b>% of total</b> |
| Corporate loans and advances                        |                     |                   |                         |                   |
| Transportation, logistics and postal services       | 1,346,311           | 18.9              | 1,268,677               | 18.9              |
| Manufacturing                                       | 1,322,772           | 18.6              | 1,286,480               | 19.2              |
| Leasing and commercial services                     | 904,916             | 12.7              | 803,575                 | 12.0              |
| Production and supply of power, heat, gas and water | 871,382             | 12.2              | 812,850                 | 12.1              |
| Real estate   | 596,467             | 8.4               | 573,248                 | 8.5               |
| Water, environment and public utilities management  | 419,458             | 5.9               | 372,581                 | 5.5               |
| Retail and wholesale                                | 410,992             | 5.8               | 405,678                 | 6.0               |
| Finance   | 395,595             | 5.6               | 373,461                 | 5.6               |
| Construction  | 263,348             | 3.7               | 227,238                 | 3.4               |
| Mining  | 227,278             | 3.2               | 232,699                 | 3.5               |
| Others  | 357,818             | 5.0               | 358,232                 | 5.3               |
| Subtotal  | <u>7,116,337</u>    | <u>100.0</u>      | <u>6,714,719</u>        | <u>100.0</u>      |
| Personal loans and advances                         |                     |                   |                         |                   |
| Residential mortgage                                | 3,401,007           | 78.3              | 3,133,503               | 78.3              |
| Personal business                                   | 205,606             | 4.7               | 205,549                 | 5.1               |
| Personal consumer                                   | 158,968             | 3.7               | 142,184                 | 3.5               |
| Credit cards  | 345,043             | 7.9               | 317,547                 | 7.9               |
| Others  | 236,177             | 5.4               | 207,109                 | 5.2               |
| Subtotal  | <u>4,346,801</u>    | <u>100.0</u>      | <u>4,005,892</u>        | <u>100.0</u>      |
| Gross loans and advances to customers               | <u>11,463,138</u>   |                   | <u>10,720,611</u>       |                   |

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**54 FINANCIAL RISK MANAGEMENT (Continued)**

**54.1 Credit risk (Continued)**

**Loans and advances to customers (Continued)**

- (3) The composition of loans and advances to customers by contractual maturity and security type is analyzed as follows:

|                             | <b>30 June 2018</b>         |                     |                         |                   |
|-----------------------------|-----------------------------|---------------------|-------------------------|-------------------|
|                             | <b>Less than<br/>1 year</b> | <b>1 to 5 years</b> | <b>Over<br/>5 years</b> | <b>Total</b>      |
| Unsecured loans             | 1,652,825                   | 629,014             | 1,087,201               | 3,369,040         |
| Guaranteed loans            | 594,432                     | 339,278             | 446,570                 | 1,380,280         |
| Loans secured by collateral | 803,849                     | 422,926             | 3,992,909               | 5,219,684         |
| Pledged loans               | 324,034                     | 87,191              | 1,082,909               | 1,494,134         |
| <b>Total</b>                | <b>3,375,140</b>            | <b>1,478,409</b>    | <b>6,609,589</b>        | <b>11,463,138</b> |

|                             | <b>31 December 2017</b>     |                     |                         |                   |
|-----------------------------|-----------------------------|---------------------|-------------------------|-------------------|
|                             | <b>Less than<br/>1 year</b> | <b>1 to 5 years</b> | <b>Over<br/>5 years</b> | <b>Total</b>      |
| Unsecured loans             | 1,266,909                   | 620,786             | 1,028,232               | 2,915,927         |
| Guaranteed loans            | 606,458                     | 327,650             | 425,404                 | 1,359,512         |
| Loans secured by collateral | 817,342                     | 409,405             | 3,718,936               | 4,945,683         |
| Pledged loans               | 438,651                     | 79,322              | 981,516                 | 1,499,489         |
| <b>Total</b>                | <b>3,129,360</b>            | <b>1,437,163</b>    | <b>6,154,088</b>        | <b>10,720,611</b> |

- (4) Past due loans

|                             | <b>30 June 2018</b>      |                           |                                |                         | <b>Total</b>   |
|-----------------------------|--------------------------|---------------------------|--------------------------------|-------------------------|----------------|
|                             | <b>Up to<br/>90 days</b> | <b>91 to<br/>360 days</b> | <b>361 days<br/>to 3 years</b> | <b>Over<br/>3 years</b> |                |
| Unsecured loans             | 11,609                   | 7,151                     | 1,456                          | 1,742                   | 21,958         |
| Guaranteed loans            | 13,786                   | 21,309                    | 13,988                         | 4,308                   | 53,391         |
| Loans secured by collateral | 43,018                   | 35,283                    | 36,209                         | 8,162                   | 122,672        |
| Pledged loans               | 6,603                    | 1,821                     | 2,313                          | 1,226                   | 11,963         |
| <b>Total</b>                | <b>75,016</b>            | <b>65,564</b>             | <b>53,966</b>                  | <b>15,438</b>           | <b>209,984</b> |

|                             | <b>31 December 2017</b>  |                          |                                |                         | <b>Total</b>   |
|-----------------------------|--------------------------|--------------------------|--------------------------------|-------------------------|----------------|
|                             | <b>Up to<br/>90 days</b> | <b>91 - 360<br/>days</b> | <b>361 days<br/>to 3 years</b> | <b>Over<br/>3 years</b> |                |
| Unsecured loans             | 6,489                    | 6,984                    | 2,015                          | 1,249                   | 16,737         |
| Guaranteed loans            | 22,362                   | 12,158                   | 17,004                         | 5,864                   | 57,388         |
| Loans secured by collateral | 51,287                   | 29,410                   | 43,171                         | 8,885                   | 132,753        |
| Pledged loans               | 10,962                   | 968                      | 3,135                          | 2,123                   | 17,188         |
| <b>Total</b>                | <b>91,100</b>            | <b>49,520</b>            | <b>65,325</b>                  | <b>18,121</b>           | <b>224,066</b> |

When either loan principal or interest is past due by one day in any period, the whole loan is classified as past due loan.

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**54 FINANCIAL RISK MANAGEMENT (Continued)**

**54.1 Credit risk (Continued)**

**Loans and advances to customers (Continued)**

(5) Credit quality of loans and advances to customers

As at 30 June 2018, the credit quality of loans and advances to customers by stages is disclosed in Note 24.

|  |       | <b>31 December 2017</b>  |
|--|-------|--------------------------|
| Neither past due nor impaired                                      | (i)   | 10,471,150               |
| Past due but not impaired  | (ii)  | 55,429                   |
| Impaired   | (iii) | <u>194,032</u>           |
| Subtotal   |       | 10,720,611               |
| Allowance for impairment losses of loans and advances to customers |       | <u>(404,300)</u>         |
| Loans and advances to customers, net                               |       | <u><u>10,316,311</u></u> |

(i) Loans and advances neither past due nor impaired

|                              | <b>31 December 2017</b> |                             |                   |
|------------------------------|-------------------------|-----------------------------|-------------------|
|                              | <b>Normal</b>           | <b>Special-<br/>mention</b> | <b>Total</b>      |
| Corporate loans and advances | 6,234,570               | 298,077                     | 6,532,647         |
| Personal loans and advances  | <u>3,934,840</u>        | <u>3,663</u>                | <u>3,938,503</u>  |
| Total                        | <u>10,169,410</u>       | <u>301,740</u>              | <u>10,471,150</u> |

(ii) Loans and advances past due but not impaired

|                              | <b>31 December 2017</b>  |                         |                         |               | <b>Including: Exposure<br/>covered by collateral<br/>and pledge</b> |
|------------------------------|--------------------------|-------------------------|-------------------------|---------------|---|
|                              | <b>Up to 30<br/>days</b> | <b>31 - 60<br/>days</b> | <b>61 - 90<br/>days</b> | <b>Total</b>  |   |
| Corporate loans and advances | 24,500                   | 460                     | 8                       | 24,968        | 20,477  |
| Personal loans and advances  | <u>19,365</u>            | <u>6,514</u>            | <u>4,582</u>            | <u>30,461</u> | <u>22,174</u>   |
| Total                        | <u>43,865</u>            | <u>6,974</u>            | <u>4,590</u>            | <u>55,429</u> | <u>42,651</u>   |

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**54 FINANCIAL RISK MANAGEMENT (Continued)**

**54.1 Credit risk (Continued)**

**Loans and advances to customers (Continued)**

(5) Credit quality of loans and advances to customers (Continued)

(iii) Impaired loans and advances

|                       | <b>31 December 2017</b> |  |                       |
|-----------------------|-------------------------|--|-----------------------|
|                       | <b>Book value</b>       | <b>Allowance for impairment losses</b> | <b>Net book value</b> |
| Individually assessed | 159,805                 | (122,311)                              | 37,494                |
| Collectively assessed | 34,227                  | (26,723)                               | 7,504                 |
| <b>Total</b>          | <b>194,032</b>          | <b>(149,034)</b>                       | <b>44,998</b>         |

Including:

|   | <b>31 December 2017</b> |
|---|-------------------------|
| Individually assessed and impaired  | 159,805                 |
| Individually assessed and impaired as a percentage of gross loans and advances of the Group | 1.49%                   |
| Including: exposure covered by collateral and pledge  | 24,802                  |

The composition of impaired loans and advances to customers by geographical area is analyzed as follows:

|                     | <b>31 December 2017</b> |                   |
|---------------------|-------------------------|-------------------|
|                     | <b>Amount</b>           | <b>% of total</b> |
| Head Office         | 7                       | -                 |
| Yangtze River Delta | 29,460                  | 15.2              |
| Pearl River Delta   | 26,957                  | 13.9              |
| Bohai Rim           | 39,031                  | 20.1              |
| Central China       | 27,377                  | 14.1              |
| Western China       | 59,314                  | 30.6              |
| Northeastern China  | 8,438                   | 4.3               |
| Overseas and Others | 3,448                   | 1.8               |
| <b>Total</b>        | <b>194,032</b>          | <b>100.0</b>      |

## AGRICULTURAL BANK OF CHINA LIMITED

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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#### 54 FINANCIAL RISK MANAGEMENT (Continued)

##### 54.1 Credit risk (Continued)

###### Loans and advances to customers (Continued)

###### (6) Rescheduled loans and advances

Rescheduled loans and advances are those loans and advances to customers which have been renegotiated because of deterioration in the financial position of the borrowers, or of the inability of the borrowers to meet their original repayment schedule. Concessions are given by the Group that would not otherwise be granted to these borrowers for economic or legal reasons relating to their financial difficulties. Rescheduled loans and advances of the Group as at 30 June 2018 amounted to RMB56,538 million (31 December 2017: RMB55,120 million).

During the period ended 30 June 2018, as a result of loan renegotiations, the Group recognized ordinary shares of RMB101 million in lieu of borrowers' debt upon renegotiation. The loss associated with these loan renegotiations was not significant.

###### (7) Assets foreclosed under credit enhancement arrangement

Such assets are disclosed as foreclosed assets in Note 19 Financial assets at fair value through profit or loss and Note 33 Other assets.

###### Debt instruments

Credit quality of debt instruments

- (1) The table below represents the staging in Expected Credit Loss model of financial investments at fair value through other comprehensive income and financial investments at amortized cost under IFRS 9:

|  | 30 June 2018 |          |           | Total     |
|--|--------------|----------|-----------|-----------|
|  | Stage I (i)  | Stage II | Stage III |           |
| Financial investments at fair value through other comprehensive income | 1,543,534    | 8,566    | 17        | 1,552,117 |
| Financial investments at amortized cost                                | 4,221,886    | 1,047    | 718       | 4,223,651 |
| Total  | 5,765,420    | 9,613    | 735       | 5,775,768 |

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**54 FINANCIAL RISK MANAGEMENT (Continued)**

**54.1 Credit risk (Continued)**

**Debt instruments (Continued)**

Credit quality of debt instruments (Continued)

(i) Debt instruments of stage I

|   | <b>30 June 2018</b>   |  |                  |
|---|---|--|------------------|
|   | <b>Financial investments at<br/>fair value through other<br/>comprehensive income</b> | <b>Financial<br/>investments at<br/>amortized cost</b> | <b>Total</b>     |
| Debt securities issued by:                                  |   |  |                  |
| - Governments   | 539,029   | 2,115,771  | 2,654,800        |
| - Public sector and<br>quasi-governments                    | 278,749   | 1,308,879  | 1,587,628        |
| - Financial institutions                                    | 544,402   | 242,884  | 787,286          |
| - Corporates  | 170,638   | 148,817  | 319,455          |
| Special government bond<br>Receivable from the MOF          | -   | 93,300   | 93,300           |
| Certificate treasury bonds<br>and savings treasury<br>bonds | -   | 3,619  | 3,619            |
| Others  | 10,716  | 22,333   | 33,049           |
| <b>Total</b>  | <b>1,543,534</b>  | <b>4,226,494</b>                                       | <b>5,770,028</b> |
| Allowance for impairment<br>losses (ii)                     | -   | (4,608)  | (4,608)          |
| The carrying amounts of debt<br>instruments of stage I      | <b>1,543,534</b>  | <b>4,221,886</b>                                       | <b>5,765,420</b> |

(ii) The accumulative impairment losses recognized for financial investments at fair value through other comprehensive income by the Group as at 30 June 2018 was RMB4,965 million, and is recorded in other comprehensive income.

(iii) As at 30 June 2018, the stage II and stage III in Expected Credit Loss model of financial investments at fair value through other comprehensive income and financial investments at amortized cost mainly include debt securities issued by Corporates, of which the total book value amounted to RMB12,476 million, and the total allowance for impairment losses amounted to RMB3,354 million, with RMB1,226 million loss allowance was recognized in other comprehensive income.

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(Amounts in millions of Renminbi, unless otherwise stated)

**54 FINANCIAL RISK MANAGEMENT (Continued)**

**54.1 Credit risk (Continued)**

**Debt instruments (Continued)**

Credit quality of debt instruments (Continued)

- (2) The table below represents the carrying value and accumulated impairment charges of held-to-maturity investments and debt instruments classified as receivables under IAS 39:

|  |      | <b>31 December 2017</b> |
|--|------|-------------------------|
| Neither past due nor impaired  | (i)  | 4,152,386               |
| Impaired   | (ii) | <u>6,498</u>            |
| Subtotal   |      | <u>4,158,884</u>        |
| Allowance for impairment losses  |      | <u>(10,526)</u>         |
| Total held-to-maturity investments and debt instruments classified as receivables, net |      | <u><u>4,148,358</u></u> |

- (i) Debt instruments neither past due nor impaired

|   | <b>31 December 2017</b>                                      |  |                                     |   | <b>Total</b>     |
|---|--|--|-------------------------------------|---|------------------|
|   | <b>Financial assets at fair value through profit or loss</b> | <b>Available-for-sale financial assets</b> | <b>Held-to-maturity investments</b> | <b>Debt instruments classified as receivables</b> |                  |
| Debt securities issued by:                            |  |  |                                     |   |                  |
| - Governments   | 31,464   | 510,794                                    | 1,774,655                           | 169,336   | 2,486,249        |
| - Public sector and quasi-governments                 | 140,712  | 312,292                                    | 1,269,267                           | -   | 1,722,271        |
| - Financial institutions                              | 103,650  | 398,098                                    | 302,240                             | 81,075  | 885,063          |
| - Corporates  | 60,762   | 177,655                                    | 149,146                             | 13,273  | 400,836          |
| Special government bond                               | -  | -  | -                                   | 93,300  | 93,300           |
| Receivable from the MOF                               | -  | -  | -                                   | 271,678   | 271,678          |
| Certificate treasury bonds and savings treasury bonds | -  | -  | -                                   | 3,612   | 3,612            |
| Others  | <u>12,835</u>  | <u>-</u>                                   | <u>-</u>                            | <u>24,804</u>                                     | <u>37,639</u>    |
| Total   | <u>349,423</u>   | <u>1,398,839</u>                           | <u>3,495,308</u>                    | <u>657,078</u>                                    | <u>5,900,648</u> |

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**54.1 Credit risk (Continued)****Debt instruments (Continued)**

Credit quality of debt instruments (Continued)

(ii) Impaired debt instruments

|   | <b>31 December 2017</b>                 |   |              |
|---|---|---|--------------|
|   | <b>Held-to-maturity<br/>investments</b> | <b>Debt<br/>instruments<br/>classified as<br/>receivables</b> | <b>Total</b> |
| Corporate bonds   | -                                       | 2,614   | 2,614        |
| Others  | -                                       | 3,884   | 3,884        |
| Subtotal  | -                                       | 6,498   | 6,498        |
| Allowance for impairment losses   | -                                       | (3,068)   | (3,068)      |
| Impaired held-to-maturity<br>investments and debt instruments<br>classified as receivables, net | -                                       | 3,430   | 3,430        |

As at 31 December 2017, the carrying amount of the impaired available-for-sale debt instruments of the Group was RMB45 million. The accumulative impairment losses recognized for these impaired available-for-sale debt instruments by the Group as at 31 December 2017 was RMB312 million.



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**54 FINANCIAL RISK MANAGEMENT (Continued)**

**54.1 Credit risk (Continued)**

**Debt instruments (Continued)**

Credit quality of debt instruments (Continued)

(3) Debt instruments analyzed by credit rating

The Group adopts a credit rating approach to manage the credit risk of the debt securities portfolio held. The ratings are obtained from major rating agencies where the issuers of the securities are located. The carrying amounts of debt securities investments analyzed by rating as at the end of the reporting period are as follows:

|   | 30 June 2018     |                  |               |                |               | Total            |
|---|------------------|------------------|---------------|----------------|---------------|------------------|
|   | Unrated(i)       | AAA              | AA            | A              | Below A       |                  |
| Debt securities issued by:                            |                  |                  |               |                |               |                  |
| - Governments   | 1,678,546        | 985,745          | 13,910        | 4,733          | 58            | 2,682,992        |
| - Public sector and quasi-governments                 | 1,551,419        | 186,410          | 2,021         | 12,646         | -             | 1,752,496        |
| - Financial institutions                              | 587,675          | 190,175          | 26,332        | 100,037        | 36,872        | 941,091          |
| - Corporates (ii)                                     | 65,687           | 285,911          | 1,793         | 27,447         | 21,034        | 401,872          |
| Special government bond                               | 93,300           | -                | -             | -              | -             | 93,300           |
| Receivable from the MOF                               | 290,891          | -                | -             | -              | -             | 290,891          |
| Certificate treasury bonds and savings treasury bonds | 5,512            | -                | -             | -              | -             | 5,512            |
| Other   | 82,960           | -                | -             | -              | -             | 82,960           |
| <b>Total</b>  | <b>4,355,990</b> | <b>1,648,241</b> | <b>44,056</b> | <b>144,863</b> | <b>57,964</b> | <b>6,251,114</b> |
|   |                  |                  |               |                |               |                  |
|   | 31 December 2017 |                  |               |                |               | Total            |
|   | Unrated (i)      | AAA              | AA            | A              | Below A       |                  |
| Debt securities issued by:                            |                  |                  |               |                |               |                  |
| - Governments   | 1,607,333        | 867,410          | 5,072         | 1,731          | 56            | 2,481,602        |
| - Public sector and quasi-governments                 | 1,483,157        | 176,302          | 2,391         | 60,193         | -             | 1,722,043        |
| - Financial institutions                              | 551,733          | 194,393          | 27,860        | 78,676         | 30,349        | 883,011          |
| - Corporates (ii)                                     | 50,568           | 305,743          | 3,224         | 24,994         | 18,341        | 402,870          |
| Special government bond                               | 93,300           | -                | -             | -              | -             | 93,300           |
| Receivable from the MOF                               | 271,678          | -                | -             | -              | -             | 271,678          |
| Certificate treasury bonds and savings treasury bonds | 3,612            | -                | -             | -              | -             | 3,612            |
| Others  | 54,846           | -                | -             | -              | -             | 54,846           |
| <b>Total</b>  | <b>4,116,227</b> | <b>1,543,848</b> | <b>38,547</b> | <b>165,594</b> | <b>48,746</b> | <b>5,912,962</b> |

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**54 FINANCIAL RISK MANAGEMENT (Continued)**

**54.1 Credit risk (Continued)**

**Debt instruments (Continued)**

Credit quality of debt instruments (Continued)

(3) Debt instruments analyzed by credit rating (Continued)

- (i) Unrated debt investments held by the Group are bonds issued primarily by policy banks, the Chinese government, municipal government bonds and receivable from the MOF.
- (ii) The ratings of super short-term commercial papers of the Group amounted to RMB18,384 million (31 December 2017: RMB17,110 million), as included in corporate bonds above are based on issuer rating for this credit risk analysis.

**54.2 Liquidity risk**

Liquidity risk is the risk that funds will not be available to meet liabilities as they fall due. This may arise from cash flows or maturity mismatches of assets and liabilities.

The Group's Assets and Liabilities Management Department manages its liquidity risk through:

- Optimizing asset and liability structure;
- Maintaining stability of deposit base;
- Making projections of future cash flows, and evaluating the appropriate liquid asset position;
- Maintaining an efficient internal funds transfer mechanism within the Group; and
- Performing stress testing on a regular basis.

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**54 FINANCIAL RISK MANAGEMENT (Continued)**

**54.2 Liquidity risk (Continued)**

**Analysis of the remaining contractual maturity of financial assets and financial liabilities**

The tables below summarize the maturity analysis of financial assets and financial liabilities by remaining contractual maturities at the end of each reporting period.

|  | 30 June 2018  |                     |                   |                    |                    |                    |                  |                  |                     |
|--|---------------|---------------------|-------------------|--------------------|--------------------|--------------------|------------------|------------------|---------------------|
|  | Past due      | On demand           | Less than 1 month | 1-3 months         | 3-12 months        | 1-5 years          | Over 5 years     | Undated          | Total               |
| Cash and balances with central banks                                   | -             | 321,608             | 7,215             | 2,135              | 1,143              | -                  | -                | 2,631,453        | 2,963,554           |
| Deposits with banks and other financial institutions                   | -             | 69,474              | 8,881             | 14,964             | 5,499              | 3,410              | 2,500            | -                | 104,728             |
| Placements with and loans to banks and other financial institutions    | -             | -                   | 146,088           | 85,718             | 151,528            | 37,276             | 3,772            | -                | 424,382             |
| Financial assets at fair value through profit or loss                  | -             | 3,159               | 41,864            | 54,188             | 168,205            | 245,902            | 111,037          | 23,273           | 647,628             |
| Derivative financial assets  | -             | -                   | 5,655             | 5,908              | 17,395             | 1,515              | 717              | -                | 31,190              |
| Financial assets held under resale agreements                          | 3,872         | -                   | 337,989           | 5,418              | 20,533             | -                  | -                | -                | 367,812             |
| Loans and advances to customers  | 28,501        | -                   | 458,224           | 567,505            | 2,584,459          | 2,276,956          | 5,085,722        | -                | 11,001,367          |
| Financial investments at fair value through other comprehensive income | -             | -                   | 61,155            | 114,058            | 345,940            | 840,246            | 190,718          | 2,210            | 1,554,327           |
| Financial investments at amortized costs                               | -             | 22                  | 48,980            | 76,586             | 343,775            | 2,279,943          | 1,474,345        | -                | 4,223,651           |
| Other financial assets   | 2,078         | 80,524              | 37,469            | 41,211             | 51,063             | 1,638              | 156              | -                | 214,139             |
| <b>Total financial assets</b>  | <b>34,451</b> | <b>474,787</b>      | <b>1,153,520</b>  | <b>967,691</b>     | <b>3,689,540</b>   | <b>5,686,886</b>   | <b>6,868,967</b> | <b>2,656,936</b> | <b>21,532,778</b>   |
| Borrowings from central banks  | -             | (30)                | (10)              | (76,650)           | (325,600)          | (445)              | -                | -                | (402,735)           |
| Deposits from banks and other financial institutions                   | -             | (610,626)           | (53,223)          | (235,440)          | (138,130)          | (24,686)           | (850)            | -                | (1,062,955)         |
| Placements from banks and other financial institutions                 | -             | -                   | (140,661)         | (99,974)           | (51,754)           | (3,547)            | (7,797)          | -                | (303,733)           |
| Financial liabilities at fair value through profit or loss             | -             | (20,090)            | (136,020)         | (91,920)           | (63,104)           | (3,717)            | (37)             | -                | (314,888)           |
| Derivative financial liabilities                                       | -             | -                   | (4,609)           | (4,588)            | (22,044)           | (700)              | (199)            | -                | (32,140)            |
| Financial assets sold under repurchase agreements                      | -             | -                   | (76,072)          | (24,604)           | (12,406)           | (328)              | -                | -                | (113,410)           |
| Due to customers   | -             | (10,486,369)        | (460,562)         | (925,324)          | (2,992,396)        | (2,075,161)        | (121)            | -                | (16,939,933)        |
| Debt securities issued   | -             | -                   | (44,864)          | (205,308)          | (136,242)          | (43,412)           | (238,361)        | -                | (668,187)           |
| Other financial liabilities  | -             | (135,056)           | (14,408)          | (27,168)           | (83,840)           | (76,921)           | (54,133)         | -                | (391,526)           |
| <b>Total financial liabilities</b>                                     | <b>-</b>      | <b>(11,252,171)</b> | <b>(930,429)</b>  | <b>(1,690,976)</b> | <b>(3,825,516)</b> | <b>(2,228,917)</b> | <b>(301,498)</b> | <b>-</b>         | <b>(20,229,507)</b> |
| <b>Net position</b>  | <b>34,451</b> | <b>(10,777,384)</b> | <b>223,091</b>    | <b>(723,285)</b>   | <b>(135,976)</b>   | <b>3,457,969</b>   | <b>6,567,469</b> | <b>2,656,936</b> | <b>1,303,271</b>    |

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**54 FINANCIAL RISK MANAGEMENT (Continued)**

**54.2 Liquidity risk (Continued)**

**Analysis of the remaining contractual maturity of financial assets and financial liabilities (Continued)**

|   | 31 December 2017 |                     |                    |                    |                    |                    |                  |                  |                     |
|---|------------------|---------------------|--------------------|--------------------|--------------------|--------------------|------------------|------------------|---------------------|
|   | Past due         | On demand           | Less than 1 month  | 1 - 3 months       | 3 - 12 months      | 1-5 years          | Over 5 years     | Undated          | Total               |
| Cash and balances with central banks                                  | -                | 151,906             | 3,740              | 2,403              | 5,952              | -                  | -                | 2,732,618        | 2,896,619           |
| Deposits with banks and other financial institutions                  | -                | 48,237              | 58,819             | 9,001              | 13,807             | 381                | -                | -                | 130,245             |
| Placements with and loans to banks and other financial institutions   | -                | -                   | 226,817            | 80,021             | 153,026            | 41,519             | 3,886            | -                | 505,269             |
| Financial assets held for trading                                     | -                | 1,089               | 12,546             | 33,069             | 68,200             | 75,772             | 3,964            | -                | 194,640             |
| Financial assets designated at fair value through profit or loss      | -                | -                   | 37,565             | 107,387            | 51,978             | 125,641            | 47,457           | 13,297           | 383,325             |
| Derivative financial assets   | -                | -                   | 4,497              | 4,850              | 17,604             | 1,029              | 304              | -                | 28,284              |
| Financial assets held under resale agreements                         | 3,872            | -                   | 499,251            | 17,869             | 19,394             | -                  | -                | -                | 540,386             |
| Loans and advances to customers                                       | 23,581           | -                   | 499,209            | 646,162            | 2,345,151          | 2,115,703          | 4,686,505        | -                | 10,316,311          |
| Available-for-sale financial assets                                   | -                | -                   | 133,444            | 102,788            | 139,887            | 753,385            | 285,678          | 11,238           | 1,426,420           |
| Held-to-maturity investments  | -                | -                   | 54,929             | 128,831            | 269,426            | 1,791,968          | 1,243,981        | -                | 3,489,135           |
| Debt instruments classified as receivables                            | -                | 143                 | 2,842              | 22,286             | 46,800             | 127,629            | 459,523          | -                | 659,223             |
| Other financial assets  | 2,321            | 28,530              | 38,751             | 33,884             | 50,971             | 544                | 110              | -                | 155,111             |
| <b>Total financial assets</b>   | <b>29,774</b>    | <b>229,905</b>      | <b>1,572,410</b>   | <b>1,188,551</b>   | <b>3,182,196</b>   | <b>5,033,571</b>   | <b>6,731,408</b> | <b>2,757,153</b> | <b>20,724,968</b>   |
| Borrowings from central bank  | -                | (30)                | (40,000)           | (70,540)           | (354,923)          | (454)              | -                | -                | (465,947)           |
| Deposits from banks and other financial institutions                  | -                | (495,065)           | (220,930)          | (126,369)          | (73,107)           | (59,259)           | -                | -                | (974,730)           |
| Placements from banks and other financial institutions                | -                | -                   | (96,494)           | (115,380)          | (57,125)           | (6,330)            | (4,732)          | -                | (280,061)           |
| Financial liabilities held for trading                                | -                | (21,118)            | -                  | -                  | -                  | -                  | -                | -                | (21,118)            |
| Financial liabilities designated at fair value through profit or loss | -                | -                   | (163,471)          | (110,444)          | (91,841)           | (4,860)            | (38)             | -                | (370,654)           |
| Derivative financial liabilities                                      | -                | -                   | (2,230)            | (3,990)            | (23,957)           | (497)              | (198)            | -                | (30,872)            |
| Financial assets sold under repurchase agreements                     | -                | -                   | (277,813)          | (28,113)           | (13,535)           | (328)              | -                | -                | (319,789)           |
| Due to customers  | -                | (10,030,752)        | (535,504)          | (1,249,943)        | (2,551,584)        | (1,826,342)        | (154)            | -                | (16,194,279)        |
| Debt securities issued  | -                | -                   | (44,803)           | (94,537)           | (97,102)           | (43,679)           | (194,896)        | -                | (475,017)           |
| Other financial liabilities   | -                | (100,567)           | (21,696)           | (78,555)           | (74,326)           | (82,131)           | (36,791)         | -                | (394,066)           |
| <b>Total financial liabilities</b>                                    | <b>-</b>         | <b>(10,647,532)</b> | <b>(1,402,941)</b> | <b>(1,877,871)</b> | <b>(3,337,500)</b> | <b>(2,023,880)</b> | <b>(236,809)</b> | <b>-</b>         | <b>(19,526,533)</b> |
| <b>Net position</b>   | <b>29,774</b>    | <b>(10,417,627)</b> | <b>169,469</b>     | <b>(689,320)</b>   | <b>(155,304)</b>   | <b>3,009,691</b>   | <b>6,494,599</b> | <b>2,757,153</b> | <b>1,198,435</b>    |

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#### **54 FINANCIAL RISK MANAGEMENT (Continued)**

##### **54.2 Liquidity risk (Continued)**

###### **Analysis of the undiscounted contractual cash flows**

Assets available to meet obligations related to the Group's liabilities and outstanding credit commitments primarily include cash and balances with central banks, deposits with banks and other financial institutions, placements with and loans to banks and other financial institutions, financial assets at fair value through profit or loss, and financial assets held under resale agreements. In the normal course of business, the majority of customer deposits repayable on demand or on maturity are expected to be retained. In addition, the Group is able to sell the financial investments at fair value through other comprehensive income (IFRS 9) and available-for-sale financial assets (IAS 39) to repay matured liabilities, if necessary.

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**54 FINANCIAL RISK MANAGEMENT (Continued)**

**54.2 Liquidity risk (Continued)**

**Analysis of the undiscounted contractual cash flows (Continued)**

The tables below present the undiscounted cash flows of non-derivative financial assets and financial liabilities by remaining contractual maturities at the end of each reporting period:

|  | 30 June 2018   |                     |                   |                    |                    |                    |                  |                  |                     |
|--|----------------|---------------------|-------------------|--------------------|--------------------|--------------------|------------------|------------------|---------------------|
|  | Past due       | On demand           | Less than 1 month | 1-3 months         | 3-12 months        | 1-5 years          | Over 5 years     | Undated          | Total               |
| <b>Non-derivative financial assets</b>                                 |                |                     |                   |                    |                    |                    |                  |                  |                     |
| Cash and balances with central banks                                   | -              | 321,608             | 7,218             | 3,257              | 1,143              | -                  | -                | 2,631,453        | 2,964,679           |
| Deposits with banks and other financial institutions                   | -              | 69,475              | 8,985             | 15,226             | 5,989              | 4,859              | 2,505            | -                | 107,039             |
| Placements with and loans to banks and other financial institutions    | -              | -                   | 147,543           | 87,854             | 156,745            | 39,753             | 4,365            | -                | 436,260             |
| Financial assets at fair value through profit or loss                  | -              | 3,159               | 43,538            | 57,881             | 181,710            | 276,701            | 126,554          | 23,273           | 712,816             |
| Financial assets held under resale agreements                          | 3,872          | -                   | 338,837           | 5,570              | 21,358             | -                  | -                | -                | 369,637             |
| Loans and advances to customers  | 126,389        | -                   | 533,723           | 684,649            | 3,029,435          | 3,508,601          | 7,384,325        | -                | 15,267,122          |
| Financial investments at fair value through other comprehensive income | -              | -                   | 64,624            | 122,975            | 384,856            | 947,336            | 226,834          | 2,210            | 1,748,835           |
| Financial investments at amortized costs                               | -              | 22                  | 63,243            | 103,160            | 453,353            | 2,741,177          | 1,750,118        | -                | 5,111,073           |
| Other financial assets   | -              | 79,926              | 3,563             | 716                | 2,118              | 50                 | 1                | -                | 86,374              |
| <b>Total non-derivative financial assets</b>                           | <b>130,261</b> | <b>474,190</b>      | <b>1,211,274</b>  | <b>1,081,288</b>   | <b>4,236,707</b>   | <b>7,518,477</b>   | <b>9,494,702</b> | <b>2,656,936</b> | <b>26,803,835</b>   |
| <b>Non-derivative financial liabilities</b>                            |                |                     |                   |                    |                    |                    |                  |                  |                     |
| Borrowings from central banks  | -              | (30)                | (10)              | (79,122)           | (336,363)          | (438)              | -                | -                | (415,963)           |
| Deposits from banks and other financial institutions                   | -              | (610,559)           | (53,349)          | (239,346)          | (144,885)          | (28,215)           | (1,119)          | -                | (1,077,473)         |
| Placements from banks and other financial institutions                 | -              | -                   | (141,290)         | (100,965)          | (53,175)           | (5,142)            | (9,209)          | -                | (309,781)           |
| Financial liabilities at fair value through profit or loss             | -              | (20,090)            | (137,839)         | (92,979)           | (64,459)           | (4,054)            | (37)             | -                | (319,458)           |
| Financial assets sold under repurchase agreements                      | -              | -                   | (76,235)          | (24,827)           | (12,602)           | (340)              | -                | -                | (114,004)           |
| Due to customers   | -              | (10,492,363)        | (471,191)         | (947,213)          | (3,106,331)        | (2,295,999)        | (122)            | -                | (17,313,219)        |
| Debt securities issued   | -              | -                   | (45,069)          | (210,031)          | (149,802)          | (91,427)           | (284,826)        | -                | (781,155)           |
| Other financial liabilities  | -              | (129,053)           | (1,462)           | (820)              | (3,297)            | (394)              | (54,132)         | -                | (189,158)           |
| <b>Total non-derivative financial liabilities</b>                      | <b>-</b>       | <b>(11,252,095)</b> | <b>(926,445)</b>  | <b>(1,695,303)</b> | <b>(3,870,914)</b> | <b>(2,426,009)</b> | <b>(349,445)</b> | <b>-</b>         | <b>(20,520,211)</b> |
| <b>Net position</b>  | <b>130,261</b> | <b>(10,777,905)</b> | <b>284,829</b>    | <b>(614,015)</b>   | <b>365,793</b>     | <b>5,092,468</b>   | <b>9,145,257</b> | <b>2,656,936</b> | <b>6,283,624</b>    |

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**54 FINANCIAL RISK MANAGEMENT (Continued)**

**54.2 Liquidity risk (Continued)**

**Analysis of the undiscounted contractual cash flows (Continued)**

|   | 31 December 2017 |                     |                      |                    |                    |                    |                  |                  |                     |
|---|------------------|---------------------|----------------------|--------------------|--------------------|--------------------|------------------|------------------|---------------------|
|   | Past due         | On demand           | Less than<br>1 month | 1 - 3<br>months    | 3 - 12<br>months   | 1 - 5<br>years     | Over<br>5 years  | Undated          | Total               |
| <b>Non-derivative financial assets</b>                                |                  |                     |                      |                    |                    |                    |                  |                  |                     |
| Cash and balances with central banks                                  | -                | 151,906             | 3,741                | 3,688              | 5,952              | -                  | -                | 2,732,618        | 2,897,905           |
| Deposits with banks and other financial institutions                  | -                | 48,237              | 59,316               | 9,121              | 14,059             | 433                | -                | -                | 131,166             |
| Placements with and loans to banks and other financial institutions   | -                | -                   | 227,887              | 81,885             | 157,594            | 44,296             | 5,499            | -                | 517,161             |
| Financial assets held for trading                                     | -                | 1,089               | 12,581               | 33,427             | 69,312             | 76,739             | 4,311            | -                | 197,459             |
| Financial assets designated at fair value through profit or loss      | -                | -                   | 38,335               | 109,821            | 57,576             | 144,268            | 54,383           | 13,297           | 417,680             |
| Financial assets held under resale agreements                         | 3,872            | -                   | 500,347              | 18,110             | 19,967             | -                  | -                | -                | 542,296             |
| Loans and advances to customers                                       | 128,314          | -                   | 558,620              | 755,681            | 2,733,620          | 3,282,327          | 6,800,862        | -                | 14,259,424          |
| Available-for-sale financial assets                                   | -                | -                   | 134,272              | 104,752            | 146,132            | 793,772            | 326,900          | 11,238           | 1,517,066           |
| Held-to-maturity investments  | -                | -                   | 56,957               | 134,287            | 286,304            | 1,881,236          | 1,396,308        | -                | 3,755,092           |
| Debt instruments classified as receivables                            | -                | 143                 | 2,986                | 22,954             | 49,168             | 138,050            | 471,212          | -                | 684,513             |
| Other financial assets  | -                | 28,448              | 795                  | 5,258              | 1,898              | 12                 | 7                | -                | 36,418              |
| <b>Total non-derivative financial assets</b>                          | <b>132,186</b>   | <b>229,823</b>      | <b>1,595,837</b>     | <b>1,278,984</b>   | <b>3,541,582</b>   | <b>6,361,133</b>   | <b>9,059,482</b> | <b>2,757,153</b> | <b>24,956,180</b>   |
| <b>Non-derivative financial liabilities</b>                           |                  |                     |                      |                    |                    |                    |                  |                  |                     |
| Borrowings from central bank  | -                | (30)                | (41,220)             | (72,789)           | (366,463)          | (447)              | -                | -                | (480,949)           |
| Deposits from banks and other financial institutions                  | -                | (495,066)           | (223,308)            | (131,541)          | (79,749)           | (66,309)           | -                | -                | (995,973)           |
| Placements from banks and other financial institutions                | -                | -                   | (96,846)             | (116,595)          | (58,214)           | (7,649)            | (5,445)          | -                | (284,749)           |
| Financial liabilities held for trading                                | -                | (21,118)            | -                    | -                  | -                  | -                  | -                | -                | (21,118)            |
| Financial liabilities designated at fair value through profit or loss | -                | -                   | (164,332)            | (111,693)          | (94,451)           | (4,876)            | (38)             | -                | (375,390)           |
| Financial assets sold under repurchase agreements                     | -                | -                   | (278,384)            | (28,329)           | (13,757)           | (356)              | -                | -                | (320,826)           |
| Due to customers  | -                | (10,037,044)        | (573,267)            | (1,304,326)        | (2,654,872)        | (2,033,087)        | (154)            | -                | (16,602,750)        |
| Debt securities issued  | -                | -                   | (44,924)             | (94,770)           | (97,647)           | (44,666)           | (195,000)        | -                | (477,007)           |
| Other financial liabilities   | -                | (94,303)            | (762)                | (31,827)           | (1,389)            | (195)              | (36,785)         | -                | (165,261)           |
| <b>Total non-derivative financial liabilities</b>                     | <b>-</b>         | <b>(10,647,561)</b> | <b>(1,423,043)</b>   | <b>(1,891,870)</b> | <b>(3,366,542)</b> | <b>(2,157,585)</b> | <b>(237,422)</b> | <b>-</b>         | <b>(19,724,023)</b> |
| <b>Net position</b>   | <b>132,186</b>   | <b>(10,417,738)</b> | <b>172,794</b>       | <b>(612,886)</b>   | <b>175,040</b>     | <b>4,203,548</b>   | <b>8,822,060</b> | <b>2,757,153</b> | <b>5,232,157</b>    |

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**54 FINANCIAL RISK MANAGEMENT (Continued)**

**54.2 Liquidity risk (Continued)**

**Derivative cash flows**

*Derivatives settled on a net basis*

The fair values of the Group's derivatives that will be settled on a net basis are primarily interest rates products. The tables below present the undiscounted contractual cash flows of the Group's net derivative positions based on their remaining contractual maturities:

|                           | <b>30 June 2018</b>          |                       |                        |                      |                         | <b>Total</b> |
|---------------------------|------------------------------|-----------------------|------------------------|----------------------|-------------------------|--------------|
|                           | <b>Less than<br/>1 month</b> | <b>1-3<br/>months</b> | <b>3-12<br/>months</b> | <b>1-5<br/>years</b> | <b>Over<br/>5 years</b> |              |
| Interest rate derivatives | 11                           | 59                    | 88                     | 1,043                | 497                     | 1,698        |

|                           | <b>31 December 2017</b>      |                       |                        |                      |                         | <b>Total</b> |
|---------------------------|------------------------------|-----------------------|------------------------|----------------------|-------------------------|--------------|
|                           | <b>Less than<br/>1 month</b> | <b>1-3<br/>months</b> | <b>3-12<br/>months</b> | <b>1-5<br/>years</b> | <b>Over<br/>5 years</b> |              |
| Interest rate derivatives | -                            | 12                    | 43                     | 637                  | 125                     | 817          |

*Derivatives settled on a gross basis*

The Group's derivatives that will be settled on a gross basis are primarily exchange rate derivatives and precious metal derivatives. The tables below present the undiscounted contractual cash flows of the Group's gross derivative positions based on their remaining contractual maturities:

|                                      | <b>30 June 2018</b>          |                       |                        |                      |                         | <b>Total</b> |
|--------------------------------------|------------------------------|-----------------------|------------------------|----------------------|-------------------------|--------------|
|                                      | <b>Less than<br/>1 month</b> | <b>1-3<br/>months</b> | <b>3-12<br/>months</b> | <b>1-5<br/>years</b> | <b>Over<br/>5 years</b> |              |
| Derivatives settled on a gross basis |                              |                       |                        |                      |                         |              |
| - Cash inflow                        | 455,156                      | 501,066               | 1,799,771              | 38,134               | 445                     | 2,794,572    |
| - Cash outflow                       | (454,117)                    | (499,775)             | (1,804,048)            | (38,334)             | (471)                   | (2,796,745)  |
| Total                                | 1,039                        | 1,291                 | (4,277)                | (200)                | (26)                    | (2,173)      |

|                                      | <b>31 December 2017</b>      |                         |                          |                        |                         | <b>Total</b> |
|--------------------------------------|------------------------------|-------------------------|--------------------------|------------------------|-------------------------|--------------|
|                                      | <b>Less than<br/>1 month</b> | <b>1 - 3<br/>months</b> | <b>3 - 12<br/>months</b> | <b>1 - 5<br/>years</b> | <b>Over 5<br/>years</b> |              |
| Derivatives settled on a gross basis |                              |                         |                          |                        |                         |              |
| - Cash inflow                        | 343,773                      | 300,972                 | 1,505,759                | 26,930                 | 477                     | 2,177,911    |
| - Cash outflow                       | (341,540)                    | (300,112)               | (1,511,810)              | (26,987)               | (496)                   | (2,180,945)  |
| Total                                | 2,233                        | 860                     | (6,051)                  | (57)                   | (19)                    | (3,034)      |



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**54 FINANCIAL RISK MANAGEMENT (Continued)**

**54.2 Liquidity risk (Continued)**

**Credit commitments**

The tables below summarize the amounts of credit commitments by remaining maturity.

|                                    | <b>30 June 2018</b>         |                        |                         | <b>Total</b>     |
|------------------------------------|-----------------------------|------------------------|-------------------------|------------------|
|                                    | <b>Less than<br/>1 year</b> | <b>1 - 5<br/>years</b> | <b>Over<br/>5 years</b> |                  |
| Loan commitments                   | 85,785                      | 173,322                | 504,007                 | 763,114          |
| Bank acceptance                    | 210,995                     | -                      | -                       | 210,995          |
| Credit card commitments            | 485,344                     | -                      | -                       | 485,344          |
| Guarantee and letters of guarantee | 111,821                     | 86,129                 | 18,115                  | 216,065          |
| Letters of credit                  | 130,805                     | 7,068                  | -                       | 137,873          |
| <b>Total</b>                       | <b>1,024,750</b>            | <b>266,519</b>         | <b>522,122</b>          | <b>1,813,391</b> |

|                                    | <b>31 December 2017</b>     |                        |                         | <b>Total</b>     |
|------------------------------------|-----------------------------|------------------------|-------------------------|------------------|
|                                    | <b>Less than<br/>1 year</b> | <b>1 - 5<br/>years</b> | <b>Over<br/>5 years</b> |                  |
| Loan commitments                   | 103,736                     | 149,075                | 474,751                 | 727,562          |
| Bank acceptance                    | 233,788                     | -                      | -                       | 233,788          |
| Credit card commitments            | 426,668                     | -                      | -                       | 426,668          |
| Guarantee and letters of guarantee | 115,371                     | 85,801                 | 19,654                  | 220,826          |
| Letters of credit                  | 133,670                     | 6,364                  | -                       | 140,034          |
| <b>Total</b>                       | <b>1,013,233</b>            | <b>241,240</b>         | <b>494,405</b>          | <b>1,748,878</b> |

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**54 FINANCIAL RISK MANAGEMENT (Continued)**

**54.3 Market risk**

Market risk represents the potential loss arising from changes in market rates of interest and foreign exchange, as well as commodity and equity prices. Market risk arises from both the Group's proprietary positions and customer driven transactions, in both cases related to on- and off-balance sheet activities.

The Group is primarily exposed to interest rate risk through its lending, fixed-income and funding activities. Interest rate risk is inherent in many of the Group's businesses and this situation is common among large banks. It fundamentally arises through mismatches between the maturity and re-pricing dates of interest-earning assets and interest-bearing liabilities. As discussed further below, interest rate risk is actively managed.

Foreign exchange rate risk is the potential loss related to changes in foreign exchange rates affecting the translation of foreign currency denominated monetary assets and liabilities. The risk of loss results from movements in foreign currency exchange rates.

The Group is also exposed to commodity risk, primarily related to gold and other precious metals. The risk of loss results from movements in commodity price. The Group manages the risk related to gold price together with foreign exchange rate risk.

The Group has determined that the levels of market risk related to changes in equity prices and commodity prices other than gold, with respect to the related exposures in its trading and investment portfolios, are immaterial.

**Segregation of Trading Book and Banking Book**

To enhance the effectiveness of market risk management, as well as the accuracy of determining the levels of regulatory capital required related to market risk, the Group segregates all financial instruments and commodities, both on- and off-balance sheet, into either the trading book or banking book. The trading book is comprised of financial instruments and commodity positions held for trading, including all derivatives instruments. Any other financial instruments are included in the banking book.

**Market Risk Management for Trading Book**

The Group manages market risk in the trading book through methodologies that include Value at Risk ("VaR"), monitoring and management of established limits, sensitivity analysis, duration analysis, exposure analysis and stress testing.

The Group has formulated policies, which are subject to review annually or as circumstances otherwise dictate, to manage market risk. Further, in this regard, the Group's market risk management is focused on movements in domestic and global financial markets, as well as the composition of the trading book and management's trading strategies, within approved limits. Moreover, the Group has implemented more specific policies for financial instruments, closely monitoring the exposure to specific issuers and counterparties, as well as the tenor of individual positions and trading strategies. The foundation of the Group's limit and risk monitoring system is based on VaR, which is used consistently to monitor all classes of financial instruments in the trading book.

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**54 FINANCIAL RISK MANAGEMENT (Continued)**

**54.3 Market risk (Continued)**

**Market Risk Management for Trading Book (Continued)**

The Bank has adopted an historical simulation method, with a confidence level of 99% based on holding period of 1 day and historical data for 250 days to calculate the VaR of the trading books, which includes the Head Office, domestic branches and overseas branches. Based on the differences between domestic and overseas markets, the Bank selected applicable parameters for model and risk factors in order to reflect the actual market risk levels. The Bank verified the accuracy and reliability of market risk measurements through data analysis, parallel modeling and back-testing of the market risk measurements.

VaR Analysis for the Trading Book

**Bank**

|                    |     | <b>Six months ended 30 June 2018</b> |                |                |                |
|--------------------|-----|--------------------------------------|----------------|----------------|----------------|
|                    |     | <b>At the end of<br/>the period</b>  | <b>Average</b> | <b>Maximum</b> | <b>Minimum</b> |
| Interest rate risk |     | 73                                   | 59             | 83             | 44             |
| Exchange rate risk | (1) | 51                                   | 52             | 94             | 12             |
| Commodity risk     |     | 15                                   | 15             | 19             | 10             |
| Overall VaR        |     | 107                                  | 102            | 134            | 57             |

|                    |     | <b>Six months ended 30 June 2017</b> |                |                |                |
|--------------------|-----|--------------------------------------|----------------|----------------|----------------|
|                    |     | <b>At the end of<br/>the period</b>  | <b>Average</b> | <b>Maximum</b> | <b>Minimum</b> |
| Interest rate risk |     | 50                                   | 47             | 72             | 40             |
| Exchange rate risk | (1) | 64                                   | 52             | 105            | 19             |
| Commodity risk     |     | 17                                   | 11             | 69             | 6              |
| Overall VaR        |     | 93                                   | 79             | 153            | 40             |

The Bank calculates VaR for its trading book (excluding RMB foreign currency settlement contracts with customers under relevant regulations). The Bank conducts stress testing for its trading book quarterly. The specific areas subject to this testing include the major areas of exposure, such as bonds, interest rate derivatives, foreign exchange derivatives and gold. The stress testing uses a range of scenarios, to assess the potential impact on profit and loss.

(1) VaR related to gold is recognized as a component of foreign exchange rate risk.

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**54 FINANCIAL RISK MANAGEMENT (Continued)**

**54.3 Market risk (Continued)**

**Market Risk Management for Banking Book**

The Group manages market risk related to the banking book by consistently applying techniques across the Group that include exposure limit management, stress testing, scenario analysis and gap analysis.

*Interest Rate Risk Management*

The interest rate risk existing in the banking book broadly relates to the mismatch of the maturity or re-pricing dates of interest rate-sensitive financial assets and financial liabilities, as well as inconsistencies in the change of the benchmark interest rates on which most domestic interest rate-sensitive financial assets and financial liabilities are based.

The Group closely monitors changes in the macro-economic environment and the monetary policies of the PBOC, enabling it to timely and flexibly adjust its pricing strategy. The Group establishes comprehensive interest rate risk management policies and protocols and has improved the consistency of interest rate risk measurement, monitoring, analysis and management of interest rate risk across the Group.

The Group regularly measures and analyzes the Group's interest rate risk by conducting gap analysis, sensitivity analysis, scenario analysis and stress testing to manage interest rate risk within established limits.

*Foreign Exchange Rate Risk Management*

Foreign exchange rate risk relates to the mismatch of foreign currency denominated monetary assets and liabilities, and the potential loss related to changes in foreign exchange rates, which largely arises through operational activities.

The Group performs monitoring and sensitivity analysis of foreign exchange rate risk exposure, manages the mismatch of foreign currency denominated assets and liabilities to effectively manage foreign exchange rate risk exposure within acceptable limits.

**Market Risk Exposure Limit Management**

Market risk exposure limits are classified as either directive limits or indicative limits, based on the characteristics of the underlying instruments or transactions, including exposure limit monitoring, enforcement of stop-loss limit, VaR limits, and stress testing limits.

The Group is committed to continuous improvement of its market risk exposure limit management. The Group establishes exposure limits reflecting its risk appetite and continuously refines the categorization of market risk exposure limits. Further, it regularly monitors, reports, refines, and implements improvements to the market risk exposure limit process.

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#### 54 FINANCIAL RISK MANAGEMENT (Continued)

##### 54.3 Market risk (Continued)

###### Foreign exchange rate risk

The Group primarily conducts its business activities in RMB, with certain transactions denominated in USD, HKD and, to a lesser extent, other currencies. The composition of all financial assets and liabilities at the end of each reporting period analyzed by currency is as follows:

|  | 30 June 2018        |                         |                         |                                      | Total               |
|--|---------------------|-------------------------|-------------------------|--------------------------------------|---------------------|
|  | RMB                 | USD<br>(RMB equivalent) | HKD<br>(RMB equivalent) | Other currencies<br>(RMB equivalent) |                     |
| Cash and balances with central banks                                   | 2,923,762           | 31,452                  | 998                     | 7,342                                | 2,963,554           |
| Deposits with banks and other financial institutions                   | 48,120              | 40,838                  | 4,300                   | 11,470                               | 104,728             |
| Placements with and loans to banks and other financial institutions    | 213,530             | 178,230                 | 23,567                  | 9,055                                | 424,382             |
| Financial assets at fair value through profit or loss                  | 621,549             | 11,343                  | 11,763                  | 2,973                                | 647,628             |
| Derivative financial assets  | 10,956              | 19,868                  | 247                     | 119                                  | 31,190              |
| Financial assets held under resale agreements                          | 367,812             | -                       | -                       | -                                    | 367,812             |
| Loans and advances to customers  | 10,551,450          | 356,702                 | 56,661                  | 36,554                               | 11,001,367          |
| Financial investments at fair value through other comprehensive income | 1,351,270           | 162,241                 | 2,922                   | 37,894                               | 1,554,327           |
| Financial investments at amortized costs                               | 4,161,316           | 48,345                  | 6,639                   | 7,351                                | 4,223,651           |
| Other financial assets   | 188,118             | 21,218                  | 2,586                   | 2,217                                | 214,139             |
| <b>Total financial assets</b>  | <b>20,437,883</b>   | <b>870,237</b>          | <b>109,683</b>          | <b>114,975</b>                       | <b>21,532,778</b>   |
| Borrowings from central banks  | (401,640)           | -                       | -                       | (1,095)                              | (402,735)           |
| Deposits from banks and other financial institutions                   | (1,008,714)         | (27,367)                | (14,674)                | (12,200)                             | (1,062,955)         |
| Placements from banks and other financial institutions                 | (52,521)            | (168,575)               | (59,111)                | (23,526)                             | (303,733)           |
| Financial liabilities at fair value through profit or loss             | (311,223)           | (3,665)                 | -                       | -                                    | (314,888)           |
| Derivative financial liabilities                                       | (18,698)            | (11,494)                | (512)                   | (1,436)                              | (32,140)            |
| Financial assets sold under repurchase agreements                      | (68,481)            | (39,193)                | -                       | (5,736)                              | (113,410)           |
| Due to customers   | (16,531,651)        | (358,365)               | (20,463)                | (29,454)                             | (16,939,933)        |
| Debt securities issued   | (405,412)           | (200,543)               | (30,140)                | (32,092)                             | (668,187)           |
| Other financial liabilities  | (355,255)           | (29,791)                | (4,824)                 | (1,656)                              | (391,526)           |
| <b>Total financial liabilities</b>                                     | <b>(19,153,595)</b> | <b>(838,993)</b>        | <b>(129,724)</b>        | <b>(107,195)</b>                     | <b>(20,229,507)</b> |
| <b>Net on-balance sheet position</b>                                   | <b>1,284,288</b>    | <b>31,244</b>           | <b>(20,041)</b>         | <b>7,780</b>                         | <b>1,303,271</b>    |
| <b>Net notional amount of derivatives</b>                              | <b>73,394</b>       | <b>(20,689)</b>         | <b>34,200</b>           | <b>(3,876)</b>                       | <b>83,029</b>       |
| <b>Credit commitments</b>  | <b>1,550,002</b>    | <b>229,799</b>          | <b>5,986</b>            | <b>27,604</b>                        | <b>1,813,391</b>    |

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**54 FINANCIAL RISK MANAGEMENT (Continued)**

**54.3 Market risk (Continued)**

**Foreign exchange rate risk (Continued)**

|   | 31 December 2017    |                         |                         |                                      | Total               |
|---|---------------------|-------------------------|-------------------------|--------------------------------------|---------------------|
|   | RMB                 | USD<br>(RMB equivalent) | HKD<br>(RMB equivalent) | Other currencies<br>(RMB equivalent) |                     |
| Cash and balances with central banks                                  | 2,855,850           | 32,052                  | 1,094                   | 7,623                                | 2,896,619           |
| Deposits with banks and other financial institutions                  | 86,294              | 27,063                  | 3,068                   | 13,820                               | 130,245             |
| Placements with and loans to banks and other financial institutions   | 337,956             | 136,594                 | 23,209                  | 7,510                                | 505,269             |
| Financial assets held for trading                                     | 194,614             | 26                      | -                       | -                                    | 194,640             |
| Financial assets designated at fair value through profit or loss      | 362,680             | 6,992                   | 10,383                  | 3,270                                | 383,325             |
| Derivative financial assets   | 26,228              | 1,215                   | 21                      | 820                                  | 28,284              |
| Financial assets held under resale agreements                         | 540,386             | -                       | -                       | -                                    | 540,386             |
| Loans and advances to customers                                       | 9,898,540           | 314,143                 | 57,764                  | 45,864                               | 10,316,311          |
| Available-for-sale financial assets                                   | 1,224,918           | 162,075                 | 2,955                   | 36,472                               | 1,426,420           |
| Held-to-maturity investments  | 3,445,956           | 27,771                  | 12,500                  | 2,908                                | 3,489,135           |
| Debt instruments classified as receivables                            | 653,663             | 1,346                   | 1,093                   | 3,121                                | 659,223             |
| Other financial assets  | 145,442             | 7,001                   | 1,014                   | 1,654                                | 155,111             |
| <b>Total financial assets</b>   | <b>19,772,527</b>   | <b>716,278</b>          | <b>113,101</b>          | <b>123,062</b>                       | <b>20,724,968</b>   |
| Borrowings from central bank  | (464,830)           | -                       | -                       | (1,117)                              | (465,947)           |
| Deposits from banks and other financial institutions                  | (932,491)           | (28,566)                | (13,309)                | (364)                                | (974,730)           |
| Placements from banks and other financial institutions                | (41,217)            | (164,459)               | (54,727)                | (19,658)                             | (280,061)           |
| Financial liabilities held for trading                                | (21,118)            | -                       | -                       | -                                    | (21,118)            |
| Financial liabilities designated at fair value through profit or loss | (363,885)           | (6,769)                 | -                       | -                                    | (370,654)           |
| Derivative financial liabilities                                      | (323)               | (29,929)                | (390)                   | (230)                                | (30,872)            |
| Financial assets sold under repurchase agreements                     | (276,888)           | (37,034)                | -                       | (5,867)                              | (319,789)           |
| Due to customers  | (15,805,966)        | (321,932)               | (29,750)                | (36,631)                             | (16,194,279)        |
| Debt securities issued  | (220,357)           | (204,948)               | (18,570)                | (31,142)                             | (475,017)           |
| Other financial liabilities   | (378,204)           | (12,408)                | (1,651)                 | (1,803)                              | (394,066)           |
| <b>Total financial liabilities</b>                                    | <b>(18,505,279)</b> | <b>(806,045)</b>        | <b>(118,397)</b>        | <b>(96,812)</b>                      | <b>(19,526,533)</b> |
| <b>Net on-balance sheet position</b>                                  | <b>1,267,248</b>    | <b>(89,767)</b>         | <b>(5,296)</b>          | <b>26,250</b>                        | <b>1,198,435</b>    |
| Net notional amount of derivatives                                    | (46,787)            | 59,135                  | 18,397                  | (14,681)                             | 16,064              |
| Credit commitments  | 1,484,322           | 228,505                 | 5,724                   | 30,327                               | 1,748,878           |

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#### 54 FINANCIAL RISK MANAGEMENT (Continued)

##### 54.3 Market risk (Continued)

###### Foreign exchange rate risk (Continued)

The table below indicates the potential effect on profit before tax and other comprehensive income arising from a 5% appreciation or depreciation of RMB spot and forward foreign exchange rates against a basket of all other currencies on the net positions of foreign currency monetary assets and liabilities and derivative instruments in the condensed consolidated interim statement of financial position.

| Group           | 30 June 2018      |                            | 31 December 2017  |                            |
|-----------------|-------------------|----------------------------|-------------------|----------------------------|
|                 | Profit before tax | Other comprehensive income | Profit before tax | Other comprehensive income |
| 5% appreciation | (1,196)           | 105                        | (1,094)           | (33)                       |
| 5% depreciation | 1,196             | (105)                      | 1,094             | 33                         |

The effect on profit before tax and other comprehensive income is calculated based on the assumption that the Group's foreign currency sensitive exposures and foreign currency derivative instruments net position at the end of each reporting period remain unchanged. The Group mitigates its foreign exchange rate risk through active management of its foreign currency exposures and the appropriate use of derivative instruments, based on management expectation of future foreign currency exchange rate movements. Such analysis does not take into account the correlation effect of changes in different foreign currencies, nor any further actions that could be taken by management to mitigate the effect of foreign exchange differences. Therefore, the sensitivity analysis above may differ from actual results occurring through changes in foreign exchange rates.

###### Interest rate risk

The Group's interest rate risk arises from the mismatches between contractual maturities or re-pricing dates of interest-generating assets and interest-bearing liabilities. The Group's interest-generating assets and interest-bearing liabilities are primarily denominated in RMB. The PBOC established RMB benchmark interest rates for loans whereby financial institutions are in a position to price their loans based on credit risk, commercial and market factors. The deposit interest rate floating ceiling was removed by the PBOC with effect from 24 October 2015 for commercial banks.

The Group manages its interest rate risk by:

- Regularly monitoring the macro-economic factors that potentially impact the PBOC benchmark interest rates;
- Optimizing the management over the differences in timing between contractual maturities or re-pricing dates of interest-generating assets and interest-bearing liabilities; and
- Enhancing the interest rate margin on interest-generating assets and interest-bearing liabilities, with reference to the prevailing PBOC benchmark interest rates where appropriate.

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**54 FINANCIAL RISK MANAGEMENT (Continued)**

**54.3 Market risk (Continued)**

**Interest rate risk (Continued)**

The tables below summarize the contractual maturity or repricing date, whichever is earlier, of the Group's financial assets and financial liabilities at the end of each reporting period.

|  | 30 June 2018         |                    |                    |                    |                  |                         | Total               |
|--|----------------------|--------------------|--------------------|--------------------|------------------|-------------------------|---------------------|
|  | Less than<br>1 month | 1 to 3<br>months   | 3 to 12<br>months  | 1 to 5<br>years    | Over<br>5 years  | Non-interest<br>bearing |                     |
| Cash and balances with central banks                                   | 2,675,030            | 2,135              | 1,143              | -                  | -                | 285,246                 | 2,963,554           |
| Deposits with banks and other financial institutions                   | 77,093               | 14,964             | 5,498              | 3,410              | 2,500            | 1,263                   | 104,728             |
| Placements with and loans to banks and other financial institutions    | 147,707              | 90,700             | 149,878            | 32,325             | 3,772            | -                       | 424,382             |
| Financial assets at fair value through profit or loss                  | 45,924               | 67,797             | 172,507            | 227,113            | 109,752          | 24,535                  | 647,628             |
| Derivative financial assets  | -                    | -                  | -                  | -                  | -                | 31,190                  | 31,190              |
| Financial assets held under resale agreements                          | 337,989              | 5,418              | 20,533             | -                  | -                | 3,872                   | 367,812             |
| Loans and advances to customers  | 1,491,670            | 1,613,016          | 7,387,222          | 282,035            | 227,424          | -                       | 11,001,367          |
| Financial investments at fair value through other comprehensive income | 97,188               | 184,615            | 345,165            | 738,872            | 186,277          | 2,210                   | 1,554,327           |
| Financial investments at amortized costs                               | 55,296               | 90,618             | 340,603            | 2,263,317          | 1,473,817        | -                       | 4,223,651           |
| Other financial assets   | -                    | -                  | -                  | -                  | -                | 214,139                 | 214,139             |
| <b>Total financial assets</b>  | <b>4,927,897</b>     | <b>2,069,263</b>   | <b>8,422,549</b>   | <b>3,547,072</b>   | <b>2,003,542</b> | <b>562,455</b>          | <b>21,532,778</b>   |
| Borrowings from central banks  | (10)                 | (76,650)           | (325,600)          | (445)              | -                | (30)                    | (402,735)           |
| Deposits from banks and other financial institutions                   | (698,965)            | (223,780)          | (114,775)          | (24,094)           | (850)            | (491)                   | (1,062,955)         |
| Placements from banks and other financial institutions                 | (140,661)            | (102,590)          | (51,715)           | (2,224)            | (6,543)          | -                       | (303,733)           |
| Financial liabilities at fair value through profit or loss             | (115,448)            | (112,492)          | (63,104)           | (3,717)            | (37)             | (20,090)                | (314,888)           |
| Derivative financial liabilities                                       | -                    | -                  | -                  | -                  | -                | (32,140)                | (32,140)            |
| Financial assets sold under repurchase agreements                      | (76,072)             | (24,604)           | (12,406)           | (328)              | -                | -                       | (113,410)           |
| Due to customers   | (10,803,024)         | (925,317)          | (2,992,338)        | (2,074,676)        | (1)              | (144,577)               | (16,939,933)        |
| Debt securities issued   | (56,941)             | (228,292)          | (126,547)          | (18,045)           | (238,362)        | -                       | (668,187)           |
| Other financial liabilities  | -                    | -                  | -                  | -                  | -                | (391,526)               | (391,526)           |
| <b>Total financial liabilities</b>                                     | <b>(11,891,121)</b>  | <b>(1,693,725)</b> | <b>(3,686,485)</b> | <b>(2,123,529)</b> | <b>(245,793)</b> | <b>(588,854)</b>        | <b>(20,229,507)</b> |
| <b>Interest rate gap</b>   | <b>(6,963,224)</b>   | <b>375,538</b>     | <b>4,736,064</b>   | <b>1,423,543</b>   | <b>1,757,749</b> | <b>(26,399)</b>         | <b>1,303,271</b>    |



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**54 FINANCIAL RISK MANAGEMENT (Continued)**

**54.3 Market risk (Continued)**

**Interest rate risk (Continued)**

|   | 31 December 2017     |                    |                    |                    |                  |                         | Total               |
|---|----------------------|--------------------|--------------------|--------------------|------------------|-------------------------|---------------------|
|   | Less than<br>1 month | 1 to 3<br>months   | 3 to 12<br>months  | 1 to<br>5 years    | Over<br>5 years  | Non-interest<br>bearing |                     |
| Cash and balances with central banks                                  | 2,612,008            | 2,403              | 5,952              | -                  | -                | 276,256                 | 2,896,619           |
| Deposits with banks and other financial institutions                  | 105,307              | 9,801              | 14,506             | 381                | -                | 250                     | 130,245             |
| Placements with and loans to banks and other financial institutions   | 228,642              | 85,460             | 151,545            | 35,736             | 3,886            | -                       | 505,269             |
| Financial assets held for trading                                     | 12,546               | 33,328             | 67,991             | 75,722             | 3,964            | 1,089                   | 194,640             |
| Financial assets designated at fair value through profit or loss      | 38,297               | 108,121            | 50,598             | 125,556            | 47,456           | 13,297                  | 383,325             |
| Derivative financial assets   | -                    | -                  | -                  | -                  | -                | 28,284                  | 28,284              |
| Financial assets held under resale agreements                         | 499,251              | 17,869             | 19,394             | -                  | -                | 3,872                   | 540,386             |
| Loans and advances to customers                                       | 4,572,496            | 1,678,914          | 3,596,541          | 253,948            | 214,412          | -                       | 10,316,311          |
| Available-for-sale financial assets                                   | 171,410              | 152,062            | 129,293            | 688,494            | 273,923          | 11,238                  | 1,426,420           |
| Held-to-maturity investments  | 59,497               | 171,547            | 270,895            | 1,743,231          | 1,243,965        | -                       | 3,489,135           |
| Debt instruments classified as receivables                            | 3,185                | 22,485             | 49,238             | 133,846            | 450,469          | -                       | 659,223             |
| Other financial assets  | -                    | -                  | -                  | -                  | -                | 155,111                 | 155,111             |
| <b>Total financial assets</b>   | <b>8,302,639</b>     | <b>2,281,990</b>   | <b>4,355,953</b>   | <b>3,056,914</b>   | <b>2,238,075</b> | <b>489,397</b>          | <b>20,724,968</b>   |
| Borrowings from central bank  | (40,000)             | (70,540)           | (354,923)          | (454)              | -                | (30)                    | (465,947)           |
| Deposits from banks and other financial institutions                  | (715,735)            | (126,369)          | (73,110)           | (59,259)           | -                | (257)                   | (974,730)           |
| Placements from banks and other financial institutions                | (96,495)             | (119,229)          | (57,017)           | (4,369)            | (2,951)          | -                       | (280,061)           |
| Financial liabilities held for trading                                | -                    | -                  | -                  | -                  | -                | (21,118)                | (21,118)            |
| Financial liabilities designated at fair value through profit or loss | (134,625)            | (139,290)          | (91,841)           | (4,860)            | (38)             | -                       | (370,654)           |
| Derivative financial liabilities                                      | -                    | -                  | -                  | -                  | -                | (30,872)                | (30,872)            |
| Financial assets sold under repurchase agreements                     | (277,813)            | (28,113)           | (13,535)           | (328)              | -                | -                       | (319,789)           |
| Due to customers  | (10,400,858)         | (1,249,742)        | (2,551,341)        | (1,825,885)        | (1)              | (166,452)               | (16,194,279)        |
| Debt securities issued  | (52,470)             | (118,698)          | (89,021)           | (19,932)           | (194,896)        | -                       | (475,017)           |
| Other financial liabilities   | -                    | -                  | -                  | -                  | -                | (394,066)               | (394,066)           |
| <b>Total financial liabilities</b>                                    | <b>(11,717,996)</b>  | <b>(1,851,981)</b> | <b>(3,230,788)</b> | <b>(1,915,087)</b> | <b>(197,886)</b> | <b>(612,795)</b>        | <b>(19,526,533)</b> |
| <b>Interest rate gap</b>  | <b>(3,415,357)</b>   | <b>430,009</b>     | <b>1,125,165</b>   | <b>1,141,827</b>   | <b>2,040,189</b> | <b>(123,398)</b>        | <b>1,198,435</b>    |

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**54 FINANCIAL RISK MANAGEMENT (Continued)**

**54.3 Market risk (Continued)**

**Interest rate risk (Continued)**

The following table illustrates the potential pre-tax impact, of a parallel upward or downward shift of 100 basis points in relevant interest rate curves on the Group's net interest income and other comprehensive income for the next twelve months from the reporting date, based on the Group's positions of interest-earning assets and interest-bearing liabilities at the end of each reporting period. This analysis assumes that interest rates of all maturities move by the same amount, and does not reflect the potential impact of unparalleled yield curve movements.

The sensitivity analysis on net interest income is based on reasonably possible changes in interest rates with the assumption that the structure of financial assets and financial liabilities held at the period end remains unchanged, and does not take changes in customer behavior, basis risk or any prepayment options on debt securities into consideration.

The sensitivity analysis on other comprehensive income reflects only the effect of changes in fair value of those financial instruments classified as financial investments at fair value through other comprehensive income (IFRS 9) and available-for-sale financial assets (IAS 39) held, whose fair value changes are recorded as an element of other comprehensive income.

|                    | 30 June 2018        |                            | 31 December 2017    |                            |
|--------------------|---------------------|----------------------------|---------------------|----------------------------|
|                    | Net interest income | Other comprehensive income | Net interest income | Other comprehensive income |
| +100 basis points  | (45,841)            | (32,287)                   | (24,928)            | (37,095)                   |
| - 100 basis points | 45,841              | 32,287                     | 24,928              | 37,095                     |

The assumptions do not reflect actions that might be taken under the Group's capital and interest rate risk management policy to mitigate changes to the Group's interest rate risk. Therefore the above analysis may differ from the actual situation.

In addition, the presentation of interest rate sensitivity above is for illustration purposes only, showing the potential impact on net interest income and other comprehensive income of the Group under different parallel yield curve movements, relative to their position at period-end, excluding the derivative positions.

**54.4 Insurance risk**

The Group engages in its insurance business primarily in Mainland China. Insurance risk refers to the financial impact resulting from the unexpected occurrence of insured events. These risks are actively managed by the Group through effective sales management, underwriting control, reinsurance management and claim management. Through effective sales management, the risk of mis-selling could be reduced and the accuracy of information used for underwriting is improved. Through underwriting control, risk of adverse selection could be reduced and moreover differential pricing policy based on the level of each kind of risk could be utilized. Through reinsurance, the Group's insurance capacity could be enhanced and targeted risks could be mitigated. Effective claims management is designed to ensure that insurance payments are controlled according to established criteria.

Uncertainty in the estimation of future benefit payments and premium receipts for long-term life insurance contracts arises from the unpredictability of long-term changes in overall levels of mortality. The Group conducts experience analysis of mortality rate and surrender rate, in order to improve its risk assessment and as a basis for reasonable estimates.

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**55 CAPITAL MANAGEMENT**

The Group's capital management objectives are as follows:

- maintain an adequate capital base to support the development of its business;
- support the Group's financial stability and profitable growth;
- allocate capital through an efficient and risk based approach to optimize risk-adjusted return to shareholders; and
- safeguard the long-term sustainability of the Group's franchise so that it can continue to provide sufficient shareholder returns and benefits for other stakeholders.

The "Capital Rules for Commercial Banks (Provisional)" issued by the CBIRC in 2012 includes, among other things, requirements for minimum capital, capital conservation buffer, additional capital surcharge for systemically important banks, countercyclical buffer and Pillar II capital as follows:

- minimum regulatory requirements for Common Equity Tier-one Capital Adequacy Ratio, Tier-one Capital Adequacy Ratio and Capital Adequacy Ratio are 5%, 6% and 8%, respectively;
- capital conservation buffer requires additional 2.5% of Common Equity Tier-one Capital Adequacy Ratio;
- additional capital surcharge for systemically important banks requires additional 1% of Common Equity Tier-one Capital Adequacy Ratio;
- should the regulators require countercyclical buffer under particular circumstances or regulators impose additional Pillar II capital requirements for specific banks, these requirements shall be met within the specified time limits.

In April 2014, the CBIRC officially approved the Group to adopt advanced capital management approach. Within the scope of the approval, the Internal Ratings-Based approach is adopted to Credit Risk-weighted Assets for both retail and non-retail risk exposures, and the Standardized approach for both Operational Risk-weighted Assets and Market Risk-weighted Assets. The CBIRC will determine the parallel run period for the Group, which should last for at least three years. During the parallel run period, the Group should calculate its Capital Adequacy Ratios under the advanced approach and the non-advanced approach, and should conform to the capital floor requirements as stipulated in the "Capital Rules for Commercial Banks (Provisional)".

In January 2017, the CBIRC has officially approved the Group to adopt the Internal Models approach to measure its Market Risk-weighted Assets for qualified risk exposures.

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 CBIRC. Required information related to capital levels and utilization is filed quarterly with the CBIRC.

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#### 55 CAPITAL MANAGEMENT (Continued)

The Group's capital adequacy ratio calculated in accordance with the "Capital Rules for Commercial Banks (Provisional)" issued by the CBIRC as at the end of the reporting period is as follows:

|  |     | 30 June 2018            | 31 December 2017        |
|--|-----|-------------------------|-------------------------|
| Common Equity Tier-one Capital Adequacy Ratio        | (1) | 11.19%                  | 10.63%                  |
| Tier-one Capital Adequacy Ratio                      | (1) | 11.79%                  | 11.26%                  |
| Capital Adequacy Ratio                               | (1) | <u>14.77%</u>           | <u>13.74%</u>           |
| Common Equity Tier-one Capital                       | (2) | 1,486,205               | 1,347,453               |
| Deductible Items from Common Equity Tier-one Capital | (3) | <u>(7,324)</u>          | <u>(7,500)</u>          |
| Net Common Equity Tier-one Capital                   |     | 1,478,881               | 1,339,953               |
| Additional Tier-one Capital                          | (4) | <u>79,906</u>           | <u>79,906</u>           |
| Net Tier-one Capital                                 |     | 1,558,787               | 1,419,859               |
| Tier-two Capital                                     | (5) | <u>394,017</u>          | <u>312,087</u>          |
| Net Capital  |     | <u><u>1,952,804</u></u> | <u><u>1,731,946</u></u> |
| Risk-weighted Assets                                 | (6) | <u>13,219,219</u>       | <u>12,605,577</u>       |

Pursuant to the "Capital Rules for Commercial Banks (Provisional)":

- (1) The scope of consolidation related to the calculation of the Group's Capital Adequacy Ratios includes Domestic Institutions, Overseas Institutions and affiliated financial subsidiaries specified in the Regulation.

The Common Equity Tier-one Capital Adequacy Ratio is calculated as Net Common Equity Tier-one Capital divided by Risk-weighted Assets. The Tier-one Capital Adequacy Ratio is calculated as Net Tier-one Capital divided by Risk-weighted Assets. The Capital Adequacy Ratio is calculated as Net Capital divided by Risk-weighted Assets.

- (2) The Group's Common Equity Tier-one Capital includes: ordinary share capital, capital reserve (subject to regulatory limitations), investment revaluation reserve, surplus reserve, general reserve, retained earnings, non-controlling interests (to the extent permitted in the Common Equity Tier-one Capital under the Regulation), and the foreign currency translation reserve.
- (3) The Group's Deductible Items from Common Equity Tier-one Capital include: other intangible assets (excluding land-use rights), and Common Equity Tier-one Capital investments made in financial institutions over which the Group has control but are outside the regulatory consolidation scope for the Capital Adequacy Ratios calculation.
- (4) The Group's Additional Tier-one Capital includes: preference shares issued and non-controlling interests (to the extent permitted in the Additional Tier-one Capital definition under the Regulation).

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#### 55 CAPITAL MANAGEMENT (Continued)

- (5) The Group's Tier-two Capital includes: Tier-two capital instruments and related premium (to the extent allowed under the Regulation), excessive allowance for loan losses, and minority interests (to the extent permitted in the Tier-two Capital definition under the Regulation).
- (6) Risk-weighted Assets include Credit Risk-weighted Assets, Market Risk-weighted Assets and Operational Risk-weighted Assets.

#### 56 FAIR VALUE OF FINANCIAL INSTRUMENTS

The majority of the Group's assets and liabilities in the condensed consolidated interim statement of financial position are financial assets and financial liabilities. Fair value measurement of non-financial assets and non-financial liabilities do not have a material impact on the Group's financial position and operations, taken as a whole.

The Group does not have any financial assets or financial liabilities subject to non-recurring fair value measurements for the years ended 30 June 2018 and 31 December 2017.

##### 56.1 Valuation technique, input and process

The fair value of the Group's financial assets and financial liabilities are determined as follows:

- If traded in active markets, fair values of financial assets and financial liabilities with standard terms and conditions are determined with reference to quoted market bid prices and ask prices, respectively;
- If not traded in active markets, fair values of financial assets and financial liabilities are determined by using valuation techniques. These valuation techniques include the use of recent transaction prices of the same or similar instruments, discounted cash flow analysis and generally accepted pricing models.

The Group has established an independent valuation process for financial assets and financial liabilities. The Finance Market Department is responsible for the valuation of financial assets and financial liabilities, and the Risk Management Department performs an independent review of the valuation methodologies, inputs, assumptions and valuation results. The Operations Department records the accounting for these items and prepares the disclosure of the financial assets and financial liabilities, based on the independently reviewed valuation.

The Group's valuation policies and procedures for different types of financial instruments are approved by the Risk Management Committee. Any change to the valuation policies, or the related procedures, must be reported to the Risk Management Committee for approval before they are implemented.

During the interim period, there was no significant change in the valuation techniques or inputs used to determine fair value measurements.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

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(Amounts in millions of Renminbi, unless otherwise stated)

**56 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)**

**56.2 Fair value hierarchy**

The Group classifies financial assets and financial liabilities into the following three levels based on the extent to which inputs to valuation techniques used to measure fair value of the financial assets and financial liabilities are observable.

Level 1: fair value measurements are those derived from quoted prices (unadjusted) in an active market for identical assets or liabilities;

Level 2: fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3: fair value measurements are not based on observable market data.

**56.3 Financial assets and financial liabilities not measured at fair value on the condensed consolidated interim statement of financial position**

The tables below summarize the carrying amounts and fair values of those financial assets and financial liabilities not measured in the condensed consolidated interim statement of financial position at their fair value. Financial assets and financial liabilities for which the carrying amounts approximate fair value, such as balances with central banks, deposits with banks and other financial institutions, placements with and loans to banks and other financial institutions, financial assets held under resale agreements, loans and advances to customers, receivable from the MOF, special government bond, borrowings from central bank, deposits and placements from banks and other financial institutions, due to customers, financial assets sold under repurchase agreements and certificates of deposit issued, interbank certificate of deposits issued and commercial papers issued are not included in the tables below.

**AGRICULTURAL BANK OF CHINA LIMITED**

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

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**56 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)**

**56.3 Financial assets and financial liabilities not measured at fair value on the condensed consolidated interim statement of financial position (Continued)**

|   | <b>30 June 2018</b>     |                   |                  |                |                |                |
|---|-------------------------|-------------------|------------------|----------------|----------------|----------------|
|   | <b>Carrying amount</b>  | <b>Fair value</b> | <b>Includes:</b> | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> |
| Financial assets  |                         |                   |                  |                |                |                |
| Financial investments at amortized costs<br>(excluding receivable from the MOF and<br>special government bond)      | 3,839,460               | 3,797,917         |                  | 5,402          | 3,588,564      | 203,951        |
| Financial liabilities   |                         |                   |                  |                |                |                |
| Bonds issued  | 282,962                 | 284,364           |                  | 3,301          | 281,063        | -              |
|   |                         |                   |                  |                |                |                |
|   | <b>31 December 2017</b> |                   |                  |                |                |                |
|   | <b>Carrying amount</b>  | <b>Fair value</b> | <b>Includes:</b> | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> |
| Financial assets  |                         |                   |                  |                |                |                |
| Held-to-maturity investments  | 3,489,135               | 3,395,950         |                  | 355            | 3,395,571      | 24             |
| Debt instruments classified as<br>receivables (excluding receivable<br>from the MOF and special<br>government bond) | 294,245                 | 285,737           |                  | -              | 135,993        | 149,744        |
| Total   | 3,783,380               | 3,681,687         |                  | 355            | 3,531,564      | 149,768        |
| Financial liabilities   |                         |                   |                  |                |                |                |
| Bonds issued  | 246,833                 | 246,877           |                  | 1,954          | 244,923        | -              |

**AGRICULTURAL BANK OF CHINA LIMITED**

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(Amounts in millions of Renminbi, unless otherwise stated)

**56 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)**

**56.4 Financial assets and financial liabilities measured at fair value on the condensed consolidated interim statement of financial position**

The tables below summarize the fair values of the financial assets and financial liabilities measured in the condensed consolidated interim statement of financial position at their fair value.

|  | <b>30 June 2018</b> |                  |                | <b>Total</b>     |
|--|---------------------|------------------|----------------|------------------|
|  | <b>Level 1</b>      | <b>Level 2</b>   | <b>Level 3</b> |                  |
| Financial assets at fair value through profit or loss (Mandatory)      |                     |                  |                |                  |
| - Debt securities  | 947                 | 222,659          | 8,319          | 231,925          |
| - Precious metal contracts   | -                   | 21,054           | -              | 21,054           |
| Financial assets at fair value through profit or loss (Designated)     |                     |                  |                |                  |
| - Debt securities  | 760                 | 193,470          | -              | 194,230          |
| - Deposits with banks and other financial institutions                 | -                   | 4,810            | -              | 4,810            |
| - Placements with and loans to banks and other financial institutions  | -                   | -                | 123,397        | 123,397          |
| - Others   | 4,998               | -                | 67,214         | 72,212           |
| Subtotal   | <u>6,705</u>        | <u>441,993</u>   | <u>198,930</u> | <u>647,628</u>   |
| Loans and advances to customers  |                     |                  |                |                  |
| - Discounted bills and forfeiting                                      | -                   | 188,612          | -              | 188,612          |
| Derivative financial assets  |                     |                  |                |                  |
| - Exchange rate derivatives  | -                   | 25,073           | 22             | 25,095           |
| - Interest rate derivatives  | -                   | 2,078            | 4              | 2,082            |
| - Precious metal contracts and others                                  | -                   | 4,013            | -              | 4,013            |
| Subtotal   | <u>-</u>            | <u>31,164</u>    | <u>26</u>      | <u>31,190</u>    |
| Financial investments at fair value through other comprehensive income |                     |                  |                |                  |
| - Debt securities  | 15,241              | 1,523,033        | 3,126          | 1,541,400        |
| - Equity instruments   | 2,077               | -                | 133            | 2,210            |
| - Others   | -                   | -                | 10,717         | 10,717           |
| Subtotal   | <u>17,318</u>       | <u>1,523,033</u> | <u>13,976</u>  | <u>1,554,327</u> |
| Total assets   | <u>24,023</u>       | <u>2,184,802</u> | <u>212,932</u> | <u>2,421,757</u> |



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**56 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)**

**56.4 Financial assets and financial liabilities measured at fair value on the condensed consolidated interim statement of financial position (Continued)**

The tables below summarize the fair values of the financial assets and financial liabilities measured in the condensed consolidated interim statement of financial position at their fair value. (Continued)

|   | <b>30 June 2018</b> |                |                |              |
|---|---------------------|----------------|----------------|--------------|
|   | <b>Level 1</b>      | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b> |
| Financial liabilities at fair value through profit or loss            |                     |                |                |              |
| Financial liabilities held for trading                                |                     |                |                |              |
| - Financial liabilities related to precious metals                    | -                   | (20,090)       | -              | (20,090)     |
| Financial liabilities designated at fair value through profit or loss |                     |                |                |              |
| - Principal guaranteed wealth management products                     | -                   | -              | (291,401)      | (291,401)    |
| - Overseas debt securities  | -                   | (3,397)        | -              | (3,397)      |
| Subtotal  | -                   | (23,487)       | (291,401)      | (314,888)    |
| Derivative financial liabilities                                      |                     |                |                |              |
| - Exchange rate derivatives   | -                   | (31,583)       | (44)           | (31,627)     |
| - Interest rate derivatives   | -                   | (459)          | (4)            | (463)        |
| - Precious metal contracts  | -                   | (50)           | -              | (50)         |
| Subtotal  | -                   | (32,092)       | (48)           | (32,140)     |
| Total liabilities   | -                   | (55,579)       | (291,449)      | (347,028)    |

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(Amounts in millions of Renminbi, unless otherwise stated)

**56 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)**

**56.4 Financial assets and financial liabilities measured at fair value on the condensed consolidated interim statement of financial position (Continued)**

|   | 31 December 2017 |           |           | Total     |
|---|------------------|-----------|-----------|-----------|
|   | Level 1          | Level 2   | Level 3   |           |
| Financial assets held for trading                                     |                  |           |           |           |
| - Debt securities   | 496              | 163,453   | -         | 163,949   |
| - Precious metal contracts  | -                | 30,691    | -         | 30,691    |
| Subtotal  | 496              | 194,144   | -         | 194,640   |
| Financial assets designated at fair value through profit or loss      |                  |           |           |           |
| - Debt securities   | 8,347            | 161,407   | 2,885     | 172,639   |
| - Deposits with banks and other financial institutions                | -                | 93,741    | -         | 93,741    |
| - Placements with and loans to banks and other financial institutions | -                | -         | 92,388    | 92,388    |
| - Others  | 1,378            | 2,489     | 20,690    | 24,557    |
| Subtotal  | 9,725            | 257,637   | 115,963   | 383,325   |
| Derivative financial assets   |                  |           |           |           |
| - Exchange rate derivatives   | -                | 25,276    | 18        | 25,294    |
| - Interest rate derivatives   | -                | 1,125     | 7         | 1,132     |
| - Precious metal contracts and others                                 | -                | 1,858     | -         | 1,858     |
| Subtotal  | -                | 28,259    | 25        | 28,284    |
| Available-for-sale financial assets                                   |                  |           |           |           |
| - Debt securities   | 17,672           | 1,378,581 | 2,631     | 1,398,884 |
| - Fund investments  | 2,783            | -         | 932       | 3,715     |
| - Equity instruments  | 3,848            | -         | 3,378     | 7,226     |
| - Others  | -                | 46        | 16,252    | 16,298    |
| Subtotal  | 24,303           | 1,378,627 | 23,193    | 1,426,123 |
| Total assets  | 34,524           | 1,858,667 | 139,181   | 2,032,372 |
| Financial liabilities held for trading                                |                  |           |           |           |
| - Financial liabilities related to precious metals                    | -                | (21,118)  | -         | (21,118)  |
| Financial liabilities designated at fair value through profit or loss |                  |           |           |           |
| - Principal guaranteed wealth management products                     | -                | -         | (364,151) | (364,151) |
| - Overseas debt securities  | -                | (6,503)   | -         | (6,503)   |
| Subtotal  | -                | (6,503)   | (364,151) | (370,654) |
| Derivative financial liabilities                                      |                  |           |           |           |
| - Exchange rate derivatives   | -                | (30,083)  | (30)      | (30,113)  |
| - Interest rate derivatives   | -                | (399)     | (7)       | (406)     |
| - Precious metal contracts  | -                | (353)     | -         | (353)     |
| Subtotal  | -                | (30,835)  | (37)      | (30,872)  |
| Total liabilities   | -                | (58,456)  | (364,188) | (422,644) |

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Amounts in millions of Renminbi, unless otherwise stated)

**56 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)**

**56.4 Financial assets and financial liabilities measured at fair value on the condensed consolidated interim statement of financial position (Continued)**

Substantially all financial instruments classified within Level 2 of the fair value hierarchy are debt investments, deposits with banks and other financial institutions, currency forwards, currency swaps, interest rate swaps, currency options and precious metal contracts. Fair value of debt investments denominated in RMB is determined based upon the valuation published by the China Central Depository & Clearing Co., Ltd. Fair value of debt investments denominated in foreign currencies is determined based upon the valuation results published by Bloomberg. The fair value of deposits with banks and other financial institutions, currency forwards, currency swaps, interest rate swaps and currency options are calculated by applying discounted cash flow analysis or the Black Scholes Pricing Model. The fair value of precious metal contracts that are related to the Group's trading activities is determined with reference to the relevant observable market parameters. All significant inputs are observable in the market.

Level 3 financial assets of the Group mainly represented underlying assets invested by principal-guaranteed wealth management products issued by the Group including deposits with banks and other financial institutions, placements with and loans to banks and other financial institutions and credit assets. The counterparties of these deposits and placements are primarily commercial banks and non-bank financial institutions in Mainland China. The credit assets are loans and advances to corporate customers in Mainland China. Level 3 financial liabilities largely represented liabilities to the investors of these products. As not all of the inputs needed to estimate the fair value of these assets and liabilities are observable, the Group classified these investment products within Level 3 of the fair value measurement hierarchy. The significant unobservable inputs related to these assets and liabilities are those parameter related credit risk, liquidity and discount rate. Management has made assumptions on unobservable inputs based on observed indicators of impairment, significant changes in yield, external credit ratings and comparable credit spreads, but the fair value of these underlying assets and liabilities could be different from those disclosed.

There were no significant transfers amongst the different levels of the fair value hierarchy during the period ended 30 June 2018 and the year ended 31 December 2017.

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**56 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)**

**56.4 Financial assets and financial liabilities measured at fair value on the condensed consolidated interim statement of financial position (Continued)**

The reconciliation of Level 3 classified financial assets and financial liabilities presented at fair value on the condensed consolidated interim statement of financial position is as follows:

|   | <b>Six months ended 30 June 2018</b>                                 |  |   |   |   |   |
|---|--|--|---|---|---|---|
|   | <b>Financial assets<br/>at fair value through<br/>profit or loss</b> | <b>Derivative<br/>Financial<br/>assets</b> | <b>Financial investments<br/>at fair value<br/>through other<br/>comprehensive income<br/>(Debt instrument)</b> | <b>Financial investments<br/>at fair value<br/>through other<br/>comprehensive income<br/>(Equity instrument)</b> | <b>Financial liabilities<br/>at fair value through<br/>profit or loss</b> | <b>Derivative<br/>financial<br/>liabilities</b> |
| 1 January 2018  | 131,928  | 25   | 11,498  | 449   | (364,151)   | (37)  |
| Purchases   | 1,800,305  | -  | 2,505   | 93  | -   | -   |
| Issues  | -  | -  | -   | -   | 900,887   | -   |
| Settlements/disposals   | (1,733,962)  | (19)                                       | (68)  | (410)   | (822,473)   | 1   |
| Total loss/(gain)<br>recognized in  |  |  |   |   |   |   |
| - Profit or loss  | 659  | 20   | -   | -   | (5,664)   | (12)  |
| - Other comprehensive<br>income   | -  | -  | (92)  | 1   | -   | -   |
| 30 June 2018  | <u>198,930</u>   | <u>26</u>                                  | <u>13,843</u>   | <u>133</u>  | <u>(291,401)</u>  | <u>(48)</u>                                     |
| Change in unrealized<br>loss/(gain) for the period<br>included in profit or loss<br>assets/liabilities held at<br>end of the period | (486)  | 9  | -   | -   | 1   | (5)   |

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**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

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**56 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)**

**56.4 Financial assets and financial liabilities measured at fair value on the condensed consolidated interim statement of financial position (Continued)**

The reconciliation of Level 3 classified financial assets and financial liabilities presented at fair value on the condensed consolidated interim statement of financial position is as follows (Continued):

|  | <b>2017</b>   |  |   |  |   |
|--|---|--|---|--|---|
|  | <b>Financial assets<br/>designated at fair<br/>value through<br/>profit or loss</b> | <b>Derivative<br/>financial<br/>assets</b> | <b>Available-<br/>for-sale<br/>financial<br/>assets</b> | <b>Financial<br/>liabilities<br/>designated at<br/>fair value<br/>through profit<br/>or loss</b> | <b>Derivative<br/>financial<br/>liabilities</b> |
| 1 January 2017   | 121,778   | 73   | 7,640   | (283,666)  | (132)   |
| Purchases  | 1,975,472   | -  | 20,960  | -  | -   |
| Issuance   | -   | -  | -   | (3,778,572)  | -   |
| Settlements/disposals  | (1,991,329)   | (6)  | (5,321)   | 3,707,985  | 12  |
| Total gains/(losses)<br>recognized in  |   |  |   |  |   |
| - Profit or loss   | 10,042  | (42)                                       | -   | (9,898)  | 83  |
| - Other comprehensive<br>income  | -   | -  | (86)  | -  | -   |
| 31 December 2017   | <u>115,963</u>  | <u>25</u>                                  | <u>23,193</u>   | <u>(364,151)</u>   | <u>(37)</u>                                     |
| Change in unrealized<br>gains/(losses) for the year<br>included in profit or loss<br>for assets/liabilities held<br>at the end of the year | <u>1,605</u>  | <u>(43)</u>                                | <u>-</u>  | <u>(44)</u>  | <u>73</u>                                       |

In Level 3 of the fair value hierarchy, total gains or losses included in profit or loss for the period are presented in net (loss)/gain on financial instruments designated at fair value through profit or loss of the condensed consolidated interim income statement.

**AGRICULTURAL BANK OF CHINA LIMITED**  
(Incorporated in the People's Republic of China with Limited Liability)

**Unreviewed Supplementary Financial Information**  
**For the six months ended 30 June 2018**

## AGRICULTURAL BANK OF CHINA LIMITED

### UNREVIEWED SUPPLEMENTARY FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

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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 COVERAGE RATIO

|                                  | Three months ended |               |
|----------------------------------|--------------------|---------------|
|                                  | 30 June 2018       | 31 March 2018 |
| Average Liquidity Coverage Ratio | 117.5%             | 124.8%        |

The liquidity coverage ratios were also in accordance with the Rules on Liquidity Risk Management of Commercial Banks issued by the CBIRC and applicable calculation requirements, and based on the data determined under the PRC GAAP.

#### 2 CURRENCY CONCENTRATIONS

|                         | Equivalent in millions of RMB |           |           |             |
|-------------------------|-------------------------------|-----------|-----------|-------------|
|                         | USD                           | HKD       | Other     | Total       |
| 30 June 2018            |                               |           |           |             |
| Spot assets             | 862,668                       | 111,807   | 115,668   | 1,090,143   |
| Spot liabilities        | (827,499)                     | (129,212) | (105,759) | (1,062,470) |
| Forward purchases       | 1,272,253                     | 65,657    | 56,035    | 1,393,945   |
| Forward sales           | (1,291,083)                   | (31,457)  | (59,708)  | (1,382,248) |
| Net options position    | (1,859)                       | -         | (203)     | (2,062)     |
| Net long position       | 14,480                        | 16,795    | 6,033     | 37,308      |
| Net structural position | 6,215                         | 7,625     | 2,485     | 16,325      |
|                         |                               |           |           |             |
|                         | Equivalent in millions of RMB |           |           |             |
|                         | USD                           | HKD       | Other     | Total       |
| 31 December 2017        |                               |           |           |             |
| Spot assets             | 722,187                       | 113,826   | 122,616   | 958,629     |
| Spot liabilities        | (776,116)                     | (118,007) | (96,582)  | (990,705)   |
| Forward purchases       | 1,017,341                     | 51,333    | 64,337    | 1,133,011   |
| Forward sales           | (930,737)                     | (32,936)  | (78,870)  | (1,042,543) |
| Net options position    | (27,469)                      | -         | (148)     | (27,617)    |
| Net long position       | 5,206                         | 14,216    | 11,353    | 30,775      |
| Net structural position | 4,502                         | 6,953     | 2,524     | 13,979      |

## AGRICULTURAL BANK OF CHINA LIMITED

### UNREVIEWED SUPPLEMENTARY FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

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#### 3 INTERNATIONAL CLAIMS

International claims are the sum of cross-border claims in all currencies and local claims in foreign currencies. The Group is principally engaged in business operations within Mainland China, and regards all the claims on third parties outside Mainland China as cross border claims.

International claims include balances with central banks, deposits with banks and other financial institutions, placements with and loans to banks and other financial institutions, loans and advances to customers, financial assets held under resale agreements, financial assets at fair value through profit or loss, financial investments at fair value through other comprehensive income and financial investments at amortized costs.

International 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 international claims, after taking into account any risk transfers. Risk transfer is only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country.

|                                      | <b>Banks</b> | <b>Official sector</b> | <b>Non-bank private sector</b> | <b>Total</b> |
|--------------------------------------|--------------|------------------------|--------------------------------|--------------|
| 30 June 2018                         |              |                        |                                |              |
| Asia Pacific                         | 75,543       | 29,412                 | 197,169                        | 302,124      |
| - of which attributable to Hong Kong | 24,149       | 9,182                  | 168,819                        | 202,150      |
| Europe                               | 26,592       | 7,866                  | 53,534                         | 87,992       |
| North and South America              | 347,767      | 52,178                 | 261,007                        | 660,952      |
| Africa                               | 218          | -                      | -                              | 218          |
| Total                                | 450,120      | 89,456                 | 511,710                        | 1,051,286    |
|                                      | <b>Banks</b> | <b>Official sector</b> | <b>Non-bank private sector</b> | <b>Total</b> |
| 31 December 2017                     |              |                        |                                |              |
| Asia Pacific                         | 70,871       | 23,981                 | 210,351                        | 305,203      |
| - of which attributable to Hong Kong | 22,072       | 9,434                  | 167,164                        | 198,670      |
| Europe                               | 24,356       | 6,106                  | 60,591                         | 91,053       |
| North and South America              | 237,660      | 45,373                 | 246,306                        | 529,339      |
| Africa                               | 606          | -                      | -                              | 606          |
| Total                                | 333,493      | 75,460                 | 517,248                        | 926,201      |



## AGRICULTURAL BANK OF CHINA LIMITED

### UNREVIEWED SUPPLEMENTARY FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Amounts in millions of Renminbi, unless otherwise stated)

#### 4 OVERDUE AND RESCHEDULED ASSETS

(1) Gross amount of overdue loans and advances to customers

|  | <b>30 June 2018</b> | <b>31 December 2017</b> |
|--|---------------------|-------------------------|
| Overdue  |                     |                         |
| within 3 months  | 75,016              | 91,100                  |
| between 3 and 6 months   | 22,729              | 18,798                  |
| between 6 and 12 months  | 42,835              | 30,722                  |
| over 12 months   | 69,404              | 83,446                  |
|  | <u>209,984</u>      | <u>224,066</u>          |
| Total  | <u>209,984</u>      | <u>224,066</u>          |
| Percentage of overdue loans and advances to customers in total loans |                     |                         |
| within 3 months  | 0.65%               | 0.85%                   |
| between 3 and 6 months   | 0.20%               | 0.18%                   |
| between 6 and 12 months  | 0.37%               | 0.29%                   |
| over 12 months   | 0.61%               | 0.77%                   |
|  | <u>1.83%</u>        | <u>2.09%</u>            |
| Total  | <u>1.83%</u>        | <u>2.09%</u>            |

(2) Overdue and rescheduled loans and advances to customers

|   | <b>30 June 2018</b> | <b>31 December 2017</b> |
|---|---------------------|-------------------------|
| Total rescheduled loans and advances to customers   | 56,538              | 55,120                  |
| Including: rescheduled loans and advances to customers overdue for not more than 3 months                   | 8,500               | 18,176                  |
| Percentage of rescheduled loans and advances to customers overdue for not more than 3 months to total loans | <u>0.07%</u>        | <u>0.17%</u>            |

(3) Gross amount of overdue placements with and loans to banks and other financial institutions

There were no overdue in the Group's placements with and loans to banks and other financial institutions as at 30 June 2018 and 31 December 2017.