



(a statutory financial institution organised under the laws of the People’s Republic of China)

**CNY3,000,000,000 3.40 per cent. Bonds due 2024**  
**CNY2,500,000,000 3.18 per cent. Bonds due 2022**  
**Issue Price for CNY3,000,000,000 3.40 per cent. Bonds due 2024: 100 per cent.**  
**Issue Price for CNY2,500,000,000 3.18 per cent. Bonds due 2022: 100 per cent.**

The 3.40 per cent. bonds due 2024 in the aggregate principal amount of CNY3,000,000,000 (the “**CNY Bonds**”) and the 3.18 per cent. bonds due 2022 in the aggregate principal amount of CNY2,500,000,000 (the “**CNY Green Bonds**”) will be issued by Agricultural Development Bank of China (the “**Bank**” or the “**Issuer**”). The CNY Bonds and the CNY Green Bonds are collectively referred to as the “**Bonds**” and each constitutes a series of Bonds.

The CNY Bonds will bear interest from (and including) 6 November 2019 (the “**Issue Date**”) at the rate of 3.40 per cent. per annum payable semi-annually in arrear on 6 May and 6 November in each year commencing on 6 May 2020, provided, however, that, if any interest payment date would otherwise fall on a date which is not a business day (as defined in the terms and conditions of the CNY Bonds (the “**Terms and Conditions of the CNY Bonds**”), it will be postponed to the next day which is a business day unless it would thereby fall into the next calendar month, in which case it shall be brought forward to the immediately preceding business day.

The CNY Green Bonds will bear interest from (and including) the Issue Date at the rate of 3.18 per cent. per annum payable semi-annually in arrear on 6 May and 6 November in each year commencing on 6 May 2020, provided, however, that, if any interest payment date would otherwise fall on a date which is not a business day (as defined in the terms and conditions of the CNY Green Bonds (the “**Terms and Conditions of the CNY Green Bonds**”), and together with the Terms and Conditions of the CNY Bonds, the “**Terms and Conditions of the Bonds**”), it will be postponed to the next day which is a business day unless it would thereby fall into the next calendar month, in which case it will be brought forward to the immediately preceding business day.

Payments in respect of the Bonds shall be made free and clear of, and without deduction or withholding for or on account of any present or future taxes, duties, assessment or governmental charges of whatever nature imposed or levied by or on behalf of the PRC or by or within any of its political subdivisions or authorities having power to tax as further described in Condition 7 (*Taxation*) of the Terms and Conditions of the Bonds.

On giving not less than 30 nor more than 60 days’ notice to the holders of the Bonds (which notice shall be irrevocable), the Bank may redeem the Bonds at any time in whole, but not in part, at their principal amount, together with interest accrued to the date fixed for redemption, if the Bank has or will become obliged to pay Additional Amounts (as defined in the Terms and Conditions of the Bonds) as a result of any change in, or amendment to, the laws or regulations of the PRC or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after 30 October 2019, and such obligation cannot be avoided by the Bank taking reasonable measures available to it.

Unless previously redeemed, or purchased and cancelled, the Bank will redeem each (i) CNY Bond at its principal amount on the Interest Payment Date (as defined in the Terms and Conditions of the Bonds) falling on, or nearest to, 6 November 2024 and (ii) CNY Green Bond at its principal amount on the Interest Payment Date falling on, or nearest to, 6 November 2022.

Each series of the Bonds will constitute direct, unsubordinated, unconditional and (subject to the creation of any security permitted or approved in accordance with Condition 3(a) (*Negative Pledge*) of the Terms and Conditions of the Bonds) unsecured obligations of the Bank which will at all times rank *pari passu* among themselves and at least *pari passu* with all other existing and future unsubordinated and unsecured obligations of the Bank from time to time outstanding (except for any statutory preference or priority applicable in the winding-up of the Bank).

The Bonds will be issued in denominations of CNY1,000,000 and integral multiples of CNY10,000 in excess thereof.

Investing in the Bonds involves certain risks. See “*Risk Factors*” beginning on page 20 for a discussion of certain factors to be considered in connection with an investment in the Bonds.

The Bonds have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act of 1933, as amended (the “*Securities Act*”). The Bonds are being offered only outside the United States in reliance on Regulation S under the Securities Act. For a description of these and certain further restrictions on offers and sales of the Bonds and the distribution of this Offering Circular, see “*Subscription and Sale*”.

Application has been made to The Stock Exchange of Hong Kong Limited (“**Hong Kong Stock Exchange**”) for the listing of the Bonds by way of debt issues to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange and in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the “**SFO**”)) (together, “**Professional Investors**”) only. This document is for distribution to Professional Investors only. Investors should not purchase the Bonds in the primary or secondary markets unless they are Professional Investors and understand the risks involved. The Bonds are only suitable for Professional Investors.

The Hong Kong Stock Exchange has not reviewed the contents of this document, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this document to Professional Investors only have been reproduced in this document. Listing of the Bonds on the Hong Kong Stock Exchange is not to be taken as an indication of the commercial merits or credit quality of the Bonds, the Bank or quality of disclosure in this document. Hong Kong Exchanges and Clearing Limited and the Hong Kong Stock Exchange take no responsibility for the contents of this Offering Circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Offering Circular.

An application has been made to the Luxembourg Stock Exchange (the “**LuxSE**”) in its capacity as competent authority under Part IV of the Luxembourg Law dated as of 16/07/2019 on prospectus for securities, as amended (the “**Prospectus Law**”) and the rules and regulations of the LuxSE (the “**LuxSE Rules**”) to approve this document as a prospectus. An application has also been made for the Bonds to be admitted to trading on the Euro MTF market, which is a market operated by the LuxSE, and listed on the Official List of the LuxSE (the “**Official List**”). The Euro MTF market is not a regulated market pursuant to the provisions of the Directive 2014/65/EU of the European Parliament and of the Council on markets in financial instruments. This Offering Circular comprises information about the Bank and the Bonds for the purposes of Part 2 of the LuxSE Rules. An application has also been made for the CNY Green Bonds to be displayed on the Luxembourg Green Exchange (“**LGX**”).

This document includes particulars given in compliance with the Guideline on Provision and Distribution of Financial Products (Circular 033/B/2010-DSB/AMCM) for the purpose of giving information with regard to the Issuer. The Issuer accepts full responsibility for the accuracy of the information contained in this document and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading. This document does not constitute a prospectus for the purposes of article 3 of Regulation (EU) 2017/1129, as amended (the “**Prospectus Regulation**”). This Offering Circular may only be used for the purposes for which it has been published.

The Bonds may not be offered to the public or indirectly to the public unless the requirements of the Prospectus Law have been satisfied.

This Offering Circular will be published on the website of the LuxSE (www.bourse.lu). For the avoidance of doubt, the content of the website(s) included in this Offering Circular are for information purposes only and does not form part of this Offering Circular.

The LuxSE assumes no responsibility on the correctness of any of the statements made or opinions expressed or reports contained in this Offering Circular. Admission to trading on the Euro MTF market and listing on the Official List of the LuxSE and LGX is not to be taken as an indication of the merits of the Bank or the Bonds.

This document is for distribution to professional investors (as defined in Section 11 of the Guideline on Provision and Distribution of Financial Products (Circular 033/B/2010-DSB/AMCM)) (the “**MOX Professional Investors**”) only. Investors should not purchase the Bonds in the primary or secondary markets unless they are MOX Professional Investors and understand the risks involved. The Bonds are only suitable for MOX Professional Investors.

Chongwa (Macao) Financial Asset Exchange Co., Ltd. (the “**MOX**”) has not reviewed the contents of this document, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this document to MOX Professional Investors only have been reproduced in this document. Listing of the Bonds on MOX is not to be taken as an indication of the commercial merits or credit quality of the Bonds, the Bank or the quality of disclosure in this document. MOX take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

Application will be made to the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) (the “**Frankfurt Stock Exchange**”) for the Bonds to be admitted to trading in the Quotation Board of the Open Market (*Freiverkehr*) at the Frankfurt Stock Exchange and the Bonds will be available for trading on the China Europe International Exchange AG (CEINEX).

Application has also been made to the London Stock Exchange plc (the “**London Stock Exchange**”) for the Bonds to be admitted to trading on the London Stock Exchange’s International Securities Market (the “**ISM**”). This Offering Circular comprises admission particulars for the purposes of admission to trading of the Bonds on the ISM. The ISM is not a regulated market for the purposes of the Markets in Financial Instruments Directive 2014/65/EU (as amended, “**MFID II**”).

The ISM is a market designated for professional investors. Bonds admitted to trading on the ISM are not admitted to the Official List of the United Kingdom Listing Authority. The London Stock Exchange has not approved or verified the contents of this Offering Circular.

**Singapore Securities and Futures Act Product Classification:** In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the “**SFA**”) and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the “**CMP Regulations 2018**”), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Bonds are ‘prescribed capital markets products’ (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

Each series of the Bonds are expected to be rated “**A+**” by S&P Global Ratings (“**S&P**”). Such ratings of the Bonds do not constitute a recommendation to buy, sell or hold the Bonds and may be subject to revision or withdrawal any time by S&P. Each rating should be evaluated independently of any other ratings of the Bonds or other securities of the Bank or of the Bank.

Each series of the Bonds will be represented by beneficial interests in a global bond certificate (each a “**Global Bond Certificate**” and together, the “**Global Bond Certificates**”) in registered form, which will be registered in the name of, and lodged with a sub-custodian for, the Hong Kong Monetary Authority as operator (the “**Operator**”) of the Central Money Markets Unit Service (“**CMU**”). Beneficial interests in the Global Bond Certificates will be shown on, and transfer thereof will be effected only through, records maintained by the CMU. For persons seeking to hold a beneficial interest in the Bonds through Euroclear Bank SA/NV (“**Euroclear**”) and Clearstream Banking S.A. (“**Clearstream**”), such persons will hold their interest through an account opened and held by Euroclear or Clearstream with CMU. Except as described herein, individual certificates for the Bonds will not be issued in exchange for interests in the relevant Global Bond Certificate. The Bonds constitute freely transferable securities.

The Issuer is duly incorporated under the laws of the PRC and operates in conformity with its constitution. The Bonds conform with the laws of the PRC and are duly authorised according to the requirements of the Issuer’s constitution. All necessary statutory and other consents have been obtained.

**Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers**

Bank of China		Standard Chartered Bank		Bank of Communications	
Joint Bookrunners and Joint Lead Managers					
Agricultural Bank of China Limited Hong Kong Branch	China Construction Bank	ICBC (Asia)	Shanghai Pudong Development Bank	China CITIC Bank International	
Mizuho Securities	KGI Asia	Crédit Agricole CIB		CTBC Bank	

The date of this Offering Circular is 30 October 2019

## NOTICE TO INVESTORS

THIS OFFERING CIRCULAR DOES NOT CONSTITUTE AN OFFER TO SELL, OR A SOLICITATION OF AN OFFER TO BUY, ANY SECURITIES IN ANY JURISDICTION TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE THE OFFER OR SOLICITATION IN SUCH JURISDICTION. NEITHER THE DELIVERY OF THIS OFFERING CIRCULAR NOR ANY SALE MADE HEREUNDER SHALL UNDER ANY CIRCUMSTANCES IMPLY THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE BANK OR ANY OF ITS SUBSIDIARIES OR THAT THE INFORMATION SET FORTH IN THIS OFFERING CIRCULAR IS CORRECT AS AT ANY DATE SUBSEQUENT TO THE DATE HEREOF.

This Offering Circular includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the rules and regulations of the LuxSE, the Frankfurt Stock Exchange, the London Stock Exchange and the MOX for the purpose of giving information with regard to the Bank. In respect of the Bonds to be listed on The Stock Exchange of Hong Kong Limited, the Bank accepts full responsibility for the accuracy of the information contained in this document and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading. In respect of the Bonds to be admitted to trading on the ISM, the Bank accepts full responsibility for the accuracy of the information contained in this document and confirms, having taken all reasonable care to ensure that such is the case, the information contained in this Offering Circular is, to the best of its knowledge, in accordance with the facts does not omit anything likely to affect its import.

The Bank, having made all reasonable enquiries, confirms that (i) this Offering Circular contains all information with respect to the Bank and to the Bonds which is material in the context of the issue and offering of the Bonds, (ii) all statements relating to the Bank and to the Bonds contained in this Offering Circular are in all material respects true and accurate and not misleading in any material respect, (iii) the statements of intention, opinion, belief or expectation with regard to the Bank contained in this Offering Circular are honestly made or held and have been reached after considering all relevant circumstances and have been based on reasonable assumptions (iv) there are no other facts in relation to the Bank or the Bonds the omission of which would, in the context of the issue and offering of the Bonds, make any statement in this Offering Circular misleading in any material respect and (v) all reasonable enquiries have been made by the Bank to ascertain such facts and to verify the accuracy of all such information and statements. The Bank accepts full responsibility for the information contained in this Offering Circular.

The Bank has prepared this Offering Circular solely for use in connection with the proposed offering of the Bonds described in this Offering Circular. This Offering Circular does not constitute an offer of, or an invitation by or on behalf of Bank of China Limited (“**BOCL**”), Bank of China (Hong Kong) Limited (“**BOCHK**”, together with BOCL, Bank of China), Standard Chartered Bank and Bank of Communications Co., Ltd. Hong Kong Branch (the “**Joint Global Coordinators**”) and Agricultural Bank of China Limited Hong Kong Branch, China Construction Bank (Asia) Corporation Limited, Industrial and Commercial Bank of China (Asia) Limited, Shanghai Pudong Development Bank Co., Ltd., Hong Kong Branch, China CITIC Bank International Limited, Mizuho Securities Asia Limited, KGI Asia Limited, Crédit Agricole Corporate and Investment Bank and CTBC Bank Co., Ltd. (the “**Joint Bookrunners**”, together with Joint Global Coordinators, the “**Joint Lead Managers**”) or the Bank to subscribe for or purchase any of the Bonds. The distribution of this Offering Circular and

the offering of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Bank and the Joint Lead Managers to inform themselves about and to observe any such restrictions. No action is being taken to permit a public offering of the Bonds or the distribution of this Offering Circular in any jurisdiction where action would be required for such purposes. There are restrictions on the offer and sale of the Bonds, and the circulation of documents relating thereto, in certain jurisdictions including the United States, Hong Kong, the PRC, Japan, the United Kingdom, Singapore, Taiwan and Macau and to persons connected therewith. For a description of certain further restrictions on offers and sales of the Bonds, and distribution of this Offering Circular, see “*Subscription and Sale*”. By purchasing the Bonds, investors represent and agree to all of those provisions contained in that section of this Offering Circular.

No person has been or is authorised to give any information or to make any representation concerning the Bank, or the Bonds other than as contained herein and, if given or made, any such other information or representation should not be relied upon as having been authorised by the Bank, the Joint Lead Managers or the Agents (as defined in the Terms and Conditions of the Bonds) or any of their respective directors, officers, employees, representatives, agents or advisers. Neither the delivery of this Offering Circular nor any offering, sale or delivery made in connection with the issue of the Bonds shall, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in the affairs of the Bank since the date hereof or create any implication that the information contained herein is correct as at any date subsequent to the date hereof. This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Bank, the Joint Lead Managers or the Agents or any of their respective affiliates to subscribe for or purchase the Bonds and may not be used for the purpose of an offer to, or a solicitation by, anyone in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised or is unlawful.

None of the Joint Lead Managers or the Agents or any of their respective directors, officers, employees, representatives, agents or advisers has independently verified the information contained in this Offering Circular. Accordingly, no representation, warranty or undertaking, express or implied, is made or given and no responsibility or liability is accepted, by the Joint Lead Managers or the Agents or any of their respective director, officer, employee, representative, agent or adviser, as to the accuracy, completeness or sufficiency of the information contained in this Offering Circular or any other information supplied in connection with the Bonds. Nothing contained in this Offering Circular is, or shall be relied upon as, a promise, representation or warranty by the Joint Lead Managers or the Agents or any of their respective directors, officers, employees, representatives, agents or advisers. This Offering Circular is not intended to provide the basis of any credit or other evaluation nor should it be considered as a recommendation by any of the Bank, the Joint Lead Managers or the Agents or any of their respective directors, officers, employees, representatives, agents or advisers that any recipient of this Offering Circular should purchase the Bonds. Each person receiving this Offering Circular acknowledges that such person has not relied on the Joint Lead Managers, the Agents or on any person affiliated with the Joint Lead Managers or the Agents in connection with its investigation of the accuracy of such information or its investment decision, and each such person must rely on its own examination of the Bank and the merits and risks involved in investing in the Bonds. See “*Risk Factors*” for a discussion of certain factors to be considered in connection with an investment in the Bonds.

To the fullest extent permitted by law, none of the Joint Lead Managers or the Agents or any of their respective directors, officers, employees, representatives, agents or advisers accepts any responsibility for the contents of this Offering Circular and assume no responsibility for the contents, accuracy, completeness or sufficiency of any such information or for any other statement, made or purported to be made by the Joint Lead Managers or the Agents or any of their respective directors, officers, employees, representatives, agents or advisers or on their behalf in connection with the Bank or the issue and offering of the Bonds. Each of the Joint Lead Managers and the Agents and their respective directors, officers, employees, representatives, agents or advisers accordingly disclaims all and any liability, whether arising in tort or contract or otherwise, which it might otherwise have in respect of this Offering Circular or any such statement. None of the Joint Lead Managers or the Agents or any of their respective directors, officers, employees, representatives, agents or advisers undertakes to review the results of operations, financial condition or affairs of the Bank during the life of the arrangements contemplated by this Offering Circular nor to advise any investor or potential investor in the Bonds of any information coming to the attention of the Joint Lead Managers or the Agents or their respective directors, officers, employees, representatives, agents or advisers.

CNY is currently not freely convertible and conversion of CNY through banks in Hong Kong is subject to certain restrictions. Investors should be reminded of the conversion risk with CNY products. In addition, there is a liquidity risk associated with CNY products, particularly if such investments do not have an active secondary market and their prices have large bid/offer spreads. CNY products are denominated and settled in CNY deliverable in Hong Kong, which represents a market which is different from that of CNY deliverable in the PRC.

**IN CONNECTION WITH THE ISSUE OF EACH SERIES OF THE BONDS, ANY OF THE JOINT LEAD MANAGERS AS THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF SUCH STABILISING MANAGER) MAY OVER-ALLOT BONDS OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE PRICE OF THE BONDS AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL FOR A LIMITED PERIOD AFTER THE ISSUE DATE, BUT IN SO DOING, THE STABILISING MANAGER SHALL ACT AS PRINCIPAL AND NOT AS AGENT OF THE BANK. HOWEVER, THERE IS NO OBLIGATION ON SUCH STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) TO DO THIS. SUCH STABILISING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME, AND MUST BE BROUGHT TO AN END AFTER A LIMITED PERIOD. SUCH STABILISATION SHALL BE IN COMPLIANCE WITH ALL APPLICABLE LAWS, REGULATIONS AND RULES.**

Any of the Joint Lead Managers and their respective affiliates may purchase the Bonds for its or their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to the Bonds and/or other securities of the Bank or its associates at the same time as the offer and sale of the Bonds or in secondary market transactions. Such transactions may be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Bonds to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchasers of the Bonds). Furthermore, investors in the Bonds may include entities affiliated with the Bank.

Prospective investors should not construe anything in this Offering Circular as legal, business or tax advice. Each prospective investor should determine for itself the relevance of the information contained in this Offering Circular and consult its own legal, business and tax advisers as needed to make its investment decision and determine whether it is legally able to purchase the Bonds under applicable laws or regulations.

## Industry and Market Data

Market data and certain industry forecasts used throughout this Offering Circular have been extracted or derived from internal surveys, market research, publicly available information, various government sources and industry publications. Industry publications generally state that the information that they contain has been obtained from sources believed by the Bank to be reliable and accurate and the Bank has taken reasonable care in extracting and reproducing such information, but that the accuracy and completeness of that information is not guaranteed. Similarly, internal surveys, industry forecasts and market research, while believed to be reliable, have not been independently verified, and none of the Bank, the Joint Lead Managers, the Agents or their respective directors, officers, employees, representatives, agents or advisers makes any representation as to the correctness, accuracy or completeness of that information. Such information may not be consistent with other information compiled within or outside the PRC. In addition, third-party information providers may have obtained information from market participants and such information may not have been independently verified. Accordingly, such information should not be unduly relied upon.

## Presentation of Financial Information

The Group's audited consolidated financial information as at and for the years ended 31 December 2017 and 2018 included in this Offering Circular has been extracted from the Group's audited consolidated financial statements as at and for the years ended 31 December 2017 (the **"Group's 2017 Audited Consolidated Financial Statements"**) audited by Grant Thornton Certified Public Accountants (**"Grant Thornton"**), the former independent auditor of the Bank, and the Group's audited consolidated financial statements as at and for the years ended 31 December 2018 (the **"Group's 2018 Audited Consolidated Financial Statements"**) audited by PricewaterhouseCoopers Zhong Tian LLP (**"PwC"**), the current independent auditor of the Bank, respectively (together, the **"Audited Financial Statements"**). The Audited Financial Statements have been prepared by the Bank in accordance with the Accounting Standards for Business Enterprises – Basic Standards and 38 concrete accounting standards issued on 15 February 2006 by the MOF, as well as the Accounting Standards for Business Enterprises – Application Guidelines, and the Accounting Standards for Business Enterprises – Interpretations issued subsequently and other relevant provisions (collectively known as the **"PRC Accounting Standards"**, or the **"PRC GAAP"**).

Certain comparative financial information as at 31 December 2017 included in the Group's 2018 Audited Consolidated Financial Statements has been reclassified to conform with the current year presentation. See note XIV (*Comparing figure*) to the Group's 2018 Audited Consolidated Financial Statements on page F-193.

The Audited Financial Statements have only been prepared in Chinese. An English translation of the Audited Financial Statements (the **"Financial Statements Translation"**) has been prepared and included in this Offering Circular for reference. None of the Joint Lead Managers or the Agents or any of their respective directors, officers, employees, representatives, agents, advisers or affiliates has independently verified or checked the accuracy of the Financial Statements Translation and can give no assurance that the information contained in the Financial Statements Translation is accurate, truthful or complete. Potential purchasers must exercise caution when using such financial information to evaluate the financial condition, results of operations and prospects of the Group.

PRC GAAP differs in certain material respects from the International Financial Reporting Standards (**"IFRS"**). For a discussion of certain differences between PRC GAAP and IFRS, see *"Summary of Certain Differences between PRC GAAP and IFRS"*.



## CERTAIN DEFINITIONS, CONVENTIONS AND CURRENCY PRESENTATION

This Offering Circular includes a translation of certain Renminbi amounts into U.S. dollars at specified rates solely for the convenience of the reader. Unless otherwise specified, where financial information in relation to the Bank has been translated into U.S. dollars, it has been so translated, for convenience only, at the rate of CNY6.8755 to U.S.\$1.00 (the noon buying rate in New York City on 31 December 2018 as set forth in the weekly H.10 statistical release of the Federal Reserve Board of the Federal Reserve Bank of New York). Further information regarding exchange rate is set forth in “*Exchange Rates*” in this Offering Circular. No representation is made that the Renminbi amounts referred to in this Offering Circular could have been or could be converted into U.S. dollars at any particular rate or at all.

In this Offering Circular, where information has been presented in thousands or millions of units, amounts may have been rounded up or down. Accordingly, totals of columns or rows of numbers in tables may not be equal to the apparent total of the individual items and actual numbers may differ from those contained herein due to rounding. References to information in billions of units are to the equivalent of a thousand million units.

Unless the context otherwise requires, references in this Offering Circular to the “Terms and Conditions of the CNY Bonds” and the “Terms and Conditions of the CNY Green Bonds” are to the terms and conditions governing the CNY Bonds and the CNY Green Bonds, as respectively set out in the “*Terms and Conditions of the CNY Bonds*” and the “*Terms and Conditions of the CNY Green Bonds*” in this Offering Circular. The Terms and Conditions of the CNY Bonds and the Terms and Conditions of the CNY Green Bonds are collectively referred to as “Terms and Conditions of the Bonds” in this Offering Circular.

In this Offering Circular, unless otherwise specified or the context otherwise requires, all references to the “PRC” and “China” are to the People’s Republic of China (excluding Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan), and all references to the “United States” and “U.S.” are to the United States of America, all references to “Hong Kong” are to the Hong Kong Special Administrative Region of the People’s Republic of China; all references to “Renminbi” and “CNY” are to the lawful currency of the PRC, all references to “U.S.\$”, “USD” and “U.S. dollars” are to the lawful currency of the United States of America and all references to “EUR” or “euro” are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended. Unless otherwise specified, historical amounts translated into Renminbi have been translated at historical rates of exchange. Such translations should not be construed as representations that the amounts referred to herein could have been or could be converted into Renminbi at those rates or any other rate at all.

The English names of the PRC nationals, entities, departments, facilities, laws, regulations, certificates, titles and the like are translations of their Chinese names and are included for identification purposes only.

## FORWARD-LOOKING STATEMENTS

Certain statements under “*Risk Factors*”, “*Description of the Business*” and elsewhere in this Offering Circular constitute “*forward-looking statements*”. The words including “believe”, “expect”, “plan”, “anticipate”, “schedule”, “estimate”, “may”, “will” and similar words or expressions identify forward-looking statements. In addition, all statements other than statements of historical facts included in this Offering Circular, including, but without limitation, those regarding the financial position, business strategy, prospects, capital expenditure and investment plans of the Bank and the plans and objectives of the Bank’s management for its future operations, are forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results or performance of the Bank to differ materially from those expressed or implied by such forward-looking statements. Reliance should not be placed on these forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Bank’s present and future business strategies and the environment in which the Bank will operate in the future. The Bank expressly disclaims any obligation or undertaking to release any updates or revisions to any forward-looking statements contained herein to reflect any change in its expectations with regard thereto or any change of events, conditions or circumstances, on which any such statements were based. This Offering Circular discloses, under “*Risk Factors*” and elsewhere, important factors that could cause actual results to differ materially from the Bank’s expectations. All subsequent written and forward-looking statements attributable to the Bank or persons acting on behalf of the Bank are expressly qualified in their entirety by such cautionary statements.

## DEFINITIONS AND CONVENTIONS

In this Offering Circular, unless the context otherwise requires, the following terms shall have the meanings set out below.

<b>Accountholder</b> . . . . .	each person who is for the time being shown in the records of CMU (or any other relevant clearing system) as the holder of a particular principal amount of the Bonds
<b>Articles of Association</b> . . . . .	Articles of Association of the Bank, as constituted and amended from time to time. Except where the context otherwise requires, the Articles of Association refers to the Articles of Association of the Bank approved by the State Council on July 2018
<b>Bank</b> . . . . .	Agricultural Development Bank of China
<b>Bonds</b> . . . . .	the CNY Bonds and the CNY Green Bonds
<b>CBIRC</b> . . . . .	China Banking and Insurance Regulatory Commission (中國銀行保險監督管理委員會), the predecessor of China Banking Regulatory Commission (中國銀行業監督管理委員會) (the “CBRC”)
<b>China or PRC</b> . . . . .	the People’s Republic of China, but for the purpose of this Offering Circular only and except where the context requires, references in this Offering Circular to “China” and the “PRC” do not include Hong Kong, Macau and Taiwan
<b>CNY Bonds</b> . . . . .	CNY3,000,000,000 in aggregate principal amount of 3.40 per cent. bonds due 2024 to be issued by the Bank on the Issue Date
<b>CNY Green Bonds</b> . . . . .	CNY2,500,000,000 in aggregate principal amount of 3.18 per cent. bonds due 2022 to be issued by the Bank on the Issue Date
<b>CPC</b> . . . . .	Communist Party of China
<b>CSRC</b> . . . . .	China Securities Regulatory Commission (中國證券監督管理委員會)
<b>FATCA</b> . . . . .	Foreign Account Tax Compliance Act
<b>Fiscal Agent</b> . . . . .	Bank of Communications Co., Ltd. Hong Kong Branch
<b>GDP</b> . . . . .	gross domestic product
<b>Group</b> . . . . .	the Bank and its subsidiaries taken as a whole
<b>HK</b> . . . . .	the Hong Kong Special Administrative Region of the PRC



<b>IAS</b> . . . . .	International Accounting Standards
<b>IASB</b> . . . . .	International Accounting Standards Board
<b>IFRS</b> . . . . .	International Financial Reporting Standards
<b>Joint Global Coordinators</b> . . . . .	Bank of China Limited, Bank of China (Hong Kong) Limited, Standard Chartered Bank and Bank of Communications Co., Ltd. Hong Kong Branch
<b>Joint Lead Managers</b> . . . . .	Bank of China Limited, Bank of China (Hong Kong) Limited, Standard Chartered Bank and Bank of Communications Co., Ltd. Hong Kong Branch, Agricultural Bank of China Limited Hong Kong Branch, China Construction Bank (Asia) Corporation Limited, Industrial and Commercial Bank of China (Asia) Limited, Shanghai Pudong Development Bank Co., Ltd., Hong Kong Branch, China CITIC Bank International Limited, Mizuho Securities Asia Limited, KGI Asia Limited, Crédit Agricole Corporate and Investment Bank and CTBC Bank Co., Ltd.
<b>Macau</b> . . . . .	the Macau Special Administrative Region of the People's Republic of China
<b>Mainland China</b> . . . . .	the People's Republic of China (excluding Hong Kong, the Macau and Taiwan)
<b>MOF</b> . . . . .	Ministry of Finance of the PRC (中華人民共和國財政部)
<b>mu</b> . . . . .	a unit of area (= 0.0667 hectares)
<b>NPL</b> . . . . .	non-performing loan
<b>NDRC</b> . . . . .	the National Development and Reform Commission of the PRC (國家發展和改革委員會)
<b>Party Committee</b> . . . . .	the organization of CPC established within the Bank
<b>PBOC</b> . . . . .	People's Bank of China (中國人民銀行)
<b>PBOC Document</b> . . . . .	the document issued by the PBOC on 20 December 2004 in relation to the provision of loans by the PBOC in the event the Bank experiences any liquidity shortfall, which is in effect as of the date of issue of the Bonds

<b>PRC Government or PRC government</b> . . . . .	the central government of the PRC and its political subdivisions, including provincial, municipal and other regional or local government entities, and instrumentalities thereof, or where the context requires, any of them
<b>Regulation S</b> . . . . .	Regulation S under the Securities Act
<b>SAFE</b> . . . . .	State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
<b>SAT</b> . . . . .	State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
<b>SFO</b> . . . . .	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (as amended from time to time)
<b>Securities Act</b> . . . . .	the U.S. Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
<b>Special Decree</b> . . . . .	the Special Decree of the State Council regarding the establishment of the Bank (Guo Fa [1994] No. 25) (國務院關於組建中國農業發展銀行的通知(國發[1994]25號)) dated 19 April 1994, which is in effect as of the date of issue of the Bonds
<b>State Council</b> . . . . .	the PRC State Council (中華人民共和國國務院)

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## SUMMARY

*The summary below is only intended to provide a limited overview of information described in more detail elsewhere in this Offering Circular. As it is a summary, it does not contain all of the information that may be important to investors and terms defined elsewhere in this Offering Circular shall have the same meanings when used in this summary. Prospective investors should therefore read this Offering Circular in its entirety.*

### OVERVIEW

The Bank was incorporated on 19 October 1994 pursuant to the Notice of the State Council on the Establishment of Agricultural Development Bank of China (國務院關於組建中國農業發展銀行的通知) issued on 19 April 1994 by the State Council. It is a policy-oriented statutory financial institution under the direct authority of the State Council, which is the highest institution of the PRC government administration, and the only agricultural policy-oriented bank in the PRC. The Bank was incorporated as the enterprise under ownership by the whole people of the PRC with limited liabilities according to the *Law of the People's Republic of China of Industrial Enterprises Owned by the Whole People (2009 Amendment)* (《中華人民共和國全民所有制工業企業法(2009修正)》) and has since been converted into a limited liability company (wholly state-owned).

Pursuant to the relevant documents, the Bank operates on an autonomous basis as an economically independent entity with the goal of preserving its capital. The Bank's business is subject to the supervision and direction of the PBOC and CBIRC.

The Bank was established in accordance with the laws, regulations and policies of the PRC government: to raise funds for agricultural policy credit business; to undertake the agricultural policy credit business specified by the PRC government; to act as an agent for the state treasury to allocate funds to support agriculture; to support the implementation of national policies on the agricultural industry and regional development; and to promote the steady and healthy development of the agricultural industry and rural economy.

In accordance with its articles of association and the instructions and requirements of the State Council, the Bank's current principal businesses mainly include:

- Providing loans for purchase, stockpiling, regulation, and distribution of key agricultural products such as grain, cotton, edible oil, sugar, pork, and chemical fertiliser;
- Providing loans in support of the construction of agricultural and rural infrastructure projects, water conservancy projects and circulation systems;
- Providing loans for projects in support of integrated agricultural development, means of production and agricultural science and technology;
- Providing loans for projects in support of renovation of shack settlements and construction of concentrated housing for farmers;
- Providing loans in support of poverty alleviation through relocation, infrastructure in poor areas, development of special industries and special poverty alleviation projects;

- Providing loans in support of town construction, land purchase and stockpiling in counties;
- Providing loans in support of small agricultural enterprises and leading industrial enterprises;
- Organizing and participating in syndicated loans, bill acceptance and discounting and other credit businesses;
- Absorbing deposits from client enterprises and public institutions within the business scope, public deposits in counties other than residents' savings and fiscal balances;
- Issuing financial bonds, conducting settlement, foreign exchange settlement and sale, and foreign exchange trading for customers;
- Opening special accounts for fiscal funds for assisting agriculture as required and disbursing fiscal agriculture-related subsidies;
- Trading, acting as an agent to trade and underwriting bonds;
- Conducting inter-bank borrowing and placement, agency collection and payment, agency insurance, asset securitisation, corporate finance advisory service, and agriculture-related business by way of cooperation with any lease company, agriculture-related guarantee company and agriculture-related investment company or through other methods upon approval; and
- Other services approved by the banking regulatory authority under the State Council.

With particular focus on “Agriculture, Rural Areas and Farmers”, the State Council has adopted a series of agriculture-friendly policies to promote new construction work in rural regions, to modernise agriculture, to increase incomes of farmers, and to promote integration between urban and rural regions. As the only agricultural policy-oriented bank in the PRC under the direct authority of the State Council, the Bank will always implement the national agricultural policies as its top priority and further make full use of its role as a policy bank to exercise nationwide macroeconomic control and promote the development of “Agriculture, Rural Areas and Farmers”.

As at 31 December 2018, the outstanding amount of loans granted by the Bank was CNY5,089.681 billion<sup>1</sup>, representing an increase of 9.31 per cent., or CNY433.641 billion, from CNY4,656.04 billion<sup>2</sup> as at 31 December 2017. As at 31 December 2018, the outstanding amount of bonds issued by the Bank was CNY4,201.489 billion, representing an increase of 10.18 per cent. from 31 December 2017. As at 31 December 2018, the Bank's balance of deposits was CNY1,434.936 billion, representing a decrease of CNY18.027 billion compared to 31 December 2017. As at 31 December 2018, the Bank's financial self-sufficiency rate in relation to those funds (outstanding amount of the bonds plus the amount of each types of deposit of the Bank, including the customers' deposits in the Bank and the Bank's deposits with other financial institutions) (other than the loans from the PBOC) that are raised by the Bank in the capital market and the risks of which are borne solely by the Bank/the aggregate amount of all interest-bearing liabilities was 85.37 per cent., representing a decrease of 3.00 per cent. from 31 December 2017.

1 Note: The outstanding amount of loans did not take into account the provision deduction factor.

2 Note: The outstanding amount of loans was not deducted from loan loss provision.

As at 31 December 2018, the Bank's outstanding amount of NPL increased by CNY2.8 billion from 31 December 2017 to CNY40.6 billion and the ratio of non-performing loans was 0.80 per cent., representing a decrease of 0.01 per cent. from 31 December 2017. As at 31 December 2018, the outstanding amount of the loan loss provisions was CNY173.197 billion, representing a net increase of CNY24.317 billion; the NPL provision coverage ratio as at 31 December 2018 was 426.25 per cent. representing an increase of 32.57 per cent. from 393.68 per cent. as at 31 December 2017. The cost to income ratio for the year ended 31 December 2018 was 27.01 per cent., representing a decrease of 0.66 per cent. from the year ended 31 December 2017. As at 31 December 2018, the Bank's capital adequacy ratio was 4.22 per cent.

## **CREDIT STRENGTHS**

The Bank believes that it has the following credit strengths:

### **Strong Credit Profile**

As the only agricultural policy-oriented statutory financial institution in the PRC under the direct authority of the State Council, the Bank will always implement the national agricultural policies as its top priority and further make full use of its role as a policy bank to exercise nationwide macroeconomic control and promote the development of "Agriculture, Rural Areas and Farmers". The Bank also aims to develop into a modern policy-oriented bank in the PRC.

The PRC government provides financial support for the business activities of the Bank. According to the Special Decree, the financial support of the PRC government available to the Bank includes: (a) capital contribution by the PRC government, (b) fiscal subsidies from the MOF, and (c) loans in the form of re-lending provided by the PBOC.

In view of its unique policy bank role and link with the PRC government, the Bank enjoys the same recognition in terms of ratings as China's sovereign debt. Please refer to "*– Principal Businesses – Funding Business – Credit Rating*".

### **Unique Position as Sole Agricultural Policy Bank**

As the PRC has the largest population in the world, agriculture plays a key role in the economic development and stability of society in the country. With the Bank's unique position as the sole agricultural policy bank in the PRC, it plays an important role in maintaining national food security, stability of the grain and cotton markets, protecting farmers' interests as well as serving rural revitalisation strategy. This is reflected in the Rural Revitalisation Strategic Plan from 2018 to 2022 released by the PRC government which outlines the major targets for agricultural output over the next five years and No. 1 Central Document issued by the PRC government from 2015 to 2018. In Document No. 1 issued in 2015, the PRC government has specified that the Bank should strengthen its policy function as well as increase lending to construction of agricultural and rural infrastructure including conservancy and roads in poor areas. In No. 1 Central Document issued in 2016, the PRC government has stressed that the Bank should strengthen its medium to long term credit loans in "Agriculture, Rural Areas and Farmers". In No. 1 Central Document issued in 2017, the PRC government has in particular specified that the Bank will improve the risk compensation mechanism and capital supplement system and increase credit support for the acquisition of entities in the diversified food market. In No. 1 Central Document issued in 2018, the PRC government has in particular specified that the Bank will clarify its positioning of responsibilities in rural revitalisation, strengthen innovation in financial services and increase medium to long term credit support for rural revitalisation.



## **Focused Strategy**

The Bank was established in accordance with the laws, regulations and policies of the PRC government: to raise funds for agricultural policy credit business; to undertake the agricultural policy credit business specified by the PRC government; to act as an agent for the state treasury to allocate financial funds to support agriculture; to support the implementation of national policies on the agricultural industry and regional development; and to promote the steady and healthy development of the agricultural industry and rural economy.

In order to achieve the objectives of the Five-Year Plan, the Bank is committed to implementing the national economic and financial policies and “Agriculture, Rural Areas and Farmers” policy; continuing to promote progress while maintaining stability; insisting on high-quality development; focusing on the strategy of serving rural revitalisation and serving agricultural supply-side structural reform; and serving national strategy, macro-control and development of “Agriculture, Rural Areas and Farmers”.

The Bank will continue to develop its international and intermediary businesses, products and services innovation, client development strategies and financial services function.

## **One of the Main Onshore Issuer**

The Bank is one of the largest bond-issuing entities in the PRC domestic market. As at 31 December 2018, the Bank issued financial bonds of 1,105 tranches in total, in an aggregated amount of CNY8.008 trillion. In 2018, the Bank issued financial bonds in an aggregated amount of CNY1.11 trillion, along with a total worth of CNY4.18 trillion of bonds outstanding, making the Bank the third largest issuer in China’s bond market. In addition, all the payments under the bonds issued by the Bank are on schedule, and no breach occurred in respect of the bonds.

## **Important Participant in the Market Construction**

The Bank is one of the important participants in the market construction that has:

- Issued innovative poverty alleviation bonds: In April 2016, the Bank successfully issued China’s first poverty alleviation special financial bonds in the national interbank market;
- Issued “China Bond Agricultural Development Bank of China Bond Index”: In May 2016, the Bank formally issued the first “Agriculture, Rural Areas and Farmers” bond index in China to facilitate the establishment and sales of indexed products. ADBC has established 11 ADBC index funds with an initial amount over CNY75 billion;
- Started the issuance of the green financial bonds: In December 2016, the Bank issued its first green financial bond, with the outstanding amount of CNY35.92 billion and EUR500 million at the end of 2018;
- Issued the first “Bond Connect” financial bonds: In July 2017, in conjunction with the PBOC, the Bank successfully issued first “Bond Connect” bonds totalling CNY16 billion in just 27 days, indicating the “Bond Connect” primary market was opened;

- Opening up the market for counter sales channel of agricultural debts: In July 2017, three tranches of stocks of agricultural bonds entered the counter market for the first time, further enriching the investment choices of the public investors;
- The first issuance of the “Bond Connect” green financial bonds through Shanghai Clearing House, and disclosed on the Luxembourg Stock Exchange: In March 2018, the information of the bond was disclosed on the Luxembourg Stock Exchange; In November 2018, the Bank finished the first single green financial bond issuance under the “Bond Connect”, totalling CNY10 billion, promoting green finance and supporting the green industry;
- The first batch of green debt pre-issuance transactions of the Bank successfully reached: In 23 April 2018, the first batch of green debt pre-issuance transactions of the Bank was successfully reached, and on June 28, the pre-issuance method was adopted again to further promote the integration of the first-and second-tier markets and discover the true price of the market;
- In September 2018, the Bank issued its first tranche of dual currency bond and USD bond. In November 2018, the Bank issued its first tranche of EUR green bond which is included in the Solactive Green Bond Index;
- In November 2018, the Bank issued its first financial bond on Shenzhen Stock Exchange;
- In November 2018, the Bank’s primary market information was disclosed through “Bond Connect” and outstanding bond information was disclosed on the Luxembourg Stock Exchange;
- In April 2019, the Bank signed the “Green Investment Principles for the Belt and Road”, a set of green investment principles jointly developed by the Green Finance Committee of China Society for Finance and Banking and the City of London Green Finance Initiative;
- In May 2019, the Bank issued a one year bond listed on the Hong Kong Stock Exchange which was innovatively structured and offered pursuant to concurrent retail and institutional offerings;
- In May 2019, the Bank issued its first financial bond on the Shanghai Stock Exchange;
- In May 2019, the Bank issued a three-year bond which is listed on five stock exchanges internationally, including the Hong Kong Stock Exchange, the LuxSE, the Frankfurt Stock Exchange, the London Stock Exchange and Chongwa (Macao) Financial Asset Exchange Co., Ltd.;
- In June 2019, the Bank issued a two-year poverty alleviation bonds through the Shanghai Clearing House, proceeds of which will mainly be used to support industrial poverty alleviation; and
- In June 2019, ADBC together with Climate Bonds Initiative (“CBI”) conducted the research of China’s green agricultural standard
- On 3 September 2019, the Bank was the first to issue CNY5 billion of Yangtze River protection financial bonds to global investors.

## Awards

In the recent years, the Bank has obtained the following awards:

- “National Poverty Alleviation Award” issued by the Leading Group for Poverty Alleviation and Development of the State Council for four consecutive years from 2016 to 2019;
- “Top Ten Poverty Alleviation Innovation Model” selected by China Comment (半月談);
- Selected and ranked 8th as “the safest bank in the global 50 emerging market countries in 2018” by the US financial magazine Global Finance;
- “The Best Agricultural, Rural Areas and Farmers Financial Services Bank of the Year” and the “Best Capital Market Opening and Innovation Contribution Agency” Awards in the “2018 China Financial Institutions Gold List” by Financial Times;
- “The Successful Offshore Issuance of the First Euro Green Bonds by the Bank” was selected as “Top 10 News of China’s Capital Markets in 2018” by Financial Times;
- “Best Policy Bank of the Year” awarded by China Banking Industry Development Forum and Bank Comprehensive Evaluation which was held by Sina Finance;
- “Sustainable Development Pratt & Whitney Award” by Caijing Magazine;
- “Bond Connect Excellent Issuer” Awards by Bond Connect Company Limited;
- “Excellent Member and Excellent Issuer of China Bond” and “Excellent Issuer of China Bond Green Bond Index Sample Bond” of 2018 by China Central Depository & Clearing Co., Ltd.;
- “Excellent Issuer (Bank Financial Bond)” and “Innovative Business Promotion Award (Green Bond International Cooperation)” Awards by Shanghai Clearing House;
- “Outstanding Contribution Award” of the 2018 Shenzhen Stock Exchange Bond Market by Shenzhen Stock Exchange;
- “Excellent Bond Connect Issuer of 2018” by Chinamoney; and
- “Professional Financial Institutions Service Awards” and “Professional Bond Issuance Award of Innovation” of 2019 by Hong Kong Commercial Daily, Economic Herald, Hong Kong O2O E-commerce Federation (“HKOEF”) and China Enterprise Reputation & Credibility Association (Overseas).

## **Experienced Management Team Appointed by the State Council**

Pursuant to the Bank's articles of association, the chairman, vice chairman, president and vice-presidents of the Bank are appointed by the State Council. The Bank believes that its management team (comprising of the chairman, Mr. Xie Xuezhi, the vice chairman and president, Mr. Qian Wenhui, the executive director and vice-president, Mr. Lin Li, the vice-president, Mr. He Xing Xiang, the head of the discipline inspection team of the central commission for discipline inspection and the state commission for discipline inspection, Mr. Wang Zhaohe, the vice-president, Mr. Sun Lansheng, the Member of the Party Committee, Mr. Xu Yiding, assistant to the president, Mr. Zhu Yuanyang, secretary of the board, Mr. Zhou Liangwei and the chief risk officer, Mr. Li Xiaohui) is well experienced in the banking industry and capable of providing expertise to achieve the Bank's business development objectives.

## **Comprehensive Risk Management System and Improved Internal Operational Mechanism**

The Bank has a comprehensive risk management system and an improved internal operational mechanism which led to an improvement in (a) the asset quality of the Bank and decline in the outstanding amount of NPL and NPL ratio and (b) the operational performance of the Bank.

As at 31 December 2018, the outstanding amount of NPL of the Bank increased by CNY2.80 billion from 31 December 2017 to CNY40.6 billion. The NPL ratio was 0.80 per cent., representing a decrease of 0.01 per cent. from 31 December 2017.

The Bank has reformed its internal operational mechanism in the following manner (a) market-driven financing mechanism so that its principal source of funds is the proceeds raised from issue of financial bonds to domestic banks and financial institutions, (b) performance appraisal system based mainly on seven indicators, namely, rate of decline in the outstanding amount of NPL, NPL ratio, return on assets, cost to income ratio, profits per capita, deposits per capita and intermediary business income per capita for the head office to appraise the performance of each of its provincial branches, (c) segmented management of policy-related and self-run-related businesses to enable the Bank to allocate its resources and risks between these two business segments more efficiently and (d) resource allocation mechanism linked with credit planning, financial fees, total wages and results of performance appraisal which will be utilised by its head office in deciding the resource allocation to the various provincial branches of the Bank.

The net profits of the Bank increased from CNY17.117 billion for the year ended 31 December 2017 to CNY18.116 billion for the year ended 31 December 2018. The cost to income ratio for the year ended 31 December 2018 was 27.01 per cent., representing a decrease of 0.66 per cent. from the year ended 31 December 2017.

## ORGANISATIONAL STRUCTURE

The headquarters of the Bank is located in Beijing. As at 31 December 2018, there was a business outlet of the headquarters of the Bank, 31 provincial branches, 338 regional/municipal branches (including the business outlets equivalent to provincial branches) and 1,828 sub-branches at the county/township-level (including the business outlets equivalent to regional/municipal branches), with a network covering all regions in the PRC.

The network of the Bank's provincial branches is set out below:



## THE OFFERING

*The following summary contains some basic information about the Bonds and is qualified in its entirety by the remainder of this Offering Circular. Some of the terms described below are subject to important limitations and exceptions. Words and expressions defined in the “Terms and Conditions of the CNY Bonds” and “Terms and Conditions of the CNY Green Bonds” shall have the same meanings in this summary. For a complete description of the terms of the Bonds, see “Terms and Conditions of the CNY Bonds” and “Terms and Conditions of the CNY Green Bonds” in this Offering Circular.*

*The offering of the Bonds contemplated hereby will be made pursuant to the Subscription Agreement (as defined in this Offering Circular).*

**Issuer** ..... Agricultural Development Bank of China.

**Legal Entity Identifier of the Issuer** ..... 3003 00C 10203 11000158

**CNY Bonds** ..... CNY3,000,000,000 in aggregate principal amount of 3.40 per cent. Bonds due 2024.

**CNY Green Bonds** ..... CNY2,500,000,000 in aggregate principal amount of 3.18 per cent. Bonds due 2022.

**Issue Price** ..... 100 per cent. for the CNY Bonds.

100 per cent. for the CNY Green Bonds.

**Form and Denomination** ..... The Bonds will be issued in registered form in denominations of CNY1,000,000 and integral multiples of CNY10,000 in excess thereof.

**Interest** ..... The CNY Bonds will bear interest from (and including) the Issue Date at the rate of 3.40 per cent. per annum payable semi-annually in arrear on 6 May and 6 November in each year commencing on 6 May 2020, provided, however, that, if any interest payment date would otherwise fall on a date which is not a business day, it will be postponed to the next day which is a business day unless it would thereby fall into the next calendar month, in which case it shall be brought forward to the immediately preceding business day.



The CNY Green Bonds will bear interest from (and including) the Issue Date at the rate of 3.18 per cent. per annum payable semi-annually in arrear on 6 May and 6 November in each year commencing on 6 May 2020, provided, however, that, if any interest payment date would otherwise fall on a date which is not a business day, it will be postponed to the next day which is a business day unless it would thereby fall into the next calendar month, in which case it shall be brought forward to the immediately preceding business day.

**Issue Date** . . . . . 6 November 2019.

**Maturity Date** . . . . . CNY Bonds: The interest payment date falling on, or nearest to, 6 November 2024.

CNY Green Bonds: The interest payment date falling on, or nearest to, 6 November 2022.

**Status of the Bonds** . . . . . Each series of the Bonds will constitute direct, unconditional, unsubordinated and, subject to the creation of any security permitted or approved in accordance with Condition 3(a) (*Negative Pledge*) of the Terms and Conditions of the Bonds, unsecured obligations of the Bank. The Bonds will at all times rank *pari passu* among themselves and at least *pari passu* with all other existing and future unsubordinated and unsecured obligations of the Bank from time to time outstanding (except for any statutory preference or priority applicable in the winding-up of the Bank).

**Negative Pledge** . . . . . Each series of the Bonds will contain a negative pledge provision as further described in Condition 3(a) (*Negative Pledge*) of the Terms and Conditions of the Bonds.

**Events of Default** . . . . . Each series of the Bonds will contain certain events of default provisions as further described in Condition 8 (*Events of Default*) of the Terms and Conditions of the Bonds.

**Redemption at Maturity** . . . . . Unless previously redeemed, or purchased and cancelled, the CNY Bonds will be redeemed at their principal amount on the interest payment date falling on, or nearest to, 6 November 2024.

Unless previously redeemed, or purchased and cancelled, the CNY Green Bonds will be redeemed at their principal amount on the interest payment date falling on, or nearest to, 6 November 2022.

<b>Redemption for Tax Reasons . . .</b>	Each series of the Bonds may be redeemed at the option of the Bank in whole, but not in part, at any time at their principal amount, together with interest accrued to the date fixed for redemption, in the event of certain changes affecting taxes of the PRC or any political subdivision or any authority thereof or therein having power to tax, as further described in Condition 5(b) ( <i>Redemption for tax reasons</i> ) of the Terms and Conditions of the Bonds.
<b>Taxation . . . . .</b>	All payments of principal and/or interest in respect of each series of the Bonds will be made free and clear of, and without deduction or withholding for or on account of any present or future taxes, duties, assessment or governmental charges of whatever nature imposed or levied by or on behalf of the PRC or by or within any of its political subdivisions or authorities having power to tax (a “ <b>PRC Tax</b> ”), unless deduction or withholding of such PRC Tax is compelled by law. In that event, the Bank shall (except in certain circumstances as set out in the Terms and Conditions of the Bonds) pay such additional amounts as will result in the receipt by the Bondholders of such amounts as would have been received by them in respect of principal and/or interest had no such deduction or withholding been required. See “ <i>Terms and Conditions of the CNY Bonds – Taxation</i> ” and “ <i>Terms and Conditions of the CNY Green Bonds – Taxation</i> ”.
<b>Clearing Systems . . . . .</b>	Each series of the Bonds will be represented by beneficial interests in a Global Bond Certificate in registered form, which will be registered in the name of, and lodged with a sub-custodian for the Hong Kong Monetary Authority as operator of the CMU. Beneficial interests in the Global Bond Certificates will be shown on and transfers thereof will be effected only through records maintained by the CMU. For persons seeking to hold a beneficial interest in the Bonds through Euroclear and Clearstream, such persons will hold their interest through an account opened and held by Euroclear or Clearstream with CMU. Except in the limited circumstances described in the Global Bond Certificates, individual certificates for the Bonds will not be issued in exchange for beneficial interests in the relevant Global Bond Certificate.
<b>Clearance and Settlement . . . . .</b>	<p>The CNY Bonds have been accepted for clearance through CMU under the following securities codes:</p> <p>CMU Instrument Number: BCMKFB19030</p> <p>ISIN: HK0000536356</p> <p>Common Code: 206618833</p>

The CNY Green Bonds have been accepted for clearance through CMU under the following securities codes:

CMU Instrument Number: BCMKFB19029

ISIN: HK0000536349

Common Code: 206619597

**Governing Law** . . . . . English law.

**Arbitration** . . . . . Any dispute, controversy or claim arising out of or relating to the Bonds, including any question regarding the breach, termination, existence or invalidity thereof, shall be settled by arbitration administered by the Hong Kong International Arbitration Centre (the “**HKIAC**”) in accordance with the HKIAC Administered Arbitration Rules then in force when the notice of arbitration is submitted in accordance with such Rules. The seat of arbitration shall be in Hong Kong and the language of the arbitration shall be English. The governing law of the arbitration agreement shall be English law.

**Fiscal Agent, Registrar and Transfer Agent** . . . . . Bank of Communications Co., Ltd. Hong Kong Branch.

**Listing** . . . . . Application has been made to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Bonds on the Hong Kong Stock Exchange by way of debt issues to Professional Investors only and such permission is expected to become effective on or about 7 November 2019.

An application has been made to the Luxembourg Stock Exchange for the Bonds to be admitted to trading on the EuroMTF market and listed on the Official List of the Luxembourg Stock Exchange. An application has also been made for the CNY Green Bonds to be displayed on the LGX.

Application has also been made to the London Stock Exchange for the Bonds to be admitted to trading on the ISM. The ISM is not a regulated market for the purposes of MiFID II. Such admission to trading is expected to be effective on or immediately following the Issue Date.

Application has been made to the MOX for the listing of the Bonds by way of debt issues to MOX Professional Investors only. Admission to the listing of the Bonds on the MOX shall not be taken as an indication of the merits of the Issuer or the Bonds.

Application will be made to the Frankfurt Stock Exchange for the Bonds to be admitted to trading in the Quotation Board of the Open Market (*Freiverkehr*) at the Frankfurt Stock Exchange and the Bonds will be available for trading on the China Europe International Exchange AG (CEINEX).

**Rating** . . . . . Each series of the Bonds are expected to be rated “A+” by S&P. Security ratings are not recommendations to buy, sell or hold the Bonds. Such rating is subject to revision or withdrawal at any time by the relevant rating agency.

**Further Issues** . . . . . The Bank may from time to time, without the consent of the Bondholders, create and issue further bonds having the same terms and conditions as the Bonds in all respects, except for the issue date, issue price and the first payment of interest thereon. Additional bonds issued in this manner will be consolidated with and will form a single series with the Bonds.

**Use of Proceeds** . . . . . The net proceeds from the issue of the CNY Green Bonds will be used for financing and/or refinancing the Eligible Green Assets as described under the Green and Sustainability Bond Framework. The net proceeds from the issue of the CNY Bonds will be used for funding the general credit business, working capital and general corporate purposes. See “*Use of Proceeds*”.

## SELECTED FINANCIAL INFORMATION

*The following tables set forth the Group's selected consolidated financial information as at and for the periods indicated.*

*The selected consolidated financial information as at and for the years ended 31 December 2017 and 2018, as set forth below, has been derived from and should be read in conjunction with, the Group's 2018 Audited Consolidated Financial Statements which have been audited by PwC, the English translation of which is included elsewhere in this Offering Circular. The Group's 2018 Audited Consolidated Financial Statements have been prepared by the Bank in accordance with the PRC GAAP.*

*PRC GAAP differs in certain material respects from the IFRS. For a discussion of certain differences between PRC GAAP and IFRS, see "Summary of Certain Differences between PRC GAAP and IFRS".*

### CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Items	As at 31 December	
	2017	2018
	CNY	
	(audited)	
<b>Assets:</b>		
Cash and deposits with central bank.....	184,590,809,006.66	188,231,651,374.37
Deposits with banks and non-bank financial institutions .....	190,982,690,383.53	429,611,862,435.14
Placements with banks and non-bank financial institutions .....	83,973,420,000.00	225,621,580,000.00
Financial assets at fair value through profit or loss .....	367,943,431,256.06	326,891,577,859.01
Derivative financial assets.....	2,840,907.67	—
Financial assets held under resale agreements .....	211,903,186,000.00	89,077,859,000.00
Interest receivable .....	18,830,941,733.12	20,572,196,018.32
Loans and advances to customers.....	4,566,092,278,109.96	4,969,370,397,294.04
Held-to-maturity investments.....	97,713,601,292.25	110,818,784,665.68
Investment classified as receivables .....	426,969,125,832.25	428,288,551,878.92
Long-term equity investments .....	1,546,559,800.49	1,755,737,889.98
Fixed assets.....	16,589,440,512.76	16,349,308,907.48
Intangible assets .....	486,565,613.64	537,297,047.07
Deferred tax assets .....	29,442,123,565.14	39,314,873,713.65
Other Assets.....	9,221,515,205.40	6,335,565,222.56
Total assets .....	<u>6,206,288,529,218.93</u>	<u>6,852,777,243,306.22</u>

Items	As at 31 December	
	2017	2018
	CNY	
	(audited)	
<b>Liabilities:</b>		
Borrowings from the Central Bank .....	694,200,000,000.00	678,400,000,000.00
Deposits from banks and non-bank financial institutions .....	14,397,990,471.70	285,243,024,783.17
Financial liabilities at fair value through profit or loss .....	1,202,814,246.58	—
Derivative financial liabilities .....	—	275,800,289.42
Due to customers .....	1,437,753,967,281.22	1,388,615,934,401.76
Employee benefits payable .....	7,947,948,434.21	9,244,508,017.22
Taxes payable .....	7,083,976,677.35	10,060,181,644.61
Interests payable .....	92,664,129,320.31	114,423,183,023.25
Provisions .....	—	9,019,925,959.28
Debt securities issued .....	3,813,134,606,622.10	4,201,489,087,784.32
Other liabilities .....	2,311,864,586.82	2,338,819,221.28
Total liabilities .....	6,070,697,297,640.29	6,699,110,465,124.31
<b>Equity:</b>		
Share capital .....	57,000,000,000.00	57,000,000,000.00
Capital reserves .....	12,397,525.36	12,397,525.36
Other comprehensive income .....	10,725,113.94	(31,221,186.06)
Surplus reserves .....	11,748,190,669.02	13,559,939,959.35
General risk reserves .....	24,000,000,000.00	24,000,000,000.00
Retained earnings .....	42,819,918,270.32	59,125,661,883.26
Total equity .....	135,591,231,578.64	153,666,778,181.91
Total liabilities and equity .....	6,206,288,529,218.93	6,852,777,243,306.22



# **CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

Items	For the year ended 31 December	
	2017	2018
	CNY	
	(audited)	
<b>I. Operating income</b> .....	85,268,775,429.16	90,722,173,742.37
(I) Net interest income .....	67,937,164,314.05	71,847,822,301.33
Interest income.....	215,918,106,686.99	254,675,396,222.23
Interest expenses .....	147,980,942,372.94	182,827,573,920.90
(II) Net fee and commission income .....	82,628,577.43	154,656,235.66
Fee and commission income.....	401,677,209.13	319,616,969.81
Fee and commission expenses .....	319,048,631.70	164,960,734.15
(III) Investment income.....	21,309,827,818.74	23,888,311,007.48
Including: Share of profit in associates and joint ventures.....	(12,842,056.36)	2,724,389.49
(IV) Changes in fair value gains and losses .....	(5,146,035,936.77)	(5,470,414,347.73)
(V) Foreign exchange gains and losses.....	60,253,290.14	102,867,209.47
(VI) Other operating income .....	63,818,241.57	47,300,503.44
(VII) Assets disposal income.....	80,345,724.00	78,105,763.39
(VIII) Other income .....	880,773,400.00	73,525,069.33
<b>II. Operating expenses</b> .....	67,740,024,554.92	70,900,469,691.88
(I) Taxes and surcharges.....	955,422,501.17	1,070,767,561.58
(II) Operating and administrative expenses.....	23,354,943,630.68	24,258,026,745.71
(III) Impairment losses on assets.....	43,097,369,438.95	45,310,849,347.96
(IV) Other operating expenses.....	332,288,984.12	260,826,036.63
<b>III. Operating profit</b> .....	17,528,750,874.24	19,821,704,050.49
Add: Non-operating income .....	107,203,207.00	121,354,342.36
Less: Non-operating expenses .....	334,763,257.38	414,205,299.70
<b>IV. Profit before income tax</b> .....	17,301,190,823.86	19,528,853,093.15
Less: Income tax expenses .....	182,926,676.64	1,411,360,189.88
<b>V. Net profit</b> .....	17,118,264,147.22	18,117,492,903.27
<b>VI. Other comprehensive income, net of tax</b> .....	(27,817,822.71)	(41,946,300.00)
Other comprehensive income that may be reclassified to profit or loss in subsequent periods		
– Share of other comprehensive income in investee under equity method that may be reclassified to profit or loss .....	(27,817,822.71)	(41,946,300.00)
<b>VII. Total comprehensive income</b> .....	17,090,446,324.51	18,075,546,603.27

# **CONSOLIDATED STATEMENT OF CASH FLOWS**

Items	For the year ended 31 December	
	2017	2018
	CNY	
	(audited)	
<b>I. Cash flows from operating activities:</b>		
Net increase in deposits from customers and from banks and non-bank financial institutions .....	15,024,813,273.05	221,707,001,432.12
Net increase in borrowings from the Central Bank.....	132,200,000,000.00	—
Net decrease in deposits with the Central Bank, banks and non-bank financial institutions .....	93,312,319,321.26	—
Net decrease in financial assets held under resale agreements.....	—	122,825,327,000.00
Cash received for interests, fees and commissions .....	217,698,449,172.10	253,253,758,906.84
Cash received from other operating activities .....	2,548,897,343.53	886,409,413.25
Cash inflows from operating activities .....	460,784,479,109.94	598,672,496,752.21
Net increase in loans and advances to customers .....	565,399,513,213.58	435,554,737,057.15
Net decrease in borrowings from the Central Bank.....	—	15,800,000,000.00
Net increase in deposits with the Central Bank, banks and non-bank financial institutions .....	—	408,254,519,808.56
Net increase in placements with other financial institutions .....	20,828,769,701.69	119,700,000,000.00
Net increase in financial assets held under resale agreements.....	34,587,673,000.00	—
Cash paid for interests, fees and commissions.....	26,877,502,561.77	37,967,200,506.85
Cash paid to and for employees .....	14,428,220,645.68	16,098,738,726.29
Payments of all types of taxes.....	11,571,787,543.32	16,376,688,053.86
Cash paid relating to other operating activities....	9,572,368,854.96	747,735,561.54
Cash outflows from operating activities .....	683,265,835,521.00	1,050,499,619,714.25
<b>Net cash flows from operating activities.....</b>	<b>(222,481,356,411.06)</b>	<b>(451,827,122,962.04)</b>
<b>II. Cash flows from investing activities:</b>		
Proceeds from sale and redemption of investment.....	504,934,432,967.38	505,697,639,007.56
Proceeds from investment income .....	20,711,296,034.81	23,888,311,007.48
Proceeds from other investing activities .....	168,285,443.76	1,551,760,301.64
Cash inflows from investing activities.....	525,814,014,445.95	531,137,710,316.68
Purchase of investments .....	503,978,442,849.77	484,876,750,394.40
Purchase of fixed assets, intangible assets and other long-term assets.....	1,272,744,397.69	3,599,976,776.79
Cash outflows from investing activities.....	505,251,187,247.46	488,476,727,171.19
<b>Net cash flows from investing activities.....</b>	<b>20,562,827,198.49</b>	<b>42,660,983,145.49</b>

Items	For the year ended 31 December	
	2017	2018
	CNY	
	(audited)	
<b>III. Cash flows from financing activities:</b>		
Proceeds from debt securities issued .....	1,201,614,149,792.08	1,136,511,602,009.05
Other cash received in relation to financing activities.....	—	—
Cash inflows from financing activities .....	1,201,614,149,792.08	1,136,511,602,009.05
Repayments of debts .....	781,865,761,031.46	748,983,906,533.96
Cash payments for interest .....	104,727,248,556.74	122,439,494,758.13
Cash outflows for financing activities .....	886,593,009,588.20	871,423,401,292.09
<b>Net cash flows from financing activities .....</b>	<b>315,021,140,203.88</b>	<b>265,088,200,716.96</b>
<b>IV. Effect of foreign exchange rate changes on cash and cash equivalents.....</b>	<b>60,253,290.14</b>	<b>41,569,839.75</b>
<b>V. Net increase in cash and cash equivalents ...</b>	<b>113,162,864,281.45</b>	<b>(144,036,369,259.84)</b>
Add: opening balances of cash and cash equivalents.....	217,027,211,510.49	330,190,075,791.94
<b>VI. Closing balances of cash and cash equivalents .....</b>	<b>330,190,075,791.94</b>	<b>186,153,706,532.10</b>

*Notes:*

- (1) The financial information as at and for the year ended 31 December 2017 and 2018 is extracted from the Group's 2018 Audited Consolidated Financial Statements.
- (2) Certain balances as at and for the year ended 31 December 2017 have been reclassified to conform with the presentation in the Group's 2018 Audited Consolidated Financial Statements.

## **RISK FACTORS**

*An investment in the Bonds is subject to a number of risks. The following highlights some key characters of the Bank's role as the only agricultural policy-oriented statutory financial institution in the PRC under the direct authority of the State Council and some risks relating to the Group, its business, financial condition and the results of operations. All of these factors are contingencies which may or may not occur and the Bank is not in a position to express a view on the likelihood of any such contingency occurring.*

*The Bank does not represent that the statements below regarding the risk factors are exhaustive. Prospective investors should carefully consider all the detailed information set out elsewhere in this Offering Circular and reach their own views prior to making any investment decision.*

### **RISKS RELATING TO THE BANK**

**As a policy bank in China, profit maximisation is not the primary objective of the Bank.**

As the only agricultural policy-oriented statutory bank in the PRC under the direct authority of the State Council, the Bank plays a significant role in implementing the national agricultural policies, exercising nationwide macro-economic control and promoting the development of “Agriculture, Rural Areas and Farmers”. Its primary purpose is to conduct the following activities based on state credibility and in accordance with the laws, regulations and policies of the PRC government: to raise funds for agricultural supporting credit business, to undertake the agricultural policy credit business specified by the PRC government, to act as an agent for the state treasury to allocate funds to support agriculture, to support the implementation of national policies on the agricultural industry and regional development and to promote the steady and healthy development of the agricultural industry and rural economy.

Different from commercial banks, maximising profits is not the Bank's ultimate goal, although it strives to preserve its capital and achieve moderate profits. As part of its operating and financial strategy to “preserve capital and achieve moderate profits”, the Bank budgets to ensure sufficient coverage of its debt servicing needs. Since the Bank engages in such policy-oriented business, the Bank has relied and will continue to rely on financial and other support from the PRC government in its operations, including significant fiscal subsidies from the MOF to compensate the Bank for any loss incurred in its policy-oriented banking operations and liquidity support from the PBOC.

Therefore, the Bondholders should not expect the Bank to maximise its operating profits.

**The Bank's credit portfolio and its operations are exposed to the risk of borrower default.**

In order to implement the PRC government's agricultural policies, the Bank undertakes its agricultural policy-oriented financial businesses required by the PRC government in accordance with the laws, regulations and policies of the PRC. As a policy-oriented financial institution, the credit profiles of borrowers is one of the principal consideration of the Bank in extending credits in its policy-oriented financial businesses.

Notwithstanding its policy functions, the Bank strives to preserve its capital and achieves moderate profits. For example, it was able to maintain a relatively low historical non-performing loan ratio in the past. As at 31 December 2017, the balance of the non-performing loans of the Bank was CNY37.8 billion, and the non-performing loan ratio is 0.81 per cent.; as at 31 December 2018, the balance of the non-performing loans of the Bank was CNY40.6 billion, and the non-performing loan ratio is 0.80 per cent. The Bank cannot assure that its credit quality will remain unchanged, that the balance of its non-performing loans will not increase and that its reserve set aside for loan losses is sufficient.

If the reserve set aside for loan losses maintained by the Bank as of the end of each year proves to be insufficient to cover its loan losses, the Bank may have to apply for additional fiscal subsidies from the MOF, or otherwise its business, financial condition and results of operations may deteriorate. The Bank's evaluation standards are also subject to periodic review and may not remain unchanged for any given time. In addition, the Bank may cancel, downgrade or withdraw the credit quality rating it accords to any credit granted by it at any time if, in its judgment, circumstances so warrant. If the quality of the Bank's credit portfolio should deteriorate, the business, financial condition and results of operations of the Bank may be adversely affected. Such deterioration of the Bank's credit portfolio and/or lack of additional financial support from the PRC government may in turn adversely affect the Bank's ability to service the Bonds and to satisfy its other obligations under the Bonds.

**If the Bank is unable to realise the collaterals or guarantees securing the outstanding principal and interest of its loans and/or credit facilities, the Bank's financial condition and results of operations may be adversely affected.**

A significant portion of the Bank's loans and credit facilities are secured by collaterals and/or guarantees. For example, the Bank's loans to enterprises engaged in agricultural industrialisation are normally secured by collaterals and/or guarantees.

The Bank's credit collaterals primarily include real or other assets in Mainland China (e.g. real estate collaterals), the value of which may decline due to factors beyond the Bank's control, including macroeconomic factors affecting the PRC economy or any relevant regional economy, or specific market value fluctuations of such assets. In a relatively positive macroeconomic situation, real estate collaterals usually have the advantages of easier value determination and relatively less loss in the realisation process, among others. As such, real estate collaterals form an important part of the Bank's credit collaterals and have played an important role in the Bank's efforts to prevent credit risks and safeguard financial claims. However, if an economic slowdown occurs in China, it may lead to a downturn in the PRC real estate markets, and the market value of real estate collaterals may decrease as a result. It may even result in a decline in the value of the real estate collaterals securing some of the Bank's loans and credit facilities to levels below the outstanding principal balance of such loans and/or credit facilities. Credit guarantees are subject to more factors affecting their strength as credit enhancements, including the credit-worthiness of the guarantors from time to time. In addition, the Bank's exposure to such guarantors is generally unsecured, and a significant deterioration in the financial condition of these guarantors will increase the risk that the Bank may not be able to recover the full amount of such guarantees if and when required. Any significant decline in the value of the collaterals securing the Bank's loans and/or credit facilities may result in a reduction in the amount the Bank can recover from collateral realisation and an increase in its impairment losses.

Due to the diverse nature of the collaterals securing the Bank's credit projects or guarantee projects and the potential lack of liquidity of such collaterals, there can be no assurance that, in the event of foreclosure upon any credit collateral, the Bank would be able to recover, if at all, the full amount owed to it from the disposal of such collateral.

**The Bank cannot assure the Bondholders of the accuracy or comparability of facts, forecasts and statistics contained in this Offering Circular with respect to China, its national or county-level economies or its banking industry.**

Facts, forecasts and statistics in this Offering Circular relating to China, its national or county-level economies and financial conditions and its banking industry are derived from various sources which are generally believed to be reliable. However, the Bank cannot guarantee the quality and reliability of such sources. In addition, these facts, forecasts and statistics have not been independently verified by the Bank and may not be consistent with the information available from other sources and may not be complete or up to date. The Bank has taken reasonable caution in reproducing or extracting the information from such sources. However, because of potentially flawed methodologies, discrepancies in market practice and other problems, these facts, forecasts and other statistics may be inaccurate or may not be comparable from period to period or to facts, forecasts or statistics of other economies.

## **RISKS RELATING TO THE PRC**

**The PRC's economic, political and social conditions, as well as government policies, could affect the Bank's business, financial condition and results of operations.**

A substantial majority of the Bank's businesses, assets and operations are located in the PRC. Accordingly, the Bank's financial condition, results of operations and business prospects are, to a significant degree, subject to the economic, political and legal developments in the PRC. The PRC's economy differs from the economies of most developed countries in many respects, including, among other things, government involvement, level of development, growth rate, control of foreign exchange and allocation of resources.

The PRC's economy was previously a planned economy, and a substantial portion of productive assets in the PRC is still owned by the PRC government. The government also exercises significant control over the PRC's economic growth by allocating resources, setting monetary policy and providing preferential treatment to particular industries or companies. Although the government has implemented economic reform measures to introduce market forces and establish sound corporate governance in business enterprises, such economic reform measures may be adjusted, modified or applied inconsistently from industry to industry, or across different regions of the country. As a result, the Bank may not benefit from certain of such measures. The PRC government has the power to implement macroeconomic control measures affecting the PRC's economy. The government has implemented various measures in an effort to increase or control the growth rate and adjust the structure of certain industries. For example, in response to a decreased growth rate in part as a result of the global financial crisis and economic slowdown, in September 2008, the PRC government began to implement a series of macroeconomic measures and the moderately loose monetary policy, which included announcing an economic stimulus package and reducing benchmark interest rates. Since 2010, the PRC government has begun to implement a number of macroeconomic measures and moderately tight monetary policies to curb inflation in the PRC. The PRC government may continue to implement such policies to control inflation, which may in turn affect the Bank's ability to make loans to its customers. As a result, the Bank's financial condition, results of operations and prospects may be materially and adversely affected.



Certain of the PRC government's macroeconomic measures may materially and adversely affect the Bank's financial condition, results of operations and asset quality. For example, the PRC government has imposed macroeconomic control measures aimed at tempering the real estate market. In November 2009, the PRC government shortened the period in which the real estate developers make payments for the land premiums and increased the relevant down payment requirement on the real estate developers. In April 2010, the PRC government raised the down payment requirements for people buying their second homes to a minimum of 50 per cent. of the property value from 40 per cent. and this threshold was further raised to 60 per cent. in January 2011. Down payment requirements on first homes of more than 90 square meters rose to a minimum of 30 per cent. of the property value from 20 per cent.. In addition, the lowest interest rate that commercial banks are permitted to charge in respect of second-home residential mortgage loans has increased from 90 per cent. to 110 per cent. of the applicable PBOC benchmark rate. In early 2011, individual housing property tax was introduced in Shanghai and Chongqing on a trial basis. The PRC government's measures to cool down the housing market may adversely affect the growth and quality of the Bank's loans related to real estate and could also have a significant impact on its business, financial condition and results of operations. Furthermore, on 22 December 2009, the PBOC, the CBRC, the CSRC and China Insurance Regulatory Commission issued the "Guiding Opinions on Further Doing a Good Job in Supporting the Restructuring and Revitalization of Key Industries and Curbing Overcapacity in Some Industries through Financial Services", according to which, all banking financial institutions shall actively cooperate with the national industrial policy and financial control requirements, the credit granting shall reflect the principle of "differential treatments with encouragements and discouragements", and the integrated management of assets and liabilities shall better serve the purpose of promoting the scientific development of economy. These requirements may adversely affect the condition of certain of the Bank's loans to the relevant industries.

The PRC has been one of the world's fastest growing economies, as measured by GDP growth, in recent years. However, the PRC may not be able to sustain such a growth rate. If the PRC's economy experiences a decrease in growth rate or a significant downturn, the unfavourable business environment and economic condition for the Bank's customers could negatively impact their ability or willingness to repay the Bank's loans and reduce their demand for the Bank's banking services. The Bank's financial condition, results of operations and business prospects may be materially and adversely affected.

**The PRC legal system could limit the legal protection available to investors.**

The Bank is a statutory financial institution organised under the laws of the PRC. The PRC legal system is based on written statutes. The PRC government has promulgated laws and regulations dealing with economic matters as the issuance and trading of securities, shareholder rights, foreign investment, corporate organisation and governance, commerce, taxation and trade. However, many of these laws and regulations may continue to evolve, may be subject to different interpretation and may be inconsistently enforced. In addition, there is only a limited volume of published court decisions which may be cited for reference, and such cases have limited precedential value as they are not binding on subsequent cases. These uncertainties relating to the interpretation of PRC laws and regulations can affect the legal remedies and protection that are available to investors and can adversely affect the value of an investment.

**Investors may experience difficulties in effecting service of legal process and enforcing judgments against the Bank and the Bank's management.**

The Bank is a statutory financial institution organised under the laws of the PRC, and a substantial majority of its business, assets and operations are located in the PRC. In addition, a majority of its directors, supervisors and executive officers reside in the PRC, and substantially all of the assets of such directors, supervisors and executive officers are located in the PRC. Therefore, it may not be possible for investors to effect service of process upon the Bank or those persons within the PRC.

Furthermore, the PRC does not have treaties or agreements providing for the reciprocal recognition and enforcement of judgments awarded by courts of many jurisdictions, including Japan, the United States and the United Kingdom. Hence, the recognition and enforcement in the PRC of judgments of a court in any of these jurisdictions in relation to any matter not subject to a binding arbitration provision may be difficult or even impossible.

**The Bank is subject to the PRC government controls on currency conversion and risks relating to fluctuations in exchange rates.**

The Bank receives a substantial majority of its revenue in Renminbi, which is currently not a freely convertible currency. A portion of this revenue must be converted into other currencies in order to meet the Bank's foreign currency obligations.

Under the PRC's existing foreign exchange regulations, by complying with certain procedural requirements, the Bank will be able to undertake current account foreign exchange transactions, including payment of dividends without prior approval from the SAFE. However, in the future, the PRC government may, at its discretion, take measures to restrict access to foreign currencies for capital account and current account transactions under certain circumstances.

The value of the Renminbi against the U.S. dollar and other currencies fluctuates and is affected by, among other things, changes in the PRC's and international political and economic conditions and the PRC government's fiscal and currency policies. Since 1994, the conversion of Renminbi into foreign currencies, including Hong Kong and U.S. dollars, has been based on rates set by the PBOC, which are set daily based on the previous business day's inter-bank foreign exchange market rates and current exchange rates on the world financial markets. From 1994 to 20 July 2005, the official exchange rate for the conversion of Renminbi to U.S. dollars was generally stable. On 21 July 2005, the PRC government adopted a more flexible managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band that is based on market supply and demand and reference to a basket of currencies. On the same day, the value of the Renminbi appreciated by approximately 2.1 per cent. against the U.S. dollar. In August 2008, the PRC revised the PRC Foreign Exchange Administration Regulations (中華人民共和國外匯管理條例) to promote the reform of its exchange rate regime. In June 2010, the PBOC decided to further reform the PRC's exchange rate system in order to make it more flexible. Any appreciation of the Renminbi against the U.S. dollar or any other foreign currencies may result in the decrease in the value of the Bank's foreign currency-denominated assets. Although the Bank seeks to reduce its exchange rate risk through currency derivatives or otherwise, it cannot assure investors that it will be able to reduce its foreign currency risk exposure relating to its foreign currency-dominated assets. In addition, there are limited instruments available for the Bank to reduce its foreign currency risk exposure at reasonable costs. Any appreciation of the Renminbi against the U.S. dollar or any other foreign currencies may

materially and adversely affect the financial conditions of certain of the Bank's customers, particularly those deriving substantial income from exporting products or engaging in related businesses, and in turn affect their abilities to service their obligations to the Bank. Furthermore, the Bank is also currently required to obtain the approval of the SAFE before converting significant sums of foreign currencies into Renminbi. All of these factors could materially and adversely affect the Bank's financial condition, results of operations and compliance with capital adequacy ratios and operational ratios.

**Any force majeure events, including future occurrence of natural disasters or outbreaks of contagious diseases in the PRC, may have a material and adverse effect on the Bank's business operations, financial condition and results of operations.**

Any future force majeure events, such as the occurrence of natural disasters or outbreaks of health epidemics and contagious diseases, including avian influenza, severe acute respiratory syndrome, or SARS, and swine flu caused by H1N1 virus, or H1N1 Flu or variants thereof, may materially and adversely affect the Bank's business, financial condition and results of operations. Possible force majeure events may give rise to additional costs to be borne by the Bank and have adverse effects on the quality of its assets, business, financial condition and results of operations. An outbreak of a health epidemic or contagious disease could result in a widespread health crisis and restrict the level of business activity in affected areas, which may in turn adversely affect the Bank's business. Moreover, the PRC has experienced natural disasters like earthquakes, floods and drought in the past few years.

Any future occurrence of severe natural disasters in the PRC may adversely affect its economy and in turn the Bank's business. There can be no guarantee that any future occurrence of natural disasters or outbreak of avian influenza, SARS, H1N1 Flu or other epidemics, or the measures taken by the PRC government or other countries in response to a future outbreak of avian influenza, SARS, H1N1 Flu or other epidemics, will not seriously interrupt the Bank's operations or those of its customers, which may have a material and adverse effect on its business, financial condition and results of operations.

## **RISKS RELATING TO THE BONDS**

**The CNY Green Bonds may not be a suitable investment for all investors seeking exposure to green assets.**

The Bank has engaged Centre for International Climate Research (“**CICERO**”) and the International Institute for Sustainable Development which has provided a second party opinion (the “**Second Party Opinion**”) on the Green and Sustainability Bond Framework; and in connection with the issue of the CNY Green Bonds, the Bank has engaged the Hong Kong Quality Assurance Agency (“**HKQAA**”) which has provided independent certification (the “**Third-party Certification**”) confirming that the CNY Green Bonds are in compliance with the requirements of the Green Finance Certification Scheme operated by the HKQAA (the “**HKQAA Green Finance Certification Scheme**”). The HKQAA Green Finance Certification Scheme is a set of voluntary guidelines that aims to facilitate the development of green finance and the green industry. The Bank has obtained a HKQAA Pre-issuance Green Finance Certification relating to the CNY Green Bonds on 26 September 2019. See “*The HKQAA Green Finance Certification Scheme*” for more details.

Neither the Second Party Opinion nor the Third-party Certification is incorporated into, and forms part of, this Offering Circular. The Second Party Opinion and the Third-party Certification are not a recommendation to buy, sell or hold securities and are only current as of their respective dates of issue and are subject to certain disclaimers set out therein. Furthermore, the Second Party Opinion and the Third-party Certification are for information purposes only and none of CICERO, the International Institute for Sustainable Development or the HKQAA, respectively, accepts any form of liability for the substance of the Second Party Opinion and the Third-party Certification and/or any liability for loss arising from the use of the Second Party Opinion and the Third-party Certification and/or the information provided in it.

Whilst the Bank has agreed to certain obligations relating to reporting and use of proceeds as described under the sections headed “*Green and Sustainability Bond Framework*” and “*Use of Proceeds*”, it would not be an Event of Default under the Terms and Conditions of the CNY Green Bonds if (i) the Bank were to fail to comply with such obligations or were to fail to use the proceeds of the issue of the CNY Green Bonds, in the manner specified in this Offering Circular and/or (ii) the Second Party Opinion in connection with the Green and Sustainability Bond Framework and the Third-party Certification issued in connection with such CNY Green Bonds were to be withdrawn. Any failure to use the net proceeds of the issue of the CNY Green Bonds in connection with green projects, and/or any failure to meet, or to continue to meet, the investment requirements of certain investors with environmental and/or social concerns with respect to such CNY Green Bonds, may affect the value and/or trading price of the CNY Green Bonds, and/or may have consequences for certain investors with portfolio mandates to invest in green projects. In the event that the CNY Green Bonds are included in any dedicated “green”, “environmental”, “social”, “sustainable” or other equivalently-labelled index, no representation or assurance is given by the Bank or any other person that such listing or admission, or inclusion in such index, satisfies any present or future investor expectations or requirements as regards to any investment criteria or guidelines with which such investor or its investments are required to comply, whether by any present or future applicable law or regulations or by its own constitutive documents or other governing rules or investment portfolio mandates.

None of the Bank or the Joint Lead Managers makes any representation as to the suitability for any purpose of the Second Party Opinion and the Third-party Certification or whether the CNY Green Bonds will fulfil the relevant environmental and sustainability criteria. Each potential purchaser of the CNY Green Bonds should have regard to the relevant projects and eligibility criteria described under the section headed “*Green and Sustainability Bond Framework*” and determine for itself the relevance of the information contained in this Offering Circular regarding the use of proceeds, and its purchase of any Bonds should be based upon such investigation as it deems necessary. The Second Party Opinion and the Third-party Certification will be made available to investors on the Bank’s website.

**The Bonds are not guaranteed by the PRC government.**

The Bank is a statutory financial institution organised under the laws of the PRC. Although the Bank is wholly owned by the PRC central government and the PBOC is authorised and obligated pursuant to the PBOC Document to provide loans to the Bank if it experiences any liquidity shortfall, its borrowings and other obligations, including the Bonds, are not guaranteed by the PRC government. When purchasing the Bonds, the Bondholders will be relying upon the Bank’s creditworthiness. There is no assurance that the Bank’s creditworthiness will not decline as a result of either internal or

external factors, such as the Bank's results of operations or general macroeconomic factors. If the Bank becomes insolvent or defaults on its obligations under the Bonds, the Bondholders can only claim against the Bank as an unsecured creditor as the liquidity support obligation of the PBOC does not constitute a guarantee with respect to the obligations of the Bank under the Bonds. The Bondholders may not enforce such liquidity support obligation against the PBOC or the PRC government, nor does it confer upon the Bondholders any other right under or in respect of the PBOC Document. In the worst case scenario, the Bondholders may lose part of the value of their investment.

**The Bonds are unsecured obligations.**

As the Bonds are unsecured obligations of the Bank, the repayment of the Bonds may be compromised if:

- the Bank enters into bankruptcy, liquidation, reorganisation or other winding-up proceedings;
- there is a default in payment under the Bank's secured indebtedness or other unsecured indebtedness;
- there is an acceleration of any of the Bank's indebtedness; or
- the foreign exchange authority adopts more stringent controls over cross-border foreign exchange.

If any of these events were to occur, the Bank's assets and any amounts received from the sale of such assets may not be sufficient to pay amounts due on the Bonds.

**The Bonds may not be a suitable investment for all investors.**

The Bonds are complex financial instruments and may be purchased as a way to reduce risk or enhance yield with a measured appropriate addition of risk to investors' overall portfolios. A potential investor should not invest in the Bonds unless they have the expertise (either alone or with the help of a financial adviser) to evaluate how the Bonds will perform under changing conditions, the resulting effects on the value of such Bonds and the impact this investment will have on the potential investor's overall investment portfolio.

Each potential investor in the Bonds must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Bonds, the merits and risks of investing in the Bonds and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Bonds and the impact such investment will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Bonds;

- understand thoroughly the terms of the Bonds and be familiar with the behaviour of any relevant indices and financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible economic scenarios, such as interest rate and other factors which may affect its investment and the ability to bear the applicable risks.

**An active trading market for the Bonds may not develop.**

The Bonds are a new issue of securities for which there is currently no trading market. Although an application has been made to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Bonds on the Hong Kong Stock Exchange by way of debt issues to Professional Investors only and an application has been made to the Luxembourg Stock Exchange for the Bonds to be admitted to trading on the EuroMTF market and listed on the Official List of the Luxembourg Stock Exchange and an application will be made to the Frankfurt Stock Exchange for the Bonds to be admitted to trading in the Quotation Board of the Open Market (*Freiverkehr*) at the Frankfurt Stock Exchange and the Bonds will be available for trading on the China Europe International Exchange AG (CEINEX), and an application has been made for the Bonds to be admitted to trading on the ISM, and an application has been made to the MOX for the listing of the Bonds by way of debt issues to MOX Professional Investors only, no assurance can be given that such application will be approved, or even if the Bonds become so listed, an active trading market for the Bonds will develop or be sustained. No assurance can be given as to the ability of holders to sell their Bonds or the price at which holders will be able to sell their Bonds or that a liquid market will develop. The liquidity of the Bonds will be adversely affected if the Bonds are held or allocated to limited investors. In addition, the Bonds are being offered pursuant to exemptions from registration under the Securities Act and, as a result, holders will only be able to resell their Bonds in transactions that have been registered under the Securities Act or in transactions not subject to or exempt from registration under the Securities Act.

**Investors in the Bonds may be subject to foreign exchange risks.**

The Bonds are denominated and payable in Renminbi. An investor who measures investment returns by reference to a currency other than Renminbi, would be subject to foreign exchange risks by virtue of an investment in the Bonds, due to, among other things, economic, political and other factors over which the Group has no control. Depreciation of Renminbi against such currency could cause a decrease in the effective yield of the Bonds below their stated coupon rates and could result in a loss when the return on the Bonds is translated into such currency. In addition, there may be tax consequences for investors as a result of any foreign currency gains resulting from any investment in the Bonds.

**The liquidity and price of the Bonds following the offering may be volatile.**

The price and trading volume of the Bonds may be highly volatile. Factors such as variations in the Bank's or the Group's turnover, earnings and cash flows, proposals for new investments, strategic alliances and/or acquisitions, changes in interest rates, fluctuations in price for comparable companies, changes in government regulations and changes in general economic conditions nationally or internationally could cause the price of the Bonds to change. Any such developments may result in large and sudden changes in the trading volume and price of the Bonds. There can be no assurance that these developments will not occur in the future.



**Developments in other markets may adversely affect the market price of the Bonds.**

The market price of the Bonds may be adversely affected by declines in the international financial markets and world economic conditions. The market for the Bonds is, to varying degrees, influenced by economic and market conditions in other markets, especially those in Asia. Although economic conditions are different in each country, investors' reactions to developments in one country can affect the securities markets and the securities of issues in other countries, including the PRC. Since the global financial crisis in 2008 and 2009, the international financial markets have experienced significant volatility. If similar developments occur in the international financial markets in the future, the market price of the Bonds could be adversely affected.

**Changes in interest rates may have an adverse effect on the price of the Bonds.**

The Bondholders may suffer unforeseen losses due to fluctuations in interest rates. Generally, a rise in interest rates may cause a fall in the prices of the Bonds, resulting in a capital loss for the Bondholders. However, the Bondholders may reinvest the interest payments at higher prevailing interest rates. Conversely, when interest rates fall, the prices of the Bonds may rise. The Bondholders may enjoy a capital gain but interest payments received may be reinvested at lower prevailing interest rates.

As the Bonds will carry a fixed interest rate, the trading price of the Bonds will consequently vary with the fluctuations in interest rates. If the Bondholders propose to sell their Bonds before their maturity, they may receive an offer lower than the amount they have invested.

**The Bank may be unable to redeem the Bonds.**

On certain dates, including but not limited to the maturity dates of the Bonds, the Bank may, and at maturity will, be required to redeem all of the Bonds. If such an event were to occur, the Bank may not have sufficient cash in hand and may not be able to arrange financing to redeem the Bonds in time, or on acceptable terms, or at all. The ability to redeem the Bonds in such event may also be limited by the terms of other debt instruments. Failure to redeem the Bonds by the Bank, in such circumstances, would constitute an Event of Default as defined under the Terms and Conditions of the Bonds, which may also constitute a default under the terms of other indebtedness of the Bank or its subsidiaries.

**The Bonds will be structurally subordinated to the existing and future indebtedness and other liabilities of the Group's existing and future subsidiaries and effectively subordinated to the Bank's secured debt to the extent of the value of the collateral securing such indebtedness.**

The Bonds will be structurally subordinated to any debt and other liabilities and commitments, including trade payables and lease obligations, of the Bank's existing and future subsidiaries, whether or not secured. The Bonds will not be guaranteed by any of the Bank's subsidiaries, and the Bank may not have direct access to the assets of such subsidiaries unless these assets are transferred by dividend or otherwise to the Bank. The ability of such subsidiaries to pay dividends or otherwise transfer assets to the Bank is subject to various restrictions under applicable laws and the debt instruments and loan agreements to which the subsidiaries are parties. The Bank's subsidiaries are separate legal entities that have no obligation to pay any amounts due under the Bonds or make any funds available therefore, whether by dividends, loans or other payments. The Bank's right to receive assets of any



of the Bank's subsidiaries, respectively, upon that subsidiary's liquidation or reorganisation will be effectively subordinated to the claim of that subsidiary's creditors (except to the extent that the Bank is a creditor of that subsidiary). Consequently, the Bonds will be effectively subordinated to all liabilities, including trade payables and lease obligations, of any of the Bank's subsidiaries, other than the Bank, and any subsidiaries that the Bank may in the future acquire or establish.

In addition, the ability of the Bank's subsidiaries, jointly controlled entities and associated companies to pay dividends and make payments on intercompany loans or advances to their shareholders is subject to, among other things, distributable earnings, cash flow conditions, restrictions contained in the articles of association of these companies, applicable laws and restrictions contained in the debt instruments and loan agreements of such companies.

The Bonds are the Bank's unsecured obligations and will (i) rank equally in right of payment with all the Bank's other present and future unsubordinated and unsecured indebtedness; (ii) be effectively subordinated to all of the Bank's present and future secured indebtedness to the extent of the value of the collateral securing such obligations; and (iii) be senior to all of the Bank's present and future subordinated obligations. As a result, claims of secured lenders, whether senior or junior, with respect to assets securing their loans will be prior with respect to those assets. In the event of the Bank's bankruptcy, insolvency, liquidation, reorganisation, dissolution or other winding up, or upon any acceleration of the Bonds, these assets will be available to pay obligations on the Bonds only after all other debt secured by these assets has been repaid in full. Any remaining assets will be available to the Bondholders rateably with all of the Bank's other unsecured and unsubordinated creditors, including trade creditors. If there are not sufficient assets remaining to pay all these creditors, then all or a portion of the Bonds then outstanding would remain unpaid.

**The insolvency laws of the PRC may differ from those of another jurisdiction with which the Bondholders are familiar.**

The Bank is incorporated under the laws of the PRC. Any bankruptcy proceeding relating to the Bank would likely involve PRC bankruptcy laws, the procedural and substantive provisions of which may differ from comparable provisions of the local insolvency laws of jurisdictions with which the Bondholders are familiar.

**A change in English law which governs the Bonds may adversely affect Bondholders.**

The Terms and Conditions of the Bonds are governed by English law. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of issue of the Bonds.

**Modifications and waivers may be made in respect of the Terms and Conditions of the Bonds by less than all of the Bondholders, and decisions may be made on behalf of all Bondholders that may be adverse to the interests of the individual Bondholders.**

The Terms and Conditions of the Bonds contain provisions for calling meetings of the Bondholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Bondholders of the relevant series including those Bondholders who did not attend and vote at the meeting and those Bondholders who voted in a manner contrary to the majority. There is a risk that the decision of the majority of Bondholders may be adverse to the interests of the individual Bondholders.

The Terms and Conditions of the Bonds also provide that the Bank and the Fiscal Agent may, without the vote or consent of any holder of Bonds, amend the Bonds for the purpose of (i) adding to the covenants of the Bank for the benefit of the holders of Bonds, or (ii) surrendering any right or power conferred upon the Bank in respect of the Bonds, or (iii) providing security or collateral for the Bonds, or (iv) curing any ambiguity in any provision, or curing, correcting or supplementing any defective provision, contained herein or in the Bonds in a manner which does not adversely affect the interest of any holder of Bonds, or (v) effecting any amendment which the Bank and the Fiscal Agent mutually deem necessary or desirable so long as any such amendment is not inconsistent with the Bonds and does not, and will not, adversely affect the rights or interests of any holder of Bonds. It is not necessary for the vote or consent of the holders of the Bonds to approve the particular form of any proposed modification, amendment, supplement, request, demand, authorisation, direction, notice, consent, waiver or other action, but it is sufficient if such vote or consent shall approve the general substance thereof.

**Each series of the Bonds will initially be represented by a Global Bond Certificate and holders of a beneficial interest in such Global Bond Certificate must rely on the procedures of the Clearing System.**

Each series of the Bonds will initially be represented by a Global Bond Certificate and will be held in CMU (“**Clearing Systems**”), which is a clearing system run by HKMA. The relevant Global Bond Certificate will be deposited for safekeeping with a sub-custodian of CMU. Except in the circumstances described in the relevant Global Bond Certificate, investors will not be entitled to receive individual Bond Certificates. The Clearing System will maintain records of the beneficial interests in the relevant Global Bond Certificate.

While the Bonds are represented by the Global Bond Certificates, investors will be able to trade their beneficial interests only through the Clearing System. The Bank will discharge its payment obligations under the Bonds by making payments to the Clearing System for distribution to their account holders.

A holder of a beneficial interest in a Global Bond Certificate must rely on the procedures of the Clearing System to receive payments under the relevant series of the Bonds. The Bank has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Bond Certificates.

Holders of beneficial interests in the Global Bond Certificates will not have a direct right to vote in respect of the Bonds. Instead, such holders will be permitted to act only to the extent that they are enabled by the Clearing System to appoint appropriate proxies.

**Gains on the transfer of the Bonds or interest payable by the Bank to overseas Bondholders may be subject to income tax and value-added tax under PRC tax laws.**

Under the Enterprise Income Tax Law of the PRC (the “**EIT Law**”) which took effect on 1 January 2008, and was amended 24 February 2017 and 29 December 2018, and its implementation rules, any gains realised on the transfer of the Bonds by holders who are deemed under the EIT Law as non-resident enterprises may be subject to PRC enterprise income tax if such gains are regarded as income derived from sources within the PRC. Under the EIT Law, a “**non-resident enterprise**” means an enterprise established under the laws of a jurisdiction other than the PRC and whose actual

administrative organisation is not in the PRC, which has established offices or premises in the PRC, or which has not established any offices or premises in the PRC but has obtained income derived from sources within the PRC. There remains uncertainty as to whether the gains realised on the transfer of the Bonds by enterprise holders would be treated as incomes derived from sources within the PRC and be subject to PRC enterprise income tax. In addition, there is uncertainty as to whether gains realised on the transfer of the Bonds by individual holders who are not PRC citizens or residents will be subject to PRC individual income tax. If such gains are subject to PRC income tax, the 10 per cent. enterprise income tax rate in the case of non-resident enterprise without offices or premises inside the PRC or with offices or premises within PRC but such gains have no actual connection to the offices or premises, 25 per cent. enterprise income tax rate in the case of non-resident enterprise holders with offices or premises inside the PRC and such gains are obtained by the offices or premises and 20 per cent. individual income tax rate will apply respectively unless there is an applicable tax treaty or arrangement that reduces or exempts such income tax. The taxable income will be the balance of the total income obtained from the transfer of the Bonds minus all costs and expenses that are permitted under PRC tax laws to be deducted from the income. According to the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (《內地和香港特別行政區關於對所得稅免雙重徵稅和防止偷漏稅的安排》) which was promulgated on 21 August 2006, Bondholders who are Hong Kong residents, including both enterprise holders and individual holders, will be exempted from PRC income tax on capital gains derived from a sale or exchange of the Bonds if such capital gains are not connected with an office or establishment that the Bondholders have in the PRC and all the other relevant conditions are satisfied.

Pursuant to the EIT Law, the PRC Individual Income Tax Law (the “**IIT Law**”) which was amended on 30 June 2011 and took effect on 1 September 2011, and further amended on 31 August 2018 and took effect on 1 January 2019, and the implementation regulations in relation to both the EIT Law and IIT Law, PRC income tax at a rate of 10 per cent., 25 per cent. or 20 per cent. is normally applicable to PRC-source income derived by non-resident enterprises or individuals respectively, subject to adjustment by applicable treaty. As the Bank is a PRC resident enterprise for tax purposes, interest paid to non-resident Bondholders may be regarded as PRC-sourced, and therefore be subject to PRC income tax at a rate of 10 per cent. for non-resident enterprise Bondholders in the case of non-resident enterprise without offices or premises inside the PRC or with offices or premises within PRC but such gains have no actual connection to the offices or premises, 25 per cent. enterprise income tax rate for non-resident enterprise Bondholders in the case of non-resident enterprise holders with offices or premises inside the PRC and such gains are obtained by the offices or premises and at a rate of 20 per cent. for non-resident individual Bondholders (or a lower treaty rate, if any).

On 23 March 2016, MOF and SAT issued the Circular of Full Implementation of Business Tax to Value-added Tax Reform Caishui [2016] No. 36 (《關於全面推開營業稅改徵增值稅試點的通知》(財稅[2016]36號)) (“**Circular 36**”), which introduced a new value-added tax (“**VAT**”) from 1 May 2016. The Bank will be obligated to withhold VAT of up to 6 per cent. on payments of interest and certain other amounts on the Bonds paid by the Bank to the Bondholders that are non-resident enterprises or individuals. VAT is applicable where the entities or individuals provide services within the PRC. VAT is unlikely to be applicable to any transfer of Bonds between entities or individuals located outside of the PRC and therefore unlikely to be applicable to gains realised upon such transfers of Bonds. Circular 36 and laws and regulations pertaining to VAT are relatively new, the interpretation and enforcement of such laws and regulations involve uncertainties.

If a Bondholder, being a non-resident enterprise or non-resident individual, is required to pay any PRC income tax on interest or gains on the transfer of the Bonds, the value of the relevant Bondholder’s investment in the Bonds may be materially and adversely affected.

**The Bonds are redeemable in the event of certain withholding taxes being applicable.**

There can be no assurance as to whether or not payments on the Bonds may be made without withholding taxes or deductions applying from the Issue Date on account of any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the PRC or any subdivision or authority therein or thereof having power to tax. Although pursuant to the Terms and Conditions of the Bonds, the Bank is required to gross up payments on account of any such withholding taxes or deductions (whether by way of enterprise income tax, business tax, VAT or otherwise), the Bank also has the right to redeem the Bonds at any time in the event (i) it has or will become obliged to pay additional tax amounts on account of any existing or future withholding or deduction for any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the PRC in excess of the rate which is applicable on 30 October 2019 as a result of any change in, or amendment to, the laws or regulations of the PRC or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or 30 October 2019, and (ii) such obligation cannot be avoided by the Bank taking reasonable measures available to it.

If the Bank redeems the Bonds prior to their relevant maturity date, investors may not receive the same economic benefits they would have received had they held the Bonds to maturity, and they may not be able to reinvest the proceeds they receive in a redemption in similar securities. In addition, the Bank's ability to redeem the Bonds may reduce the market price of the Bonds.

**The Bank may issue additional Bonds in the future.**

The Bank may, from time to time, and without the consent of the Bondholders, create and issue further bonds in accordance with Condition 13 (*Further Issues*) of the Terms and Conditions of the Bonds or otherwise raise additional capital through such means and in such manner as it may consider necessary. There can be no assurance that such future issuance or capital raising activity will not adversely affect the market price of the Bonds.

**Bonds which have a denomination that is not an integral multiple of the minimum specified denomination may be illiquid and difficult to trade.**

The denominations of the Bonds are CNY1,000,000 and integral multiples of CNY10,000 in excess thereof. Therefore, it is possible that any Bond may be traded in amounts in excess of CNY1,000,000 that are not integral multiples of CNY1,000,000. In such a case, a Bondholder who, as a result of trading such amounts, holds a principal amount of less than CNY1,000,000 will not receive a definitive certificate in respect of such holding of Bonds (should definitive certificates be printed) and would need to purchase a principal amount of Bonds such that it holds an amount equal to one or more denominations. If definitive certificates are issued, Bondholders should be aware that Bonds with aggregate principal amounts that are not an integral multiple of CNY1,000,000 may be illiquid and difficult to trade.

**Any failure to complete the relevant filings under the NDRC Circular and the relevant information submission to SAFE and the PBOC within the prescribed timeframe may have adverse consequences for the Bank and/or the investors of the Bonds.**

The Bank has registered with the NDRC with respect to the issuance of the Bonds in accordance with the requirement under the Circular on Promoting the Reform of the Administrative System on the Issuance by Enterprises of Foreign Debt Filings and Registrations (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知(發改外資[2015]2044號)) (“**NDRC Circular**”). The legal consequences of non-compliance with the NDRC Circular are unclear. If the Bank does not complete the post-issuance filing with respect to the Bonds within the timeframe prescribed, there is no assurance that the NDRC will not impose sanctions or other administrative procedures on the Bank, which may have a material adverse impact to its business, financial condition or operations. Potential investors of the Bonds are advised to exercise due caution when making their investment decisions. The Bank undertakes to file or cause to be filed with the NDRC within the time period prescribed by the NDRC Circular after the Issue Date, the requisite information and documents in accordance with the NDRC Circular.

According to (i) the Administrative Measures for Foreign Debt Registration (外債登記管理辦法(匯發[2013]19號)) and any implementation rules, reports, certificates or guidelines as issued by the SAFE from time to time, and (ii) the Circular on Relevant Matters about the Macro-Prudential Management of Cross-Border Financing in Full Aperture (中國人民銀行關於全口徑跨境融資宏觀審慎管理有關事宜的通知(銀發[2017]9號)) and any implementation rules, reports, certificates or guidelines as issued by the PBOC from time to time (the “**Foreign Debts Measures**”), and (iii) the Interim Measures for the Administration of the Issuance of CNY Bonds in Hong Kong Special Administrative Region by Domestic Financial Institutions (境內金融機構赴香港特別行政區發行人民幣債券管理暫行辦法([2007]第12號)) (the “**Interim Measures**”), the Bank shall complete the foreign debt information submission in respect of the issue of the Bonds to the PBOC, SAFE and NDRC in accordance with the relevant laws and regulations. If such information submission is not completed as required, it is uncertain whether the Bonds are enforceable under the PRC laws or whether the PBOC, SAFE or NDRC will impose sanctions or other administrative procedures on the Bank, which may have a material adverse effect on its ability to fully perform its obligations under the transaction documents relating to the Bonds or the Bonds. In addition, the Bank may not be able to remit the proceeds of the offering into the PRC or remit money out of the PRC in order to meet its obligations under the Bonds. In such circumstances, the value and secondary market price of the Bonds may also be materially and adversely affected.

#### **Credit ratings may not reflect all risks.**

Each series of the Bonds are expected to be rated “A+” by S&P. Such rating may not reflect the potential impact of all risks related to structure, market and additional factors discussed above, and other factors that may affect the value of the Bonds. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

#### **Changes in market interest rates may adversely affect the value of the Bonds.**

Investment in the Bonds involves the risk that subsequent changes in market interest rates may adversely affect the value of the Bonds. The PRC government has gradually liberalised its regulation of interest rates in recent years. Further liberalisation may increase interest rate volatility. In addition, the interest rate for Renminbi in markets outside the PRC may significantly deviate from the interest rate for Renminbi in the PRC as a result of foreign exchange controls imposed by PRC law and regulations and prevailing market conditions.



As the Bonds will carry a fixed interest rate, the trading price of the Bonds will consequently vary with the fluctuations in the Renminbi interest rates. If holders of any Bond propose to sell their Bonds before their maturity, they may receive an offer lower than the amount they have invested.

**Renminbi is not freely convertible and there are significant restrictions on the remittance of Renminbi into and out of the PRC which may adversely affect the liquidity of Bonds.**

Renminbi is not freely convertible at present. The PRC government continues to regulate conversion between Renminbi and foreign currencies, including the Hong Kong dollar.

However, there has been significant reduction in control by the PRC government in recent years, particularly over trade transactions involving import and export of goods and services as well as other frequent routine foreign exchange transactions. These transactions are known as current account items.

On the other hand, remittance of Renminbi into and out of the PRC for the settlement of capital account items, such as capital contributions, debt financing and securities investment, is generally only permitted upon obtaining specific approvals from, or completing specific registrations or filings with, the relevant authorities on a case-by-case basis and is subject to a strict monitoring system. Regulations in the PRC on the remittance of Renminbi into and out of the PRC for settlement of capital account items are being developed.

Although Renminbi was added to the Special Drawing Rights basket created by the International Monetary Fund in 2016 and policies further improving accessibility to Renminbi to settle cross-border transactions in foreign currencies were implemented by PBOC in 2018, there is no assurance that the PRC government will continue to gradually liberalise control over cross-border remittance of Renminbi in the future, that the schemes for Renminbi cross-border utilisation will not be discontinued or that new regulations in the PRC will not be promulgated in the future which have the effect of restricting or eliminating the remittance of Renminbi into or out of the PRC. Despite Renminbi internationalisation pilot programme and efforts in recent years to internationalise the currency, there can be no assurance that the PRC government will not impose interim or long-term restrictions on the cross-border remittance of Renminbi. In the event that funds cannot be repatriated out of the PRC in Renminbi, this may affect the overall availability of Renminbi outside the PRC and the ability of the Bank to source Renminbi to finance its obligations under Bonds denominated in Renminbi.

**There is only limited availability of Renminbi outside the PRC, which may affect the liquidity of the Bonds and the Bank's ability to source Renminbi outside the PRC to service Bonds.**

As a result of the restrictions by the PRC government on cross-border Renminbi fund flows, the availability of Renminbi outside the PRC is limited. While the PBOC has entered into agreements (the “**Settlement Arrangements**”) on the clearing of Renminbi business with financial institutions (the “**Renminbi Clearing Banks**”) in a number of financial centres and cities, including but not limited to Hong Kong, has established the Cross-Border Inter-Bank Payments System (CIPS) to facilitate cross-border Renminbi settlement and is further in the process of establishing Renminbi clearing and settlement mechanisms in several other jurisdictions, the current size of Renminbi denominated financial assets outside the PRC is limited.

There are restrictions imposed by PBOC on Renminbi business participating banks in respect of cross-border Renminbi settlement, such as those relating to direct transactions with PRC enterprises. Furthermore, Renminbi business participating banks do not have direct Renminbi liquidity support from PBOC, although PBOC has gradually allowed participating banks to access the PRC's onshore inter-bank market for the purchase and sale of Renminbi. The Renminbi Clearing Banks only have limited access to onshore liquidity support from PBOC for the purpose of squaring open positions of participating banks for limited types of transactions and are not obliged to square for participating banks any open positions resulting from other foreign exchange transactions or conversion services. In cases where the participating banks cannot source sufficient Renminbi through the above channels, they will need to source Renminbi from outside the PRC to square such open positions.

Although it is expected that the offshore Renminbi market will continue to grow in depth and size, its growth is subject to many constraints as a result of PRC laws and regulations on foreign exchange. There is no assurance that new PRC regulations will not be promulgated or the Settlement Arrangements will not be terminated or amended in the future which will have the effect of restricting availability of Renminbi outside the PRC. The limited availability of Renminbi outside the PRC may affect the liquidity of the Bonds. To the extent the Bank is required to source Renminbi in the offshore market to service its Bonds, there is no assurance that the Bank will be able to source such Renminbi on satisfactory terms, if at all.

**Investment in the Bonds is subject to exchange rate risks.**

The value of Renminbi against other foreign currencies fluctuates from time to time and is affected by changes in the PRC and international political and economic conditions as well as many other factors. Recently, the PBOC implemented changes to the way it calculates the Renminbi's daily mid-point against the U.S. dollar to take into account market-maker quotes before announcing such daily mid-point. This change, and others that may be implemented, may increase the volatility in the value of the Renminbi against foreign currencies. All payments of interest and principal will be made in Renminbi with respect to Bonds unless otherwise specified. As a result, the value of these Renminbi payments may vary with the changes in the prevailing exchange rates in the marketplace. If the value of Renminbi depreciates against another foreign currency, the value of the investment made by a holder of the Bonds in that foreign currency will decline.

**Payments with respect to the Bonds may be made only in the manner designated in the Bonds.**

All payments to investors in respect of the Bonds will be made solely (i) for so long as any series of the Bonds are represented by the relevant Global Bond Certificate deposited with a sub-custodian for CMU or any alternative clearing system, by transfer to a Renminbi bank account maintained in Hong Kong and (ii) for so long as any series of the Bonds are in definitive form, by transfer to a Renminbi bank account maintained in Hong Kong in accordance with prevailing rules and regulations. The Bank cannot be required to make payment by any other means (including in any other currency or by transfer to a bank account in the PRC).



### **Remittance of proceeds in Renminbi into or out of the PRC.**

In the event that the Bank decides to remit some or all of the proceeds into the PRC in Renminbi, its ability to do so will be subject to obtaining all necessary approvals from, and/or registration or filing with, the relevant PRC government authorities. However, there is no assurance that the necessary approvals from, and/or registration or filing with, the relevant PRC government authorities will be obtained at all or, if obtained, they will not be revoked or amended in the future.

There is no assurance that the PRC government will continue to gradually liberalise the control over cross-border Renminbi remittances in the future, that the PRC government will not impose any interim or long-term restrictions on capital inflow or outflow which may restrict cross-border Renminbi remittances, that the pilot schemes introduced will not be discontinued or that new PRC regulations will not be promulgated in the future which have the effect of restricting or eliminating the remittance of Renminbi into or outside the PRC. In the event that the Bank does remit some or all of the proceeds into the PRC in Renminbi and the Bank subsequently is not able to repatriate funds out of the PRC in Renminbi, it will need to source Renminbi outside the PRC to finance its obligations under the Bonds, and its ability to do so will be subject to the overall availability of Renminbi outside the PRC.

## **USE OF PROCEEDS OF THE CNY BONDS**

The estimated net proceeds of the issue of the CNY Bonds will be CNY2,991,000,000.

The Bank intends to use the proceeds from the issue of the CNY Bonds for funding the general credit business, working capital and general corporate purposes.

## USE OF PROCEEDS OF THE CNY GREEN BONDS

The estimated net proceeds of the issue of the CNY Green Bonds will be CNY2,493,000,000.

The Bank intends to use the proceeds from the issue of the CNY Green Bonds for financing and/or refinancing the Eligible Green Assets (as defined below) as described under the Green and Sustainability Bond Framework (see the section headed “*Green and Sustainability Bond Framework*”).

“**Eligible Green Assets**” are those projects which fall within one or more of the eligible categories set out in the Green and Sustainability Bond Framework. Such categories include: sustainable water and wastewater management, environmentally sustainable management of living natural resources and land-use and renewable energy. Assets specifically excluded from this definition are the assets that are involved in the sectors and activities including fossil fuel related assets (including clean coal), infrastructures being carbon intensive such as new roads, airports, etc, nuclear fuel or other nuclear related assets, sectors which are prohibited by laws and regulation in china, such as weapon, child labour, adult entertainment and corporations which are in association with illegal activities, luxury sector such as precious metals, artwork, antiques and golf clubs, distilling, rectifying and blending of spirits, manufacture of tobacco products, mining and quarrying, manufacture of weapons and ammunition, manufacture of military fighting vehicles, gambling and betting activities, production, distribution or storage of hazardous chemicals and radioactive materials.

Projects in all eligible categories shall attain at least the minimum environmental impact threshold required by relevant official standards recognised in the relevant jurisdiction. Where no official standards are locally recognised, corresponding international standards shall apply.

# GREEN AND SUSTAINABILITY BOND FRAMEWORK

The Bank published its green and sustainability bond framework<sup>1</sup> on 9 November 2018, which was further updated in September 2019 (the “**Green and Sustainability Bond Framework**” or the “**Framework**”).

## 1 FRAMEWORK OVERVIEW

The Framework has been developed to demonstrate that the Bank intends to issue green bonds (the “**Green Bond**”) and/or sustainability bonds (the “**Sustainability Bond**”) (“**Issuance(s)**”). Each Green Bond Issuance will comply with the below standards:

- (1) The Green Bond Principles 2018 (“**GBP**”); and
- (2) China Green Bond Endorsed Project Catalogue of the PBOC, 2015;

Each Sustainability Bond Issuance will comply with the below standards:

- (1) The Social Bond Principles 2018 (“**SBP**”); and
- (2) The Sustainability Bond Guidelines 2018.

### 1.1 Use of Proceeds

The net proceeds from Issuances under the Framework (the “**Proceeds**”) will be used to finance and/or refinance loans in assets or projects that fall into the Eligible Green Asset Categories or Eligible Social Asset Categories as defined as below:

#### 1.1.1 Eligible Green Asset Categories

Eligible Asset Category	Environmental Objectives	Description	Key United Nations Sustainable Development Goals (“SDG”) Alignment
Sustainable water and wastewater management .....	<ul style="list-style-type: none"> <li>Climate change adaptation</li> <li>Biodiversity</li> <li>Natural resource conservation</li> <li>Pollution prevention and control</li> </ul>	<ul style="list-style-type: none"> <li>The construction, operation and maintenance of water conservancy projects for flooding mitigation;</li> <li>Water pollution prevention and control, river and lake pollution treatment facilities, and sewage treatment facilities;</li> <li>The development of unconventional water resources development.</li> </ul>	SDG 6 Clean water and sanitation

<sup>1</sup> The Framework has been rated dark green by CICERO.

<b>Eligible Asset Category</b>	<b>Environmental Objectives</b>	<b>Description</b>	<b>Key United Nations Sustainable Development Goals (“SDG”) Alignment</b>
Environmentally sustainable management of living natural resources and land-use .....	<ul style="list-style-type: none"> <li>• Climate change mitigation</li> <li>• Climate change adaptation</li> <li>• Biodiversity</li> <li>• Natural resource conservation</li> </ul>	<ul style="list-style-type: none"> <li>• Sustainable agriculture (including the improvement and recovery of agricultural lands, such as the construction of a High Standard Farm);</li> <li>• Sustainable forestry projects such as afforestation or reforestation, conservation and;</li> <li>• Urban greening projects.</li> </ul>	SDG 14 Life below water SDG 15 Life on land
Renewable Energy.....	<ul style="list-style-type: none"> <li>• Climate change mitigation</li> <li>• Natural resource conservation</li> <li>• Pollution prevention and control</li> </ul>	<ul style="list-style-type: none"> <li>• The production and transmission of renewable energy including only solar and wind power.</li> </ul>	SDG 7 Renewable energy

### 1.1.2 Eligible Social Asset Categories

<b>Eligible Asset Category</b>	<b>Description</b>	<b>Key United Nations Sustainable Development Goals (“SDG”) Alignment</b>
Affordable Housing .....	<ul style="list-style-type: none"> <li>• Projects that aim to provide affordable housing to impoverished populations, including shanty town renovation projects.</li> </ul>	SDG 1 No poverty SDG 3 Good health SDG 4 Quality education SDG 6 Clean water and sanitation
Affordable Basic Infrastructure and services .....	<ul style="list-style-type: none"> <li>• Includes the construction of basic infrastructure such as water networks, sanitation facilities, basic medical facilities and renewable power facilities to improve the living environment in poverty-stricken areas;</li> <li>• Provision of basic services, such as medical services and education and training opportunities, to impoverished population.</li> </ul>	SDG 7 Renewable energy SDG 8 Decent work and economic growth SDG 11 Sustainable cities and communities

### ***1.1.3 Exclusionary Criteria***

Eligible Green and Social Assets will exclude the assets that are involved in the following sectors and activities:

- Fossil fuel related assets (including clean coal);
- Infrastructures being carbon intensive such as new roads, airports, etc;
- Nuclear fuel or other nuclear related assets;
- Sectors which are prohibited by laws and regulation in China, such as weapon, child labour, adult entertainment and corporations which are in association with illegal activities;
- Luxury sector such as precious metals, artwork, antiques and golf clubs;
- Distilling, rectifying and blending of spirits;
- Manufacture of tobacco products;
- Mining and quarrying;
- Manufacture of weapons and ammunition;
- Manufacture of military fighting vehicles;
- Gambling and betting activities;
- Production, distribution or storage of hazardous chemicals and radioactive materials.

## **1.2 Process for Project Evaluation and Selection**

Eligible Green and Social Assets will first be identified and pre-selected by frontline credit departments of various branches, using the Framework as the primary selection guideline. The initial eligible asset list will be proposed to the Bank's head office, which will select the final list of eligible assets with the following criteria:

- If the projects fit in the Eligible Green and/or Social Asset Categories in the Framework;
- If the projects can produce clear and/or quantitative environmental and/or social impacts;
- For social projects, if the projects will benefit clear target populations.

Meanwhile, the Bank will hire a qualified third-party consultant to participate in the process of project evaluation and selection.

The relevant departments will regularly include Eligible Green and/or Social Assets submitted by branches into a reserve for any future issuances of green, social and/or sustainability bonds of the Bank.

To ensure the use of Proceeds adheres to the Framework, the Bank has a dynamic mechanism to monitor the environmental and social performance of the projects financed, and to remove and replace projects that are no longer eligible with Eligible Projects from the reserve.

### **1.3 Management of Proceeds**

The Bank will establish an independent register (the “**Register**”) to record the allocation of the Proceeds from each Issuance. The Proceeds will be deposited in general funding accounts and tracked through a formal internal process to ensure the link of the Proceeds to the Eligible Green and/or Social Assets.

The Register will contain information including but not excluded to:

- Details of the Green and Sustainability Bonds: type of bond, ISIN, pricing date, maturity date, etc.
- The list of Eligible Green Assets and the list of Eligible Social Assets, including information such as the project’s Eligible Asset Category, project name and description, borrower’s descriptions, outstanding loan amount, disbursement date, repayment date, interest rate, etc.

Any temporarily unallocated balance of Proceeds will be invested in green bonds and/or money market instruments with good credit ratings and market liquidity.

The Bank shall fully allocate the Proceeds to Eligible Green or Social Assets within 24 months after each Issuance.

### **1.4 Reporting**

The Bank commits to publicly publish an annual report related to its Green and Sustainability Bond issuances (the “**Report**”). Such Report will provide information on the allocation and the environmental and/or social impacts of the Proceeds, as presented below.

#### ***1.4.1 Allocation Reporting***

The Bank will disclose the new loan amount disbursed, outstanding loan amounts, and geographical distribution of Proceeds allocated to each Green and/or Social Asset Category. Subject to confidentiality, the Report will provide some project examples.



### 1.4.2 Impact Reporting

The Bank commits to provide impact reporting to show the expected environmental and social benefits of the selected Eligible Green and/or Social Assets. The impact indicators, evaluation methods and key assumptions will be described in the Report. The Bank strives to identify and improve the choices of impact indicators depending on the individual project. Some potential impact indicators are as follows:

<b>Green Project Categories</b>	<b>Potential Environmental Impact Indicators</b>
Sustainable water and wastewater management.....	<ul style="list-style-type: none"><li>• Amount of water saved/treated</li><li>• Amount of wastewater treated/avoided</li></ul>
Environmentally sustainable management of living natural resources and land-use.....	<ul style="list-style-type: none"><li>• Additional forestation areas converted</li><li>• Area of natural landscape preserved</li><li>• Number of species protected</li></ul>
Renewable Energy.....	<ul style="list-style-type: none"><li>• KWh of power generated from renewable energy</li><li>• Tonnes of CO<sub>2</sub> (or other GHG) avoided</li></ul>
<b>Social Project Categories</b>	<b>Potential Social Impact Indicators</b>
Affordable Housing.....	<ul style="list-style-type: none"><li>• Number of beneficiaries</li><li>• Number of residences constructed or renovated</li></ul>
Affordable Basic Infrastructure and services.....	<ul style="list-style-type: none"><li>• Number of beneficiaries with gained access to electricity</li><li>• Number of beneficiaries with gained access to education and/or vocational training opportunities</li><li>• Number of beneficiaries with gained access to medical services</li><li>• Additional new schools built</li><li>• Additional healthcare infrastructure built</li></ul>

## 2 EXTERNAL REVIEW

### 2.1 Pre-issuance

The Bank engaged CICERO and the International Institute for Sustainable Development which have provided a Second Party Opinion on the Framework.

The Bank has also engaged the HKQAA which has provided a Third-party Certification for the CNY Green Bonds. The Bank has obtained a HKQAA Pre-issuance Green Finance Certification relating to the CNY Green Bonds on 26 September 2019.

The Second Party Opinion and Third-party Certification may contain certain estimates and forecasts which have been calculated by the relevant parties. For more information, please refer to the Second Party Opinion and the Environmental Method Statement published on the Bank's website at: <http://www.adbc.com.cn/>.

### 2.2 Post-issuance

The Bank will engage an independent third-party verifier to conduct post-issuance audit on the allocation of Proceeds, on an annual basis and publish a verification report.

The relevant pre-issuance and post-issuance external review reports will be made publicly available via annual updates.

## THE HKQAA GREEN FINANCE CERTIFICATION SCHEME

*Certain information relating to the HKQAA in this Offering Circular has been obtained from public sources, including the Green Finance Certification Scheme Handbook (as defined below) and other publicly available information. Although this information is believed to be reliable, it has not been independently verified by the Joint Lead Managers, the Agents or their respective directors and advisers, and none of the Joint Lead Managers, the Agents and their respective directors and advisers makes any representation as to the accuracy or completeness of that information.*

### THE HKQAA

The HKQAA is a non-profit distributing organisation by the Hong Kong Government and has been the only Hong Kong organisation accredited as a Designated Operational Entity by the Executive Board of the Clean Development Mechanism (“CDM”) under the United Nations Framework Convention on Climate Change to deliver CDM validation and verification services since 2011.

### THE HKQAA GREEN FINANCE CERTIFICATION SCHEME

The HKQAA Green Finance Certification Scheme was developed with reference to, among others, the CDM, the ICMA Green Bond Principles and the PBOC Green Bond Categories. The benefits of the HKQAA Green Finance Certification Scheme include (i) enhancing the credibility of, and stakeholder confidence in, green financial instruments via independent, impartial third-party conformity assessments, (ii) reaching out to potential green finance investors with the aid of the HKQAA green finance certificate and certification mark, (iii) demonstrating issuers’ efforts to promote environmentally friendly investment; and, (iv) promoting a common understanding of green finance.

Under the HKQAA Green Finance Certification Scheme, an applicant may apply for either (i) a pre-issuance stage certificate or (ii) a post-issuance stage certificate.

An applicant may apply for a pre-issuance stage certificate ahead of Green Finance issuance. “Green Finance” is defined in the handbook of the HKQAA Green Finance Certification Scheme published on 24 August 2018 (the “**Green Finance Certification Scheme Handbook**”) as financing of investments that provide environmental benefits in the broader context of environmentally sustainable development. A pre-issuance stage certificate is an “as-at” certificate and provides assurance that the Green Finance with its projects activity or activities financed with proceeds from the issuance of Green Finance to make a positive impact on the environment (“**Green Projects**”) (up to the assessment completion date which is also the issue date on such certificate) comply with the HKQAA Green Finance Certification Scheme.

As part of the application for a pre-issuance stage certificate, an applicant is required to complete the relevant application forms (including a self-declaration form) and provide an Environmental Method Statement to the HKQAA which will assess and validate its adequacy in producing a positive environmental effect. An Environmental Method Statement shall include:

- (i) use of proceeds;
- (ii) Green Projects evaluation and selection;

- (iii) management of proceeds;
- (iv) information disclosure and reporting;
- (v) Green Project monitoring;
- (vi) Impact Assessment (which is the determination of the likely environmental consequences, or impacts, of proposed projects or activities conducted by the applicant); and
- (vii) Stakeholder Engagement (which is the engagement with public, including individuals, groups or communities, affected, or likely to be affected, by the proposed project activity, or actions leading to the implementation of such an activity).

An annual surveillance assessment by the HKQAA to verify the continuous implementation and effectiveness of the Environmental Method Statement is not required.

When the HKQAA has completed its assessment and validation of the Environmental Method Statement and no non-conforming issues are outstanding, it will make a recommendation of certification to the Certification Review Board which reviews and approves the recommendation. Upon such approval, a pre-issuance stage certificate and a Certification Mark (a trademark designed by the HKQAA indicating that the applicant's Green Finance is duly certified under the HKQAA Green Finance Certification Scheme) are issued to the applicant.

The HKQAA will disclose the Environmental Method Statement via the HKQAA website after the issuance of a pre-issuance stage certificate or the issuance of the relevant debt instrument (whichever is later). The HKQAA also gives flexibility for the applicant to request disclosure of its Environmental Method Statement on the HKQAA website before the issuance of green bond in order to cope with its announcement of certification of green bond in the public domain. The applicant shall inform the HKQAA about the disclosure arrangement at least two working days before the announcement. Such pre-issuance stage certificate will only be valid if the applicant's Environmental Method Statement for the time being corresponds to the version of the applicant's Environmental Method Statement accessible via the HKQAA website.

If an applicant makes any change to its Environmental Method Statement after the issuance of a pre-issuance stage certificate, the corresponding pre-issuance stage certificate will be regarded as invalid. An applicant shall inform the HKQAA in writing for any change in its Environmental Method Statement within one month after the occurrence of any foreseeable or actual changes. An applicant has to make a new application to the HKQAA for the certification of the revised Environmental Method Statement.

The HKQAA Pre-issuance Green Finance Certification has been obtained by the Bank for the CNY Green Bonds, certifying that the CNY Green Bonds comply with the requirements of the HKQAA Green Finance Certification Scheme.

## **HKQAA CERTIFICATION DISCLAIMER**

The issuance of the HKQAA Pre-issuance Green Finance Certification relating to the CNY Green Bonds by the HKQAA is based solely on the Green Finance Certification Scheme Handbook and does not, and is not intended to, make any representation or give any assurance with respect to any other matter relating to the CNY Green Bonds or any Eligible Green Assets, including but not limited to this Offering Circular, the transaction documents, the Bank or the management of the Bank.

The issuance of the HKQAA Pre-issuance Green Finance Certification relating to the CNY Green Bonds by the HKQAA was addressed solely to the Bank and is not a recommendation to any person to purchase, hold or sell the CNY Green Bonds and such certification does not address the market price or suitability of the CNY Green Bonds for a particular investor. The certification also does not address the merits of the decision by the Bank or any third party to participate in any Eligible Green Assets and does not express and should not be deemed to be an expression of an opinion as to the Bank or any aspect of any Eligible Green Assets (including but not limited to the financial viability of any Eligible Green Assets) other than with respect to conformance with the Green Finance Certification Scheme Handbook.

In issuing the HKQAA Pre-issuance Green Finance Certification, the HKQAA shall not be liable for any loss or damage suffered by any person whatsoever or howsoever caused by, arising from and/or in connection with, whether directly or indirectly, the certification of the CNY Green Bonds.

The HKQAA Pre-issuance Green Finance Certification does not and is not in any way intended to address the likelihood of timely payment of interest when due on the CNY Green Bonds and/or the payment of principal at maturity or any other date.

The HKQAA Pre-issuance Green Finance Certification may be withdrawn at any time in HKQAA's sole and absolute discretion and there can be no assurance that the HKQAA Pre-issuance Green Finance Certification will not be withdrawn.

## EXCHANGE RATES

The PBOC sets and publishes daily a base exchange rate with reference primarily to the supply and demand of Renminbi against a basket of currencies in the market during the prior day. The PBOC also takes into account other factors, such as the general conditions existing in the international foreign exchange markets. Since 1994, the conversion of CNY into foreign currency, including Hong Kong dollars and U.S. dollars, has been based on rates set by the PBOC, which are set daily based on the previous day's inter-bank foreign exchange market rates and current exchange rates in the world financial markets. On 21 July 2005, the PRC government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of the Renminbi appreciated by 2 per cent. against the U.S. dollar. The PRC government has since made and in the future may make further adjustments to the exchange rate system. On 18 May 2007, the PBOC enlarged, effective on 21 May 2007, the floating band for the trading prices in the inter-bank spot exchange market of Renminbi against the U.S. dollar from 0.3 per cent. to 0.5 per cent. around the central parity rate. This allows the Renminbi to fluctuate against the U.S. dollar by up to 0.5 per cent. above or below the central parity rate published by the PBOC. The floating band was further widened to 1.0 per cent. on 16 April 2012. On 17 March 2014, the PBOC further widened the floating band against the U.S. dollar to 2.0 per cent. On 11 August 2015, the PBOC announced to improve the central parity quotations of Renminbi against the U.S. dollar by authorizing market-makers to provide central parity quotations to the China Foreign Exchange Trading Centre daily before the opening of the interbank foreign exchange market with reference to the interbank foreign exchange market closing rate of the previous day, the supply and demand for foreign exchange as well as changes in major international currency exchange rates. Following the announcement by the PBOC on 11 August 2015, Renminbi depreciated significantly against the U.S. dollar. On 11 December 2015, the China Foreign Exchange Trade System (“CFETS”), a sub-institutional organisation of the PBOC, published the CFETS Renminbi exchange rate index for the first time which weighs the Renminbi based on 13 currencies, to guide the market in order to measure the Renminbi exchange rate from a new perspective. On 30 September 2016, the International Monetary Fund announced that Renminbi joins its Special Drawing Rights currency basket. The PRC government may in the future make further adjustments to the exchange rate system.

The following tables sets forth information concerning exchange rates between the Renminbi and the U.S. dollar for the periods presented:

Period	Renminbi per U.S Dollar Noon Buying Rate <sup>(1)</sup>			
	End	Average <sup>(2)</sup>	High	Low
	(CNY per U.S.\$1.00)			
2013.....	6.0537	6.1478	6.2438	6.0537
2014.....	6.2046	6.1620	6.2591	6.0402
2015.....	6.4778	6.2827	6.4896	6.1870
2016.....	6.9430	6.6400	6.9580	6.4480
2017.....	6.5063	6.7569	6.9575	6.4773
2018.....	6.8755	6.6090	6.9737	6.2649

Period	Renminbi per U.S Dollar Noon Buying Rate <sup>(1)</sup>			
	End	Average <sup>(2)</sup>	High	Low
	(CNY per U.S.\$1.00)			
2019				
January .....	6.6958	6.7863	6.8708	6.6958
February .....	6.6912	6.7367	6.7907	6.6822
March .....	6.7112	6.7119	6.7381	6.6916
April .....	6.7347	6.7161	6.7418	6.6870
May .....	6.9027	6.8519	6.9182	6.7319
June .....	6.8650	6.8977	6.9298	6.8510
July .....	6.8833	6.8775	6.8927	6.8487
August .....	7.1543	7.0629	7.1628	6.8972
September .....	7.1477	7.1137	7.1786	7.0659
October (through 18 October) .....	7.0805	7.1219	7.1473	7.0766

*Notes:*

- (1) Exchange rates between the Renminbi and the U.S. dollar represent the noon buying rates as set forth in the H. 10 statistical release of the Federal Reserve Board.
- (2) Annual, semi-annual and monthly averages have been calculated using the average of the daily rates during the relevant period.

## CAPITALISATION AND INDEBTEDNESS

The following table sets forth the consolidated capitalisation and indebtedness of the Bank at 31 December 2018 on an actual basis and as adjusted to give effect to the issuance of the Bonds, before the deduction of fees, commissions and the estimated transaction expenses payable in connection with the offering of the Bonds. The following table should be read in conjunction with “*Selected Financial Information*” and the Group’s consolidated financial statements and related notes, the English translation of which is included elsewhere in this Offering Circular.

	As at 31 December 2018			
	Actual	Actual	As adjusted	As adjusted
	(CNY in billions)	(U.S.\$ in billions) <sup>(1)</sup>	(CNY in billions)	(U.S.\$ in billions) <sup>(1)</sup>
Liabilities:				
Borrowings from PBOC.....	678.4	98.7	678.4	98.7
Due to banks and financial institutions .....	285.2	41.5	285.2	41.5
Deposits received.....	1,388.6	210.0	1,388.6	210.0
Bonds payable <sup>(2)</sup> .....	4,201.5	611.1	4,201.5	611.1
Other liabilities .....	2.3	0.3	2.3	0.3
CNY Bonds to be issued.....	–	–	3.0	0.4
CNY Green Bonds to be issued.....	–	–	2.5	0.4
Total liabilities.....	6,699.1	974.3	6,704.6	975.1
Paid-in capital.....	57.0	8.3	57.0	8.3
Surplus reserve .....	13.6	2.0	13.6	2.0
General risk reserve.....	24.0	3.5	24.0	3.5
Retained earnings.....	59.1	8.6	59.1	8.6
Total owner’s equity .....	153.7	22.4	153.7	22.4
Total capitalisation <sup>(3)</sup> .....	6,852.8	996.7	6,858.3	997.5

*Notes:*

- (1) For convenience only, all translation from Renminbi into U.S. dollars are made at the rate of CNY6.8755 to U.S.\$1.00, the exchange rate as at 31 December 2018 as set forth in the H.10 weekly statistical release of the Board of Governors of the Federal Reserve System of the United States.
- (2) The Bank has issued onshore bonds in the total aggregate amount of CNY924.57 billion by the end of September 2019 (for the year ending 31 December 2019). The Bank has also issued offshore bonds in the total aggregate amount of CNY3 billion in May 2019.
- (3) Total capitalisation equals the sum of total liabilities and total owner’s equity.

Other than as disclosed above, there has been no material change in the capitalisation and indebtedness of the Bank since 31 December 2018.



## TERMS AND CONDITIONS OF THE CNY BONDS

*The following other than the words in italics is the text of the terms and conditions of the Bonds which will appear on the reverse of each of the individual bond certificates evidencing the Bonds:*

The CNY3,000,000,000 3.40 per cent. bonds due 2024 (the “**Bonds**”, which expression includes any further bonds issued pursuant to Condition 13 (*Further Issues*) and forming a single series therewith) of Agricultural Development Bank of China (the “**Bank**”) are subject to, and have the benefit of, a deed of covenant dated on or about 6 November 2019 (as amended or supplemented from time to time, the “**Deed of Covenant**”) entered into by the Bank and are the subject of an agency agreement dated on or about 6 November 2019 (as amended or supplemented from time to time, the “**Fiscal Agency Agreement**”) between Bank of Communications Co., Ltd. Hong Kong Branch as registrar (the “**Registrar**”, which expression includes any successor registrar appointed from time to time in connection with the Bonds) and as fiscal agent (the “**Fiscal Agent**”, which expression includes any successor Fiscal Agent appointed from time to time in connection with the Bonds), Bank of Communications Co., Ltd. Hong Kong Branch as CMU lodging agent (the “**CMU Lodging Agent**”, which expression includes any successor CMU lodging agent appointed from time to time in connection with the Bonds), the transfer agents named therein (the “**Transfer Agents**”, which expression includes any successor or additional transfer agents appointed from time to time in connection with the Bonds) and the paying agents named therein (together with the Fiscal Agent, the “**Paying Agents**”, which expression includes any successor or additional paying agents appointed from time to time in connection with the Bonds). References herein to the “**Agents**” are to the Registrar, the Paying Agents, the CMU Lodging Agent and the Transfer Agents and any reference to an “**Agent**” is to any one of them.

Certain provisions of these Conditions are summaries of the Fiscal Agency Agreement and the Deed of Covenant and are subject to their detailed provisions. The Bondholders (as defined below) are bound by, and are deemed to have notice of, all the provisions of the Fiscal Agency Agreement and the Deed of Covenant applicable to them. Copies of the Deed of Covenant and the Fiscal Agency Agreement are available for inspection by Bondholders during normal business hours at the Specified Office (as defined in the Fiscal Agency Agreement) of the Fiscal Agent, the initial Specified Office of which is set out below.

### 1 FORM, DENOMINATION AND STATUS

- (a) *Form and denomination:* The Bonds are in registered form in the denomination of CNY1,000,000 and integral multiples of CNY10,000 in excess thereof (each, an “**Authorised Denomination**”).
- (b) *Status:* The Bonds constitute direct, unconditional, unsubordinated and, subject to the creation of any security permitted or approved in accordance with Condition 3(a) (*Negative Pledge*), unsecured obligations of the Bank. The Bonds will at all times rank *pari passu* among themselves and at least *pari passu* with all other existing and future unsubordinated and unsecured obligations of the Bank from time to time outstanding (except for any statutory preference or priority applicable in the winding-up of the Bank).

*The Bonds will be represented by a global bond certificate (the “**Global Bond Certificate**”) substantially in the form scheduled to the Fiscal Agency Agreement. The Global Bond Certificate will be registered in the name of, and lodged with a sub-custodian for, the Hong Kong Monetary Authority as operator (the “**Operator**”) of the Central Moneymarkets Unit Service (“**CMU**”), and will be exchangeable for Individual Bond Certificates only in the circumstances set out therein.*

*For so long as any of the Bonds are represented by the Global Bond Certificate, each person who is for the time being shown in the records of the Operator as the holder of a particular principal amount of Bonds (the “**account holder**”) (in which regard any certificate or other documents issued by the Operator as to the principal amount of such Bonds standing to the account of any person shall be conclusive and binding for all purposes except in the case of manifest error) shall be treated by the Issuer, the Registrar, the Transfer Agents, the Paying Agents, the CMU Lodging Agent and the Operator as the holder of such principal amount of such Bonds for all purposes other than with respect to the payment of principal or interest on the Bonds, the right to which shall be vested, as against the Issuer, the Registrar, the Transfer Agents, the Paying Agents, the CMU Lodging Agent and the Operator solely in the holder of the Global Bond Certificate in accordance with and subject to its terms. For so long as any of the Bonds are represented by the Global Bond Certificate and the Global Bond Certificate is held with the CMU, any transfer of principal amounts of Bonds shall be effected in accordance with the rules and procedures for the time being of the Operator.*

*Notwithstanding the above, if the Global Bond Certificate is held by or on behalf of the CMU, any payments that are made in respect of the Global Bond Certificate shall be made to the account holder and such payments shall discharge the obligation of the Issuer in respect of that payment. For these purposes, a notification from the CMU shall be conclusive evidence of the records of the CMU (save in the case of manifest error). Bonds which are represented by the Global Bond Certificate will be transferable only in accordance with the rules and procedures for the time being of the Operator.*

## **2 REGISTER, TITLE AND TRANSFERS**

- (a) *Register:* The Registrar will maintain a register (the “**Register**”) in respect of the Bonds in accordance with the provisions of the Fiscal Agency Agreement. In these Conditions, the “**Holder**” of a Bond means the person in whose name such Bond is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and “**Bondholder**” shall be construed accordingly. A certificate (each, a “**Bond Certificate**”) will be issued to each Bondholder in respect of its registered holding. Each Bond Certificate will be numbered serially with an identifying number which will be recorded in the Register.
- (b) *Title:* The Holder of each Bond shall (except as otherwise required by law) be treated as the absolute owner of such Bond for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Bond Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Bond Certificate) and no person shall be liable for so treating such Holder. No person shall have any right to enforce any term or condition of the Bonds under the Contracts (Rights of Third Parties) Act 1999.
- (c) *Transfers:* Subject to paragraphs (f) (*Closed periods*) and (g) (*Regulations concerning transfers and registration*) below, a Bond may be transferred upon surrender of the relevant Bond Certificate, with the endorsed form of transfer duly completed, at the Specified Office of the Registrar or any Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of

transfer; provided, however, that a Bond may not be transferred unless the principal amount of Bonds transferred and (where not all of the Bonds held by a Holder are being transferred) the principal amount of the balance of Bonds not transferred are Authorised Denominations. Where not all the Bonds represented by the surrendered Bond Certificate are the subject of the transfer, a new Bond Certificate in respect of the balance of the Bonds will be issued to the transferor. No transfer of title to a Bond will be valid unless and until entered on the Register.

*Transfers of interests in the Bonds evidenced by the Global Bond Certificate will be effected in accordance with the rules of the relevant clearing systems.*

- (d) *Registration and delivery of Bond Certificates:* Within five business days of the surrender of a Bond Certificate in accordance with paragraph (c) (*Transfers*) above, the Registrar will register the transfer in question and deliver a new Bond Certificate of a like principal amount to the Bonds transferred to each relevant Holder at its Specified Office or (as the case may be) the Specified Office of any Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) (free of charge to the Holder and at the Bank's expenses) to the address specified for the purpose by such relevant Holder. In this paragraph, "**business day**" means a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the relevant Transfer Agent has its Specified Office.
- (e) *No charge:* The transfer of a Bond will be effected without charge by or on behalf of the Bank, the Registrar or any Transfer Agent but (i) against such indemnity as the Registrar or (as the case may be) such Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer, (ii) the Registrar or (as the case may be) such Transfer Agent being satisfied in its absolute discretion with the documents of title or identity of the person making the application, and (iii) the Bank and/or the Registrar and/or the relevant Transfer Agent being satisfied that the Regulations (as defined in the Fiscal Agency Agreement) concerning the transfer of Bonds have been complied with.
- (f) *Closed periods:* Bondholders may not require transfers to be registered,
  - (i) during the period of 10 days before any date on which the Bonds may be called for redemption by the Bonds at its option pursuant to Condition 5(b) (*Redemption for tax reasons*); and
  - (ii) during the period of 10 days ending on the due date for any payment of principal or interest in respect of the Bonds.
- (g) *Regulations concerning transfers and registration:* All transfers of Bonds and entries on the Register are subject to the detailed regulations concerning the transfer of Bonds scheduled to the Fiscal Agency Agreement. The regulations may be changed by the Bank with the prior written approval of the Registrar. A copy of the current regulations will be mailed (free of charge to the Holder and at the Bank's expense) by the Registrar to any Bondholder who requests in writing a copy of such regulations.

### 3 COVENANTS

- (a) *Negative Pledge*: So long as any of the Bonds remains outstanding, the Bank shall not create or permit to subsist any Security Interest on any of its present or future assets or revenues to secure the repayment of, or any guarantee or indemnity in respect of, any Public External Indebtedness unless the Bonds are secured by such Security Interest *pari passu* with such other Public External Indebtedness.

This provision, however, will not apply to any (i) Security Interest on any property or asset existing at the time of acquisition of such property or asset or to secure the payment of all or any part of the purchase price or construction cost thereof or to secure any indebtedness incurred prior to, or at the time of, such acquisition or the completion of construction of such property or asset for the purpose of financing all or any part of the purchase price or construction cost thereof or (ii) lien arising by operation of law.

- (b) *Post-issue Notifications and Filings*: The Bank undertakes to complete all such post-issue notifications and filings with the competent authorities in the PRC (including, as applicable, the National Development and Reform Commission of the PRC, the People's Bank of China and the State Administration of Foreign Exchange of the PRC) within the prescribed timeframes in accordance with the laws, regulations and rules in the PRC as in force and applicable from time to time. For so long as the Bonds remain outstanding, the Bank shall comply with all applicable laws, regulations and rules in the PRC.

In these Conditions:

“**Hong Kong**” means the Hong Kong Special Administrative Region of the People's Republic of China;

“**Macau**” means the Macau Special Administrative Region of the People's Republic of China;

“**person**” means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

“**PRC**” or “**China**” means the People's Republic of China excluding Hong Kong, Macau and Taiwan;

“**Public External Indebtedness**” means any indebtedness of the Bank for money borrowed (including indebtedness represented by the bonds, notes, debentures or other similar instruments) or any guarantee by the Bank of indebtedness for money borrowed which, in either case, (i) has an original maturity in excess of one year and (ii) is, or is capable of being, quoted, listed or traded on any stock exchange or over-the-counter or other similar securities market outside the PRC (without regard, however, to whether or not such instruments are sold through public offerings or private placements); *provided* that public external indebtedness shall not include any such indebtedness for borrowed money owed to any financial institution in the PRC; and

“**Security Interest**” means any mortgage, charge, pledge, lien or other security interest including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction.

## 4 INTEREST

- (a) *Accrual of interest and payments:* The Bonds bear interest from (and including) 6 November 2019 (the “**Issue Date**”), at the Rate of Interest (as defined below) payable semi-annually in arrear on 6 May and 6 November in each year (each, an “**Interest Payment Date**”) commencing on 6 May 2020; *provided that* if any Interest Payment Date would otherwise fall on a day which is not a business day, it shall be postponed to the next day which is a business day unless it would thereby fall into the next calendar month in which event it shall be brought forward to the immediately preceding business day. Each period beginning on (and including) the Issue Date or any Interest Payment Date and ending on (and excluding) the next Interest Payment Date is herein referred to as an “**Interest Period**”.
- (b) *Cessation of interest:* Each Bond will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which case it will continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Bond up to that day are received by or on behalf of the relevant Bondholder and (ii) the day which is seven days after the Fiscal Agent has notified the Bondholders that it has received all sums due in respect of the Bonds up to such seventh day (except to the extent that there is any subsequent default in payment).
- (c) *Rate of Interest:* The Bonds bear interest at 3.40 per cent. per annum and references to “**Rate of Interest**” in these Conditions shall be to the rate of interest applicable to the Bonds in question.
- (d) *Calculations of Interest:* Interest in respect of any Bonds shall be calculated per Calculation Amount. The amount of interest payable per Calculation Amount (the “**Interest Amount**”) shall be calculated by multiplying the Rate of Interest, the Calculation Amount and the actual number of days elapsed in such Interest Period and then dividing the product thereof by 365, and rounding the resulting figure to the nearest CNY0.01 (CNY0.005 being rounded upwards), where “**Calculation Amount**” means CNY10,000. The Fiscal Agent shall notify the Bank, the Paying Agents and the Bondholders, of the Interest Amount payable in respect of the Bonds on the business day prior to the relevant Interest Payment Date for each Interest Period.

In this Condition:

“**business day**” means any day (other than a Saturday and a Sunday) on which the CMU is operating and if on that day a payment is to be made, commercial banks in Hong Kong and Beijing in the PRC are generally open for business and settlement of Renminbi payment.

## 5 REDEMPTION AND PURCHASE

- (a) *Scheduled redemption:* Unless previously redeemed, or purchased and cancelled, the Bonds will be redeemed at their principal amount on the Interest Payment Date falling on, or nearest to, 6 November 2024.

(b) *Redemption for tax reasons:* The Bonds may be redeemed at the option of the Bank in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Bondholders (which notice shall be irrevocable) at their principal amount, together with interest accrued to the date fixed for redemption, if:

(i) the Bank has or will become obliged to pay Additional Amounts as provided or referred to in Condition 7 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of the PRC or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after 30 October 2019; and

(ii) such obligation cannot be avoided by the Bank taking reasonable measures available to it;

*provided, however, that* no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Bank would be obliged to pay such Additional Amounts if a payment in respect of the Bonds were then due.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Bank shall deliver to the Fiscal Agent:

(A) a certificate signed by an authorised representative of the Bank stating that the Bank is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Bank so to redeem have occurred; and

(B) an opinion of independent legal advisers of recognised standing to the effect that the Bank has or will become obliged to pay such Additional Amounts as a result of such change or amendment.

Upon the expiry of any such notice as is referred to in this Condition 5(b), the Bank shall be bound to redeem the Bonds in accordance with this Condition 5(b).

(c) *Notice of redemption:* All Bonds in respect of which any notice of redemption is given under this Condition 5 (*Redemption and Purchase*) shall be redeemed on the date specified in such notice in accordance with this Condition 5 (*Redemption and Purchase*).

(d) *No Other Redemption:* the Bank shall not be entitled to redeem the Bonds otherwise than as provided in Condition 5(a) (*Scheduled redemption*) to Condition 5(b) (*Redemption for tax reasons*) above.

(e) *Purchase:* Subject to applicable laws and regulations, the Bank may at any time purchase Bonds in the open market or otherwise and at any price. Any Bonds purchased by the Bank may, at their discretion, be held, resold or surrendered to the Fiscal Agent for cancellation.

(f) *Cancellation:* All Bonds redeemed by the Bank shall be cancelled and may not be reissued or resold.



## 6 PAYMENTS

- (a) *Principal*: Payments of principal shall (subject as provided below) be made in Renminbi only by transfer to a Renminbi account maintained by the payee with, a bank in Hong Kong and (in the case of redemption) (*provided that* payment is made in full) upon surrender of the relevant Bond Certificates at the Specified Office of any Paying Agent.
- (b) *Interest*: Payments of interest shall (subject as provided below) be made in Renminbi only by transfer to a Renminbi account maintained by the payee with, a bank in Hong Kong and (in the case of interest payable on redemption) (*provided that* payment is made in full) upon surrender of the relevant Bond Certificates at the Specified Office of any Paying Agent.

*Payments of principal and interest in respect of the Bonds represented by the Global Bond Certificate will (subject as provided below) be made in Renminbi by transfer to a Settlement Account in accordance with the rules and procedures of the Operator in the manner specified below and otherwise in the manner specified in the Global Bond Certificate, against presentation or surrender, as the case may be, of the Global Bond Certificate during normal business hours, at the Specified Office of any Paying Agent.*

*A record of each such payment of principal will be made on the Global Bond Certificate by any Paying Agent and of each such payment of interest either on the Global Bond Certificate or in the records of any Paying Agent and such record shall be prima facie evidence that the payment in question has been made.*

*For the purpose of this Condition, “Settlement Account” means, in relation to a payee which is a licensed bank, the account maintained by that payee with the Operator through which its own clearing balance is settled or, in relation to a payee which is not a licensed bank, the account maintained by its designated correspondent bank with the Operator for the purpose of settling, inter alia, interbank payments.*

- (c) *Payments Subject to Fiscal Laws*: All payments in respect of the Bonds are subject in all cases to (i) any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 7 (*Taxation*) and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the “**Code**”) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 7 (*Taxation*)) any law implementing an intergovernmental approach thereto. No commissions or expenses shall be charged to the Bondholders in respect of such payments.
- (d) *Payments on business days*: Payment instructions (for value the due date, or, if the due date is not a business day, for value the next succeeding business day) will be initiated (i) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Bond Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Holder of a Bond shall not be entitled to any interest or other payment in



respect of any delay in payment resulting from the due date for a payment not being a business day. In this paragraph, “**business day**” means any day on which commercial banks in Hong Kong settle Renminbi payments and, in the case of surrender (or, in the case of part payment only, endorsement) of a Bond Certificate, in the place in which the Bond Certificate is surrendered (or, as the case may be, endorsed).

- (e) *Partial Payments*: If a Paying Agent makes a partial payment in respect of any Bond, the Bank shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Bond Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Bond Certificate.
- (f) *Record date*: Each payment in respect of a Bond will be made to the person shown as the Holder in the Register at the opening of business in the place of the Registrar’s Specified Office on the tenth day before the due date for such payment (the “**Record Date**”).

*For so long as any of the Bonds are represented by the Global Bond Certificate, payments of interest or principal will be made to the persons for whose account a relevant interest in the Global Bond Certificate is credited as being held by the Operator at the relevant time, as notified to the Fiscal Agent by the Operator in a relevant CMU instrument position report (as defined in the rules of the CMU) or in any other relevant notification by the Operator. Any payments by the CMU participants to indirect participants will be governed by arrangements agreed between the CMU participants and the indirect participants and will continue to depend on the inter-bank clearing system and traditional payment methods. Such payments will be the sole responsibility of such CMU participants.*

## **7 TAXATION**

All payments of principal and/or interest in respect of the Bonds will be made free and clear of, and without deduction or withholding for or on account of any present or future taxes, duties, assessment or governmental charges of whatever nature imposed or levied by or on behalf of the PRC or by or within any of its political subdivisions or authorities having power to tax (a “**PRC Tax**”), unless deduction or withholding of such PRC Tax is compelled by law. Where such withholding or deduction is made by the Bank within the PRC at the rate applicable on 30 October 2019 (the “**Applicable Rate**”), the Bank shall pay such additional amounts as will result in receipt by the Bondholders of such amounts after such withholding or deduction as would have been received by them had no such withholding or deduction been required.

In the event that the Bank is required to make a withholding or deduction by or within the PRC in excess of the Applicable Rate, the Bank shall pay such additional amounts (the “**Additional Amounts**”) as will result in receipt by the Bondholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, except that no such Additional Amounts shall be payable in respect of any Bond:

- (a) held by a Holder who is subject to such PRC Tax in respect of such Bond by reason of his being connected with the PRC (or any of its political subdivisions) other than merely by holding such Bond or receiving principal or interest in respect of such Bond; or

- (b) held by a Holder who would not be liable for or subject to such withholding or deduction by making a declaration of identity, non-residence or other similar claim for exemption to the relevant tax authority if, after having been requested to make such a declaration or claim, such holder fails to do so; or
- (c) where (in the case of a payment of principal or interest on redemption) the relevant Bond Certificate is surrendered for payment more than 30 days after the Relevant Date except to the extent that the relevant Holder would have been entitled to such additional amounts if it had surrendered the relevant Bond Certificate on the last day of such period of 30 days.

In these Conditions, “**Relevant Date**”, in relation to any payment due on a Bond, means whichever is the later of (i) the date on which the payment in question first becomes due and (ii) if the full amount payable has not been received in Hong Kong by the Fiscal Agent on or prior to such due date, the date on which the full amount having been so received and notice to that effect has been given to the Bondholders in accordance with Condition 14 (*Notices*).

The obligation of the Bank to pay additional amounts in respect of taxes, duties, assessments and other governmental charges shall not apply to (a) any estate, inheritance, gift, sales, transfer, personal property or any similar tax, duty, assessment or other governmental charge or (b) any tax, duty, assessment or other governmental charge which is payable otherwise than by deduction or withholding from payments of principal of or interest on the Bonds; *provided* the Bank shall pay all stamp or other taxes, duties, assessments or other governmental charges, if any, which may be imposed by the PRC or any PRC political subdivision or taxing authority, with respect to the Fiscal Agency Agreement or as a consequence of the issue of the Bonds.

Any reference in these Conditions to principal or interest shall be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under this Condition 7 (*Taxation*).

## 8 EVENTS OF DEFAULT

If any of the following events (each, an “**Event of Default**”) occurs and is continuing:

- (a) *Non-payment*: failure by the Bank to pay any amount of principal or interest in respect of the Bonds on the due date for payment thereof and such default continues for 30 days or more; or
- (b) *Breach of other obligations*: default by the Bank in the performance or observance of any of its other obligations under or in respect of the Bonds or the Fiscal Agency Agreement or the Deed of Covenant and such default remains unremedied for 60 days following receipt by the Bank of written notice of such default (with a copy to the Fiscal Agent), by holders of an aggregate principal amount of not less than 10 per cent. of the Outstanding (as defined in Condition 12(d) (“*Outstanding*” *Defined*)) Bonds, to remedy such failure; or
- (c) *Cross-default*: failure by the Bank to make any payment when due of principal or interest in excess of U.S.\$100,000,000 (or its equivalent in any other currency or currencies) (whether upon maturity, acceleration or otherwise) on or in connection with Public External Indebtedness (other than that represented by the Bonds) or guarantees given by

the Bank in respect of Public External Indebtedness of others, and such failure by the Bank to make payment or to validly reschedule the payment (with the consent of the persons to which such Public External Indebtedness is owed) of such Public External Indebtedness continues for 30 days or more after the expiry of any applicable grace period following the date on which such payment became due; or

- (d) *Dissolution, Merger, etc.*: an order is issued or any other action is taken by appropriate authorities of or in the PRC for the Bank's dissolution or merger or consolidation (except where the Bank is the continuing entity) or for the transfer or assignment of the whole or a material part of the Bank's assets except, in either case, where all the Bank's obligations under the Bonds then Outstanding are legally assumed by another agency designated by the State Council of the PRC; *provided* that (i) such agency is a solvent financial institution organised and existing under the laws of the PRC, (ii) such agency is controlled, directly or indirectly, by the PRC, (iii) such agency assumes in writing all of the Bank's obligations under the Bonds, and (iv) immediately after giving effect to such transaction no Event of Default or event or condition that, with the giving of notice or the lapse of time or both, would become an event of default has occurred and is continuing; or
- (e) *No liquidity support*: save where the government of the PRC shall guarantee or otherwise assume the indebtedness and all of the Bank's obligations evidenced by the Bonds and the Fiscal Agency Agreement, (i) the People's Bank of China (or the successor central bank of the PRC) ceases or fails to provide the liquidity support stipulated in the Notification of the People's Bank of China dated 20 December 2004 (the "**PBOC Document**") as in effect on the date of issue of the Bonds or (ii) the PBOC Document (1) is modified in a manner which prejudices the rights of the Bondholders or (2) ceases to be valid or effective unless it is replaced by such enactment or legislation which is not prejudicial to the rights of Bondholders,

then each Bondholder may declare the principal of the Bonds to be due and payable immediately by written demand given to the Bank and the Fiscal Agent at the Specified Office of the Fiscal Agent, unless prior to receipt of such demand by the Fiscal Agent, all such defaults have been cured. The Bank shall notify Bondholders and the Fiscal Agent promptly upon becoming aware of the occurrence of any Event of Default, but will not be obligated to furnish any periodic evidence as to the absence of defaults.

## 9 PRESCRIPTION

Claims for principal and interest on redemption shall become void unless the relevant Bond Certificates are surrendered for payment within ten years in the case of principal and six years in the case of interest of the appropriate Relevant Date.

## 10 REPLACEMENT OF BOND CERTIFICATES

If any Bond Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Registrar, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Bank may reasonably require. Mutilated or defaced Bond Certificates must be surrendered before replacements will be issued.

## 11 FISCAL AGENT AND AGENTS

The Fiscal Agency Agreement contains provisions relating to the obligations and duties of the Fiscal Agent and for the indemnification of the Fiscal Agent and for its relief from responsibility for actions that it takes. The Fiscal Agent is entitled to enter into business transactions with the Bank without accounting for any profit resulting therefrom.

In acting under the Fiscal Agency Agreement and in connection with the Bonds, the Agents act solely as agents of the Bank and (to the extent provided therein) the Fiscal Agent does not assume any obligations towards or relationship of agency or trust for or with any of the Bondholders, except that the monies paid to and held by the Fiscal Agent as payment of principal of or interest on the bonds will be received and held by the Fiscal Agent in trust for the Bondholders.

The initial Agents and their initial Specified Offices are listed below. The Bank reserves the right (with the prior approval of the Fiscal Agent) at any time to vary or terminate the appointment of any Agent and to appoint a successor registrar, fiscal agent, CMU lodging agent or additional or successor paying agents and transfer agents; provided, however, that the Bank shall at all times maintain a paying agent and a transfer agent in Hong Kong. Notice of any change in any of the Agents or in their Specified Offices shall promptly be given to the Bondholders.

## 12 MEETINGS, MODIFICATION OF CONDITIONS AND WAIVER

- (a) *Calling of Meeting, Notice and Quorum*: the Bank may call a meeting of holders of Bonds at any time and from time to time to make, give or take any request, demand, authorisation, direction, notice, consent, waiver or other action provided by the Fiscal Agency Agreement or the Bonds to be made, given or taken by holders of the Bonds or to modify, amend or supplement the terms and conditions of the Bonds. Any such meeting shall be held at such time and at such place in Hong Kong as the Bank shall determine and as shall be specified in a notice of such a meeting that shall be furnished to the holders of Bonds at least 30 days and not more than 60 days prior to the date fixed for the meeting (the “**Meeting Notice Period**”). In addition, the Fiscal Agent may at any time and from time to time call a meeting of holders of the Bonds, for any such purpose, to be held at such time and at such place in Hong Kong as the Fiscal Agent shall determine, after consultation with the Bank, and as shall be specified in a notice of such meeting that shall be furnished to holders of the Bonds within the Meeting Notice Period. In case at any time the holders of at least 10 per cent. in aggregate principal amount of the Outstanding Bonds shall have requested the Fiscal Agent to call a meeting of the Bonds, for any such purpose as specified above, by written request setting forth in reasonable detail the action proposed to be taken at the meeting, the Fiscal Agent shall call such meeting for such purposes by giving notice thereof. Such notice shall be given within the Meeting Notice Period. Notice of every meeting of holders of Bonds shall set forth the time and place of the meeting and in general terms the action proposed to be taken at such meeting. In the case of any meeting to be reconvened after adjournment for lack of a quorum, notice of such meeting shall be given not less than 10 nor more than 15 days prior to the date fixed for such meeting.

To be entitled to vote at any meeting of the Bondholders, a person shall be a holder of outstanding Bonds or a person duly appointed by an instrument in writing as proxy for such a holder. The persons entitled to vote a majority of the aggregate principal amount of the outstanding Bonds shall, other than in respect of a Reserved Matter (as defined below), constitute a quorum. At the reconvening of any meeting adjourned for a lack of a quorum, the persons entitled to vote 25 per cent. of the aggregate principal amount of the outstanding Bonds shall constitute the quorum for the taking of any action set forth in the notice of the original meeting. For the purposes of a meeting of holders of Bonds that proposes to discuss a Reserved Matter, the persons entitled to vote 75 per cent. of the aggregate principal amount of the outstanding Bonds shall constitute a quorum. In the absence of a quorum, a meeting shall be adjourned for a period of at least 20 days. The Fiscal Agent, after consultation with the Bank, may make such reasonable and customary regulations consistent herewith as it shall deem advisable for any meeting of holders of the Bonds, including attendance at such meeting and voting, the proof of the appointment of proxies in respect of holders of Bonds, determining the validity of any voting certificates or block voting instructions, the adjournment and chairmanship of such meeting, the appointment and duties of inspectors of votes, the submission and examination of proxies, certificates and other evidence of the right to vote, and such other matters concerning the conduct of the meeting as it shall deem appropriate.

- (b) *Voting and Consents*: If sanctioned by an Extraordinary Resolution, the Bank and the Fiscal Agent may modify, amend or supplement the terms of the Bonds in any way, and the holders of the Bonds may make, take or give any request, demand, authorisation, direction, notice, consent, waiver (including waiver of future compliance or past default) or other action given or taken by holders of the Bonds; *provided, however*, that the following matters (“**Reserved Matters**” and each, a “**Reserved Matter**”) shall require (i) the affirmative vote, in person or by proxy thereunto duly authorised in writing, of the holders of not less than 75 per cent. of the aggregate principal amount of the Bonds then Outstanding represented at such meeting, or (ii) the written consent of the holders of not less than 75 per cent. of the aggregate principal amount of the Bonds then Outstanding: (A) change the due dates for the payment of principal of, or any instalment of interest on, or any other amount in respect of, any Bond; (B) reduce the principal amount of any Bond; (C) reduce the portion of the principal amount that is payable in the event of an acceleration of the maturity of any Bond; (D) reduce the interest rate on any Bond; (E) change the currency or places in which payment of interest or principal in respect of the Bonds is payable; (F) permit early redemption of the Bonds or, if early redemption is already permitted, set a redemption date earlier than the date previously specified or the redemption price; (G) reduce the above-stated percentage of the principal amount of outstanding Bonds the vote or consent of the holders of which is necessary to modify, amend or supplement the terms and conditions of the Bonds or to make, take or give any request, demand, authorisation, direction, notice, consent, waiver or other action provided hereby or thereby to be made, taken or given; (H) change the obligation of the Bank to pay additional amounts as provided in Condition 7 (*Taxation*); or (I) change the status of the Bonds as described in Condition 1(b) (*Status*). In these Conditions, “**Extraordinary Resolution**” means (a) in respect of a matter other than a Reserved Matter a resolution passed at a meeting of the Bondholders, duly convened and held in accordance with these Conditions, by a majority of not less than 66.67 per cent. of the aggregate principal amount of Bonds then Outstanding represented at such meeting; and (b) in respect of a Reserved Matter a resolution passed at a meeting of the Bondholders, duly convened and held in accordance with these Conditions, by a majority of not less than 75 per cent. of the aggregate principal amount of Bonds then Outstanding represented at such meeting.

In addition, and notwithstanding the foregoing, at any meeting of holders of Bonds duly called and held as specified above, upon the affirmative vote, in person or by proxy hereunto duly authorised in writing, of the holders of not less than 66.67 per cent. of aggregate principal amount of the Bonds then Outstanding represented at such meeting, or by the written consent of the holders of not less than 66.67 per cent. of aggregate principal amount of the Bonds then Outstanding, holders of Bonds may rescind a declaration of the acceleration of the principal amount thereof if the Event or Events of Default giving rise to the declaration have been cured or remedied and provided that no other Event of Default has occurred and is continuing.

The Bank and the Fiscal Agent may, without the vote or consent of any holder of Bonds, amend the Bonds for the purpose of (i) adding to the covenants of the Bank for the benefit of the holders of Bonds, or (ii) surrendering any right or power conferred upon the Bank in respect of the Bonds, or (iii) providing security or collateral for the Bonds, or (iv) curing any ambiguity in any provision, or curing, correcting or supplementing any defective provision, contained herein or in the Bonds in a manner which does not adversely affect the interest of any holder of Bonds, or (v) effecting any amendment which the Bank and the Fiscal Agent mutually deem necessary or desirable so long as any such amendment is not inconsistent with the Bonds and does not, and will not, adversely affect the rights or interests of any holder of Bonds.

It shall not be necessary for the vote or consent of the holders of the Bonds to approve the particular form of any proposed modification, amendment, supplement, request, demand, authorisation, direction, notice, consent, waiver or other action, but it shall be sufficient if such vote or consent shall approve the general substance thereof.

- (c) *Binding Nature of Amendments, Notices, Notations, etc.:* Any instrument given by or on behalf of any holder of a Bond in connection with any consent to or vote for any such modification, amendment, supplement, request, demand, authorisation, direction, notice, consent, waiver or other action shall be irrevocable once given and shall be conclusive and binding on all subsequent holders of such Bond or any Bond issued directly or indirectly in exchange or substitution therefor or in lieu thereof. Any such modification, amendment, supplement, request, demand, authorisation, direction, notice, consent, waiver or other action taken, made or given in accordance with Condition 12(b) (*Voting and Consents*) hereof shall be conclusive and binding on all holders of Bonds, whether or not they have given such consent or cast such vote or were present at any meeting, and whether or not notation of such modification, amendment, supplement, request, demand, authorisation, direction, notice, consent, waiver or other action is made upon the Bonds. Notice of any modification or amendment of, supplement to, or request, demand, authorisation, direction, notice, consent, waiver or other action with respect to the Bonds or the Fiscal Agency Agreement (other than for purposes of curing any ambiguity or of curing, correcting or supplementing any defective provision hereof or thereof) shall be given to such holder of Bonds affected thereby, in all cases as provided in the relevant Bonds.

Bonds authenticated and delivered after the effectiveness of any such modification, amendment, supplement, request, demand, authorisation, direction, notice, consent, waiver or other action may bear a notation in the form approved by the Fiscal Agent and the Bank as to any matter provided for in such modification, amendment, supplement, request,



demand, authorisation, direction, notice, consent, waiver or other action. New Bonds modified to conform, in the opinion of the Fiscal Agent and the Bank, to any such modification, amendment, supplement, request, demand, authorisation, direction, notice, consent, waiver or other action taken, made or given in accordance with Condition 12(b) (*Voting and Consents*) hereof may be prepared by the Bank authenticated by the Fiscal Agent and delivered in exchange for outstanding Bonds.

(d) “*Outstanding*” *Defined*: For purposes of the provisions of the Bonds, any Bond authenticated and delivered pursuant to the Fiscal Agency Agreement shall, as of any date of determination, be deemed to be “**Outstanding**”, *except*:

- (i) Bonds duly cancelled by the Fiscal Agent or duly delivered to the Fiscal Agent for cancellation;
- (ii) Bonds which have become due and payable at maturity or otherwise, and with respect to which, in each case, monies sufficient to pay the principal thereof and any interest thereon shall have been paid or duly provided for; or
- (iii) Bonds in lieu of or in substitution for which other Bonds shall have been authenticated and delivered pursuant to the Fiscal Agency Agreement,

*provided, however*, that in determining whether the holders of the requisite principal amount of outstanding Bonds are present at a meeting of holders of the Bonds for quorum purposes or have consented to or voted in favour of any request, demand, authorisation, direction, notice, consent, waiver, amendment, modification or supplement hereunder, or have delivered any notice in relation to the Bonds, Bonds owned, directly or indirectly, by the Bank will be disregarded and deemed not to be Outstanding, except that in determining whether the Fiscal Agent shall be protected in relying upon any such request, demand, authorisation, direction, notice, consent, waiver, amendment, modification, or supplement, or any such notice from holders, only Bonds that the Fiscal Agent knows to be so owned shall be so disregarded.

### 13 FURTHER ISSUES

The Bank may from time to time, without the consent of Bondholders, create and issue further bonds having the same terms and conditions as the Bonds in all respects, except for the issue date, issue price and the first payment of interest thereon. Additional bonds issued in this manner will be consolidated with and will form a single series with the Bonds.

### 14 NOTICES

Notices to the Bondholders will be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail (at the Bank’s expense) at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing.



*Until such time as any Bond Certificates are issued and so long as the Global Bond Certificate is held in its entirety on behalf of the Operator, any notice to the Bondholders shall be validly given by the delivery of the relevant notice to the accountholder shown in a CMU instrument position report issued by the Operator on the business day preceding the date of despatch of such notice as holding interests in the Global Bond Certificate. Any such notice shall be deemed to have been given to the Bondholders on the second business day on which such notice is delivered to the persons shown in the CMU instrument position report.*

## **15 GOVERNING LAW AND ARBITRATION**

- (a) *Governing Law*: The Bonds and any non-contractual obligations arising out of or in connection with the Bonds are governed by English law.
- (b) *Arbitration*:
  - (i) Any dispute, controversy or claim arising out of or relating to the Bonds, including any question regarding the breach, termination, existence or invalidity thereof, shall be settled by arbitration administered by the Hong Kong International Arbitration Centre (the “**HKIAC**”) in accordance with the HKIAC Administered Arbitration Rules then in force when the Notice of Arbitration is submitted in accordance with such Rules (the “**Rules**”) and as may be amended by the rest of this Condition.
  - (ii) The seat of arbitration shall be in Hong Kong and the language of the arbitration shall be English. The governing law of this arbitration agreement shall be English law.
  - (iii) The arbitral tribunal (the “**Tribunal**”) shall consist of three arbitrators to be appointed in accordance with the Rules.
  - (iv) The parties agree that any provisions in the Rules relating to applications for emergency relief, consolidation of arbitrations and/or single arbitrations under multiple contracts shall apply to any arbitral proceedings commenced pursuant to this Condition and under any of the subscription agreement dated 30 October 2019 between the Bank and the joint lead managers set out therein, the Fiscal Agency Agreement and the Deed of Covenant.
  - (v) The award of the Tribunal shall be final and binding among the parties regarding any claims, counterclaims, issues, or accountings presented to the Tribunal. To the fullest extent allowed by applicable laws, each party hereby waives any right to appeal such award.
  - (vi) By agreeing to arbitration, the parties shall not be prevented from seeking from any court of competent jurisdiction conservatory or interim relief including a pre-arbitral injunction, pre-arbitral attachment or other order in aid of arbitration proceedings and to enforce any award.
  - (vii) For the avoidance of doubt, the parties agree that this Condition 15(b) is, and is to be treated as, an international arbitration agreement, and any dispute, controversy or claim arising out of or relating to the Fiscal Agency Agreement, the Deed of Covenant and the Bonds, including any question regarding the breach, termination, existence or invalidity thereof, is to be arbitrated as an international arbitration in accordance with this Condition 15(b).

- (c) *Cost of arbitration:* The costs of the arbitration shall be allocated between the relevant parties to the arbitration by the Tribunal and shall be set forth in the arbitral award in accordance with the Rules.
- (d) *Waiver of Immunity:* In respect of any proceedings described above, the Bank shall irrevocably consent to the giving of any relief and the issue of any process in connection with such proceedings, including, without limitation, the making, enforcement or execution (against any of the assets of the Bank whatsoever, irrespective of their uses or intended uses), of any order or judgment made or given, in any such proceedings, and to the extent that the Bank may in any jurisdiction claim for itself or its assets, or have attributed to itself or its assets, any right of immunity on the grounds of sovereignty or otherwise from any legal action, suit, proceeding, execution, attachment or other legal process, the Bank shall irrevocably agree not to claim and will waive such immunity to the fullest extent permitted by law.

## **TERMS AND CONDITIONS OF THE CNY GREEN BONDS**

*The terms and conditions of the CNY Green Bonds will be identical to those under “Terms and Conditions of the CNY Bonds” except as set out below. References to “Bonds” shall be construed as references to the CNY Green Bonds and references to “Deed of Covenant” shall be construed as references to the deed of covenant to be dated on or about 6 November 2019 (as amended or supplemented from time to time) entered into by the Bank in respect of the CNY Green Bonds.*

1. The principal amount of the Bonds shall be CNY2,500,000,000.
2. The rate of interest shall be 3.18 per cent. per annum.
3. Unless previously redeemed, or purchased and cancelled, the Bonds will be redeemed at their principal amount on the Interest Payment Date falling on, or nearest to, 6 November 2022.

## **SUMMARY OF PROVISIONS RELATING TO THE BONDS WHILE IN GLOBAL FORM**

Each Global Bond Certificate contains provisions which apply to the Bonds of the relevant series while they are in global form, some of which modify the effect of the Terms and Conditions of the Bonds of the relevant series set out in this Offering Circular. The following is a summary of certain of those provisions.

Each series of the Bonds will be represented by a Global Bond Certificate which will be registered in the name of a nominee of, and deposited with, a sub-custodian for CMU.

Under each Global Bond Certificate, the Bank, for value received, will promise to pay the amount payable upon redemption under the Terms and Conditions of the Bonds of the relevant series represented by such Global Bond Certificate to the Bondholders in such circumstances as the same may become payable in accordance with the Terms and Conditions of the Bonds of the relevant series.

Each Global Bond Certificate will become exchangeable in whole, but not in part, for individual Bond Certificates if (a) CMU is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) any of the circumstances described in Condition 8 (*Events of Default*) of the Terms and Conditions of the Bonds occurs.

Whenever each Global Bond Certificate is to be exchanged for Individual Bond Certificates, such Individual Bond Certificates will be issued in an aggregate principal amount equal to the principal amount of such Global Bond Certificate within five business days of the delivery, by or on behalf of the registered holders of such Global Bond Certificate or the CMU, to the Registrar of such information as is required to complete and deliver such Individual Bond Certificates (including, without limitation, the names and addresses of the persons in whose names the Individual Bond Certificates are to be registered and the principal amount of each such person's holding) against the surrender of such Global Bond Certificate at the Specified Office of the Registrar. Such exchange will be effected in accordance with the provisions of the Fiscal Agency Agreement and the regulations concerning the transfer and registration of Bonds scheduled thereto and, in particular, shall be effected without charge to any Bondholder, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

If:

- (1) Individual Bond Certificates have not been issued and delivered by 5.00 p.m. (local time) on the thirtieth day after the date on which the same are due to be issued and delivered in accordance with the terms of the relevant Global Bond Certificate; or
- (2) any of the Bonds evidenced by the relevant Global Bond Certificate has become due and payable in accordance with the Terms and Conditions of the Bonds or the date for final redemption of the Bonds has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the holders of such Global Bond Certificate on the due date for payment in accordance with the terms of such Global Bond Certificate,

then, at 5.00 p.m. (local time) on such thirtieth day (in the case of (a) above) or at 5.00 p.m. (local time) on such due date (in the case of (b) above) each person shown in the records of CMU (or any other relevant clearing system) as being entitled to interest in the Bonds (each an “**Accountholder**”) shall acquire under the respective deed of covenant dated 6 November 2019 with respect to the relevant series of the Bonds (each a “**Deed of Covenant**” and together, the “**Deeds of Covenant**”) rights of enforcement against the Bank (“**Direct Rights**”) to compel the Bank to perform its obligations to the Holder of the respective Global Bond Certificate in respect of the relevant series of the Bonds represented by such Global Bond Certificate, including the obligation of the Bank to make all payments when due at any time in respect of the Bonds in accordance with the Terms and Conditions of the Bonds as if the Bonds had (where required by the Terms and Conditions of the Bonds) been duly presented and surrendered on the due date in accordance with the Terms and Conditions of the Bonds.

The Direct Rights shall be without prejudice to the rights which the Holder of a Global Bond Certificate may have under such Global Bond Certificate or otherwise. Payment to a Holder of the Global Bond Certificate in respect of any Bonds represented by such Global Bond Certificate shall constitute a discharge of the Bank’s obligations under the Bonds and the relevant Deed of Covenant to the extent of any such payment and nothing in the relevant Deed of Covenant shall oblige the Bank to make any payment under the Bonds of the relevant series to or to the order of any person other than the Holder of the relevant Global Bond Certificate.

As a condition of any exercise of Direct Rights by an Accountholder, such Accountholder shall, as soon as practicable, give notice of such exercise to the Bondholders in the manner provided for in the Terms and Conditions of the Bonds or the relevant Global Bond Certificates for notices to be given by the Bank to Bondholders.

In addition, each Global Bond Certificate will contain provisions that modify the Terms and Conditions of the Bonds as they apply to the relevant series of the Bonds evidenced by such Global Bond Certificate. The following is a summary of certain of those provisions:

*Payment Record Date:* For so long as any of the Bonds are represented by a Global Bond Certificate, payments of interest or principal will be made to the persons for whose account a relevant interest in such Global Bond Certificate is credited as being held by the Operator at the relevant time, as notified to the Fiscal Agent by the Operator in a relevant CMU instrument position report (as defined in the rules of the CMU) or in any other relevant notification by the Operator. Any payments by the CMU participants to indirect participants will be governed by arrangements agreed between the CMU participants and the indirect participants and will continue to depend on the inter-bank clearing system and traditional payment methods. Such payments will be the sole responsibility of such CMU participants and the Issuer shall have no obligation or liability in connection therewith.

So long as the Bonds are represented by a Global Bond Certificate and such Global Bond Certificate is held on behalf of a clearing system, the Bank has promised, *inter alia*, to pay interest in respect of such Bonds in arrear at the rates, on the dates for payment, and in accordance with the method of calculation provided for in the Terms and Conditions of the Bonds, save that the calculation is made in respect of the total aggregate amount of the Bonds represented by such Global Bond Certificate.

*Notices:* Until such time as any Bond Certificates are issued and so long as each of the Global Bond Certificates is held in its entirety on behalf of the Operator, any notice to the Bondholders shall be validly given by the delivery of the relevant notice to the accountholder shown in a CMU instrument position report issued by the Operator on the business day preceding the date of despatch of such notice as holding interests in such Global Bond Certificate. Any such notice shall be deemed to have been given to the Bondholders on the second business day on which such notice is delivered to the persons shown in the CMU instrument position report.

## DESCRIPTION OF THE BUSINESS

### OVERVIEW

The Bank was incorporated on 19 October 1994 pursuant to the Notice of the State Council on the Establishment of Agricultural Development Bank of China (國務院關於組建中國農業發展銀行的通知) issued on 19 April 1994 by the State Council. It is a policy-oriented statutory financial institution under the direct authority of the State Council, which is the highest institution of the PRC government administration, and the only agricultural policy-oriented bank in the PRC. The Bank was incorporated as the enterprise under ownership by the whole people of the PRC with limited liabilities according the *Law of the People's Republic of China of Industrial Enterprises Owned by the Whole People (2009 Amendment)* (《中華人民共和國全民所有制工業企業法(2009修正)》) and has since been converted into a limited liability company (wholly state-owned).

Pursuant to the relevant documents, the Bank operates on an autonomous basis as an economically independent entity with the goal of preserving its capital. The Bank's business is subject to the supervision and direction of the PBOC and CBIRC.

The Bank was established in accordance with the laws, regulations and policies of the PRC government: to raise funds for agricultural policy credit business; to undertake the agricultural policy credit business specified by the PRC government; to act as an agent for the state treasury to allocate funds to support agriculture; to support the implementation of national policies on the agricultural industry and regional development; and to promote the steady and healthy development of the agricultural industry and rural economy.

In accordance with its articles of association and the instructions and requirements of the State Council, the Bank's current principal businesses mainly include:

- Providing loans for purchase, stockpiling, regulation, and distribution of key agricultural products such as grain, cotton, edible oil, sugar, pork, and chemical fertiliser;
- Providing loans in support of the construction of agricultural and rural infrastructure projects, water conservancy projects and circulation systems;
- Providing loans for projects in support of integrated agricultural development, means of production and agricultural science and technology;
- Providing loans for projects in support of renovation of shack settlements and construction of concentrated housing for farmers;
- Providing loans in support of poverty alleviation through relocation, infrastructure in poor areas, development of special industries and special poverty alleviation projects;
- Providing loans in support of town construction, land purchase and stockpiling in counties;
- Providing loans in support of small agricultural enterprises and leading industrial enterprises;
- Organizing and participating in syndicated loans, bill acceptance and discounting and other credit businesses;



- Absorbing deposits from client enterprises and public institutions within the business scope, public deposits in counties other than residents' savings and fiscal balances;
- Issuing financial bonds, conducting settlement, foreign exchange settlement and sale, and foreign exchange trading for customers;
- Opening special accounts for fiscal funds for assisting agriculture as required and disbursing fiscal agriculture-related subsidies;
- Trading, acting as an agent to trade and underwriting bonds;
- Conducting inter-bank borrowing and placement, agency collection and payment, agency insurance, asset securitisation, corporate finance advisory service, and agriculture-related business by way of cooperation with any lease company, agriculture-related guarantee company and agriculture-related investment company or through other methods upon approval; and
- Other services approved by the banking regulatory authority under the State Council.

With particular focus on “Agriculture, Rural Areas and Farmers”, the State Council has adopted a series of agriculture-friendly policies to promote new construction work in rural regions, to modernise agriculture, to increase incomes of farmers, and to promote integration between urban and rural regions. As the only agricultural policy-oriented bank in the PRC under the direct authority of the State Council, the Bank will always implement the national agricultural policies as its top priority and further make full use of its role as a policy bank to exercise nationwide macroeconomic control and promote the development of “Agriculture, Rural Areas and Farmers”.

As at 31 December 2018, the outstanding amount of loans granted by the Bank was CNY5,089.681 billion<sup>1</sup>, representing an increase of 9.31 per cent., or CNY433.641 billion, from CNY4,656.04 billion<sup>2</sup> as at 31 December 2017. As at 31 December 2018, the outstanding amount of bonds issued by the Bank was CNY4,201.489 billion, representing an increase of 10.18 per cent. from 31 December 2017. As at 31 December 2018, the Bank's balance of deposits was CNY1,434.936 billion, representing a decrease of CNY18.027 billion compared to 31 December 2017. As at 31 December 2018, the Bank's financial self-sufficiency rate in relation to those funds (outstanding amount of the bonds plus the amount of each types of deposit of the Bank, including the customers' deposits in the Bank and the Bank's deposits with other financial institutions) (other than the loans from the PBOC) that are raised by the Bank in the capital market and the risks of which are borne solely by the Bank/the aggregate amount of all interest-bearing liabilities was 85.37 per cent., representing a decrease of 3.00 per cent. from 31 December 2017.

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1 Note: The outstanding amount of loans did not take into account the provision deduction factor.

2 Note: The outstanding amount of loans was not deducted from loan loss provision.

As at 31 December 2018, the Bank's outstanding amount of NPL increased by CNY2.8 billion from 31 December 2017 to CNY40.6 billion and the ratio of non-performing loans was 0.80 per cent., representing a decrease of 0.01 per cent. from 31 December 2017. As at 31 December 2018, the outstanding amount of the loan loss provisions was CNY173.197 billion, representing a net increase of CNY24.317 billion; the NPL provision coverage ratio as at 31 December 2018 was 426.25 per cent. representing an increase of 32.57 per cent. from 393.68 per cent. as at 31 December 2017. The cost to income ratio for the year ended 31 December 2018 was 27.01 per cent., representing a decrease of 0.66 per cent. from the year ended 31 December 2017. As at 31 December 2018, the Bank's capital adequacy ratio was 4.22 per cent.

## **CREDIT STRENGTHS**

The Bank believes that it has the following credit strengths:

### **Strong Credit Profile**

As the only agricultural policy-oriented statutory financial institution in the PRC under the direct authority of the State Council, the Bank will always implement the national agricultural policies as its top priority and further make full use of its role as a policy bank to exercise nationwide macroeconomic control and promote the development of "Agriculture, Rural Areas and Farmers". The Bank also aims to develop into a modern policy-oriented bank in the PRC.

The PRC government provides financial support for the business activities of the Bank. According to the Special Decree, the financial support of the PRC government available to the Bank includes: (a) capital contribution by the PRC government, (b) fiscal subsidies from the MOF, and (c) loans in the form of re-lending provided by the PBOC.

In view of its unique policy bank role and link with the PRC government, the Bank enjoys the same recognition in terms of ratings as China's sovereign debt. Please refer to "*– Principal Businesses – Funding Business – Credit Rating*".

### **Unique Position as Sole Agricultural Policy Bank**

As the PRC has the largest population in the world, agriculture plays a key role in the economic development and stability of society in the country. With the Bank's unique position as the sole agricultural policy bank in the PRC, it plays an important role in maintaining national food security, stability of the grain and cotton markets, protecting farmers' interests as well as serving rural revitalisation strategy. This is reflected in the Rural Revitalisation Strategic Plan from 2018 to 2022 released by the PRC government which outlines the major targets for agricultural output over the next five years and No. 1 Central Document issued by the PRC government from 2015 to 2018. In Document No. 1 issued in 2015, the PRC government has specified that the Bank should strengthen its policy function as well as increase lending to construction of agricultural and rural infrastructure including conservancy and roads in poor areas. In No. 1 Central Document issued in 2016, the PRC government has stressed that the Bank should strengthen its medium to long term credit loans in "Agriculture, Rural Areas and Farmers". In No. 1 Central Document issued in 2017, the PRC government has in particular specified that the Bank will improve the risk compensation mechanism and capital supplement system and increase credit support for the acquisition of entities in the diversified food market. In No. 1 Central Document issued in 2018, the PRC government has in particular specified that the Bank will clarify its positioning of responsibilities in rural revitalisation, strengthen innovation in financial services and increase medium to long term credit support for rural revitalisation.

## **Focused Strategy**

The Bank was established in accordance with the laws, regulations and policies of the PRC government: to raise funds for agricultural policy credit business; to undertake the agricultural policy credit business specified by the PRC government; to act as an agent for the state treasury to allocate financial funds to support agriculture; to support the implementation of national policies on the agricultural industry and regional development; and to promote the steady and healthy development of the agricultural industry and rural economy.

In order to achieve the objectives of the Five-Year Plan, the Bank is committed to implementing the national economic and financial policies and “Agriculture, Rural Areas and Farmers” policy; continuing to promote progress while maintaining stability; insisting on high-quality development; focusing on the strategy of serving rural revitalisation and serving agricultural supply-side structural reform; and serving national strategy, macro-control and development of “Agriculture, Rural Areas and Farmers”.

The Bank will continue to develop its international and intermediary businesses, products and services innovation, client development strategies and financial services function.

## **One of the Main Onshore Issuer**

The Bank is one of the largest bond-issuing entities in the PRC domestic market. As at 31 December 2018, the Bank issued financial bonds of 1,105 tranches in total, in an aggregated amount of CNY8.008 trillion. In 2018, the Bank issued financial bonds in an aggregated amount of CNY1.11 trillion, along with a total worth of CNY4.18 trillion of bonds outstanding, making the Bank the third largest issuer in China’s bond market. In addition, all the payments under the bonds issued by the Bank are on schedule, and no breach occurred in respect of the bonds.

## **Important Participant in the Market Construction**

The Bank is one of the important participants in the market construction that has:

- Issued innovative poverty alleviation bonds: In April 2016, the Bank successfully issued China’s first poverty alleviation special financial bonds in the national interbank market;
- Issued “China Bond Agricultural Development Bank of China Bond Index”: In May 2016, the Bank formally issued the first “Agriculture, Rural Areas and Farmers” bond index in China to facilitate the establishment and sales of indexed products. ADBC has established 11 ADBC index funds with an initial amount over CNY75 billion;
- Started the issuance of the green financial bonds: In December 2016, the Bank issued its first green financial bond, with the outstanding amount of CNY35.92 billion and EUR500 million at the end of 2018;
- Issued the first “Bond Connect” financial bonds: In July 2017, in conjunction with the PBOC, the Bank successfully issued first “Bond Connect” bonds totalling CNY16 billion in just 27 days, indicating the “Bond Connect” primary market was opened;

- Opening up the market for counter sales channel of agricultural debts: In July 2017, three tranches of stocks of agricultural bonds entered the counter market for the first time, further enriching the investment choices of the public investors;
- The first issuance of the “Bond Connect” green financial bonds through Shanghai Clearing House, and disclosed on the Luxembourg Stock Exchange: In March 2018, the information of the bond was disclosed on the Luxembourg Stock Exchange; In November 2018, the Bank finished the first single green financial bond issuance under the “Bond Connect”, totalling CNY10 billion, promoting green finance and supporting the green industry;
- The first batch of green debt pre-issuance transactions of the Bank successfully reached: In 23 April 2018, the first batch of green debt pre-issuance transactions of the Bank was successfully reached, and on June 28, the pre-issuance method was adopted again to further promote the integration of the first-and second-tier markets and discover the true price of the market;
- In September 2018, the Bank issued its first tranche of dual currency bond and USD bond. In November 2018, the Bank issued its first tranche of EUR green bond which is included in the Solactive Green Bond Index;
- In November 2018, the Bank issued its first financial bond on Shenzhen Stock Exchange;
- In November 2018, the Bank’s primary market information was disclosed through “Bond Connect” and outstanding bond information was disclosed on the Luxembourg Stock Exchange;
- In April 2019, the Bank signed the “Green Investment Principles for the Belt and Road”, a set of green investment principles jointly developed by the Green Finance Committee of China Society for Finance and Banking and the City of London Green Finance Initiative;
- In May 2019, the Bank issued a one year bond listed on the Hong Kong Stock Exchange which was innovatively structured and offered pursuant to concurrent retail and institutional offerings;
- In May 2019, the Bank issued its first financial bond on the Shanghai Stock Exchange;
- In May 2019, the Bank issued a three-year bond which is listed on five stock exchanges internationally, including the Hong Kong Stock Exchange, the LuxSE, the Frankfurt Stock Exchange, the London Stock Exchange and Chongwa (Macao) Financial Asset Exchange Co., Ltd.;
- In June 2019, the Bank issued a two-year poverty alleviation bonds through the Shanghai Clearing House, proceeds of which will mainly be used to support industrial poverty alleviation; and
- In June 2019, ADBC together with Climate Bonds Initiative (“CBI”) conducted the research of China’s green agricultural standard
- On 3 September 2019, the Bank was the first to issue CNY5 billion of Yangtze River protection financial bonds to global investors.

## Awards

In the recent years, the Bank has obtained the following awards:

- “National Poverty Alleviation Award” issued by the Leading Group for Poverty Alleviation and Development of the State Council for four consecutive years from 2016 to 2019;
- “Top Ten Poverty Alleviation Innovation Model” selected by China Comment (半月談);
- Selected and ranked 8th as “the safest bank in the global 50 emerging market countries in 2018” by the US financial magazine Global Finance;
- “The Best Agricultural, Rural Areas and Farmers Financial Services Bank of the Year” and the “Best Capital Market Opening and Innovation Contribution Agency” Awards in the “2018 China Financial Institutions Gold List” by Financial Times;
- “The Successful Offshore Issuance of the First Euro Green Bonds by the Bank” was selected as “Top 10 News of China’s Capital Markets in 2018” by Financial Times;
- “Best Policy Bank of the Year” awarded by China Banking Industry Development Forum and Bank Comprehensive Evaluation which was held by Sina Finance;
- “Sustainable Development Pratt & Whitney Award” by Caijing Magazine;
- “Bond Connect Excellent Issuer” Awards by Bond Connect Company Limited;
- “Excellent Member and Excellent Issuer of China Bond” and “Excellent Issuer of China Bond Green Bond Index Sample Bond” of 2018 by China Central Depository & Clearing Co., Ltd.;
- “Excellent Issuer (Bank Financial Bond)” and “Innovative Business Promotion Award (Green Bond International Cooperation)” Awards by Shanghai Clearing House;
- “Outstanding Contribution Award” of the 2018 Shenzhen Stock Exchange Bond Market by Shenzhen Stock Exchange;
- “Excellent Bond Connect Issuer of 2018” by Chinamoney; and
- “Professional Financial Institutions Service Awards” and “Professional Bond Issuance Award of Innovation” of 2019 by Hong Kong Commercial Daily, Economic Herald, Hong Kong O2O E-commerce Federation (“HKOEF”) and China Enterprise Reputation & Credibility Association (Overseas).

## **Experienced Management Team Appointed by the State Council**

Pursuant to the Bank's articles of association, the chairman, vice chairman, president and vice-presidents of the Bank are appointed by the State Council. The Bank believes that its management team (comprising of the chairman, Mr. Xie Xuezhi, the vice chairman and president, Mr. Qian Wenhui, the executive director and vice-president, Mr. Lin Li, the vice-president, Mr. He Xing Xiang, the head of the discipline inspection team of the central commission for discipline inspection and the state commission for discipline inspection, Mr. Wang Zhaohe, the vice-president, Mr. Sun Lansheng, the Member of the Party Committee, Mr. Xu Yiding, assistant to the president, Mr. Zhu Yuanyang, secretary of the board, Mr. Zhou Liangwei and the chief risk officer, Mr. Li Xiaohui) is well experienced in the banking industry and capable of providing expertise to achieve the Bank's business development objectives.

## **Comprehensive Risk Management System and Improved Internal Operational Mechanism**

The Bank has a comprehensive risk management system and an improved internal operational mechanism which led to an improvement in (a) the asset quality of the Bank and decline in the outstanding amount of NPL and NPL ratio and (b) the operational performance of the Bank.

As at 31 December 2018, the outstanding amount of NPL of the Bank increased by CNY2.80 billion from 31 December 2017 to CNY40.6 billion. The NPL ratio was 0.80 per cent., representing a decrease of 0.01 per cent. from 31 December 2017.

The Bank has reformed its internal operational mechanism in the following manner (a) market-driven financing mechanism so that its principal source of funds is the proceeds raised from issue of financial bonds to domestic banks and financial institutions, (b) performance appraisal system based mainly on seven indicators, namely, rate of decline in the outstanding amount of NPL, NPL ratio, return on assets, cost to income ratio, profits per capita, deposits per capita and intermediary business income per capita for the head office to appraise the performance of each of its provincial branches, (c) segmented management of policy-related and self-run-related businesses to enable the Bank to allocate its resources and risks between these two business segments more efficiently and (d) resource allocation mechanism linked with credit planning, financial fees, total wages and results of performance appraisal which will be utilised by its head office in deciding the resource allocation to the various provincial branches of the Bank.

The net profits of the Bank increased from CNY17.117 billion for the year ended 31 December 2017 to CNY18.116 billion for the year ended 31 December 2018. The cost to income ratio for the year ended 31 December 2018 was 27.01 per cent., representing a decrease of 0.66 per cent. from the year ended 31 December 2017.

**ORGANISATIONAL STRUCTURE**

The headquarters of the Bank is located in Beijing. As at 31 December 2018, there was a business outlet of the headquarters of the Bank, 31 provincial branches, 338 regional/municipal branches (including the business outlets equivalent to provincial branches) and 1,828 sub-branches at the county/township-level (including the business outlets equivalent to regional/municipal branches), with a network covering all regions in the PRC.

The network of the Bank’s provincial branches is set out below:





## **RELATIONSHIP WITH THE PRC GOVERNMENT**

### **Government Ownership**

As a policy-oriented statutory financial institution under the State Council, the Bank has no share capital, and no person other than the PRC government has, or can obtain, an ownership interest or equity participation in the Bank. The Bank has a registered capital of CNY57 billion, all of which has been contributed by the PRC government through the MOF. The Bank's financial accounts are also subject to the approval of the MOF. In addition, because of the Bank's role in the implementation of the PRC's agricultural policies, the MOF has confirmed that it will compensate the Bank for any losses incurred by the Bank in its policy-oriented banking operations. In the event of any funding shortfall of the Bank, the PBOC will provide financial support by, among others, granting loans in the form of re-lending to the Bank.

### **Government Supervision**

The Bank's operations are subject to the direct leadership of the State Council and to the supervision and direction of the PBOC and CBIRC. The articles of association of the Bank were adopted by the State Council and may only be amended with the State Council's approval.

At the end of each year, the Bank submits its annual credit and funding plans for the following year to the PBOC for approval. In addition, the Bank reports to the PBOC periodically with respect to the implementation of its annual credit and funding plans and any significant issues relating to its credit operations. The Bank's operation-related activities (including lending, financing and investment) are subject to the supervision and direction of the MOF and the CBIRC. The Bank submits its annual consolidated financial statements to the MOF for review and approval.

The chairman, vice chairman, president and vice presidents of the Bank are appointed by and report directly to the State Council. The board of supervisors was appointed by the State Council to conduct supervision on the financial activities and operational management activities of the Bank, and the performance of the board and senior management of the Bank on behalf of the PRC government. Since early 2000, similar to every other major state-owned financial institution, the Bank has been subject to on-site and off-site supervision of financial institution supervisors designated by the State Council.

### **Government Support**

In addition to contributions to the capital of the Bank, the PRC government provides direct and indirect financial support for the business activities of the Bank. According to the Special Decree, the financial support of the PRC government available to the Bank include: (a) capital contribution by the PRC government, (b) fiscal subsidies from the MOF and (c) loans in the form of re-lending provided by the PBOC.

The MOF normally provides its fiscal subsidies to the Bank in the following circumstances: (a) in the event that the Bank is unable to recover the principal and/or interest of the policy-based loans granted by the Bank, the Bank shall make an application to the MOF for the fiscal subsidies in relation to such unpaid principal and/or interest. The MOF will verify such amount applied for, and allocate fiscal subsidies in the amount of such unpaid principal and/or interest approved by it to the Bank; and (b) in

the event that the Bank incurs a loss for any financial year based on its consolidated financial statements, the Bank shall make an application to the MOF for the fiscal subsidies in relation to such loss incurred. The MOF will verify such amount applied for, and provide fiscal subsidies in the amount of such loss approved by it to the Bank at the end of each financial year.

Pursuant to the PBOC Document, the PBOC undertakes and is obligated to provide loans in the form of re-lending to the Bank in the event the Bank experiences any liquidity shortfall. The obligation of the PBOC to make such loans to the Bank does not constitute a guarantee of the Bonds, and is not enforceable against the PBOC by, and does not confer any right under or in respect of the PBOC Document upon, any investor in the Bonds and holders of other indebtedness of the Bank.

## **PRINCIPAL BUSINESSES**

The Bank's principal businesses include the credit business, investment business, international business and funding business. The credit business is the Bank's key business, while investment business, international business and funding business are not material in terms of the Bank's profits or losses and assets.

### **Credit Business**

As at 31 December 2018, the Bank granted an aggregate CNY1.56 trillion of loans, with a total loan balance of CNY5.09 trillion, representing an increase of CNY433.6 billion compared to 31 December 2017.

The Bank provides a full range of lending support and services to agriculture-related corporate and institutional customers and other economic entities and is entitled the discretion to some extent in the loan provisions under the government's plan. For example, the Bank provides policy driven loan supporting grain, cotton and oil-related products firmly according to the government's plan and requirement; while in providing loans for projects in support of renovation of shack settlements, the Bank enjoys discretion in deciding the targets and the projects that the loan to be provided to, and the proposed amount of the loan. The Bank's credit business includes primarily the lending businesses in the following areas: serving the national food security strategy, assisting in targeted poverty alleviation, actively supporting agricultural modernisation, making all efforts to serve rural modernisation and supporting the promotion of coordinated regional development.

#### ***Serving the national food security strategy***

Supporting purchase and stockpiling of grain, cotton and edible oil is not only a glorious duty and political mission assigned by the Party Central Committee and the State Council but also the foundation of the existence, the development and the priority of the Bank. The Bank actively catered to the need of the reform of purchase and stockpiling mechanism for grain and pricing mechanism for agricultural products, by giving full play to its role as the major provider of purchase and stockpiling funding, so as to effectively safeguard national food security and farmers' benefits. The Bank implemented the national grain reserve policies to timely provide adequate credit facilities for rotation and increase of central grain reserve, and implemented the national macro-control policies to fund the purchase of rice and wheat at the lowest prices, and dedicated efforts in funding market-driven purchases of grain and oil, to support market-driven purchases, to support the full grain and oil industrial chain development, and readily provided assistance for promoting the national cotton targeted price reform, and effectively provided credit support for cotton acquisition.

### *Assisting in targeted poverty alleviation*

The Bank fully implemented the central government's decision-making and support for poverty alleviation, adhere to the basic strategy of targeted poverty alleviation and poverty alleviation, and establish a full-scale poverty alleviation pattern, and promoted the implementation of the overall strategy of the Bank in respect of serving the poverty elimination in the process of supporting agricultural development. Focusing on the poverty-stricken regions such as "Three Areas (namely, Tibet, four prefectures in South Xinjiang and Tibetan-inhabited areas in four other provinces) and Three Prefectures (namely, Linxia Prefecture in Gansu, Liangshan Prefecture in Sichuan and Nujiang Prefecture in Yunnan)" and the significant issues affecting on themes such as "no more worry about food and clothes, and get guaranteed on compulsory education, basic medical services and residential safety", the Bank strongly supported poverty alleviation through relocation, poverty alleviation through industry and infrastructure and special poverty alleviation, and the cooperation of the poverty alleviation in east regions and west regions, and proactively participated in the targeted poverty alleviation action of "10,000 enterprises assisting 10,000 villages". The Bank comprehensively made effort in fixed-point poverty alleviation to constantly improve the quality of the poverty alleviation work.

As to 31 December 2018, the Bank released loans for targeted poverty alleviation totalling CNY389.342 billion and the year-end balance of total loans amounted to CNY1.35 trillion, representing a year-on-year increase of 6.46 per cent. The Bank supports for the poverty-stricken regions improved significantly, and loans totalling CNY55.953 billion were granted for "Three Areas and Three Prefectures" as the poverty-stricken regions and the year-end balance increased by CNY19.716 billion, or 14.04 per cent., comparing with the year-beginning balance.

#### *(1) Loans granted for poverty alleviation through relocation*

The Bank continuously improved its credit policies and furthered efforts on loan management, to effectively support the implement of 13th Five-Year Poverty Alleviation through Relocation Plan. As of 31 December 2018, the Bank provided loans amounting to CNY241.183 billion for poverty alleviation through relocation, representing a decrease of CNY11.829 billion compared to the beginning of the year. For the previous 608 projects that the Bank has been supporting for poverty alleviation through relocation, the Bank granted loans timely and fully in accordance with the progress of the projects, and devoted its best efforts to support the work of the poverty alleviation through relocation in various areas.

#### *(2) Special loans granted for poverty alleviation*

The Bank fully promoted the targeted poverty alleviation credit business and actively supported the poverty alleviation projects such as poverty alleviation projects, poverty alleviation through promotion project, education, health development, tourism, photovoltaic and network in poverty-stricken areas. In 2018, the Bank issued a total of CNY53.009 billion in special poverty alleviation loans, with a net increase of CNY42.78 billion over the previous year.

(3) *Loans granted for poverty alleviation through grain, cotton and edible oil*

The Bank continuously worked on the provision of grain, cotton and edible oil poverty alleviation industry credit, proactively supported the diverse subject to enter into the market for procurement to enrich the local storage of grain, cotton and edible oil, to avoid blank spot in purchase by setting up a “green channel” for the sale of grain to the impoverished population. Loans totalling CNY113.571 billion were granted for poverty alleviation through grain, cotton and edible oil during the year of 2018, represented a net decrease on the balance of CNY51.827 billion, supporting the registered poverty-stricken population of 2.8409 million people, an increase of 142.4 thousand people compared to 2017.

(4) *Loans for targeted poverty alleviation infrastructure*

Focusing on unresolved issues such as traffic, improvement of water conservancy and living environment, and equalisation of public services, the Bank devoted all efforts to enhance credit service for poverty alleviation through infrastructure and public services. During the year of 2018, loans for targeted poverty alleviation totalling CNY115.17 billion were granted for poverty alleviation through infrastructure during the year, representing a net increase in balance of CNY71.161 billion.

(5) *Poverty alleviation system of special industry*

The Bank constructed and perfected a poverty alleviation product system for special industries. Throughout the year of 2018, the Bank granted loans for targeted poverty alleviation totalling CNY23.822 billion for industry-leading enterprises in grain, cotton and edible oil industries, CNY13.769 billion for non-grain, cotton and edible oil-industry-leading enterprises, CNY8.189 billion for forestry resources development and protection, CNY12.153 billion for rural land circulation and scale operation, CNY2.344 billion for the poverty alleviation in modern agricultural area, CNY11.6 billion for rural circulation systems and CNY3.43 billion for agricultural science and technology and agricultural production materials.

(6) *Supporting the targeted poverty alleviation action of “10,000 enterprises assisting 10,000 villages”*

The Bank set up a poverty alleviation action project library to support the “10,000 enterprises assisting 10,000 villages” targeted poverty alleviation programme. As at 31 December 2018, 987 enterprises were targeted for 31 provincial branches from the project library of the Bank with loan balance amounting to CNY61.08 billion, which served to motivate and support a poverty population of about 690,000 people. The Bank also provided support to 157 out of 202 demonstration enterprises, with CNY20.392 billion in loans as of 31 December 2018.

## *Supporting agricultural modernisation*

In accordance with the requirements of “thriving businesses”, the Bank adhered to a rural vitalisation strategy relying on quality and greenness, supported agricultural modernisation through innovation, closely focused on establishing industrial, production, and business operation systems for modern agriculture, intensified efforts to support the construction of high-standard farmland, rural land transfer and scale operation, and forestry ecosystem protection, and promote agricultural transformation and upgrading, the enhancement of production capacity and the integrated development of the primary industry, secondary industry and tertiary industry, actively participated in and promote rural reform, and consolidated the industrial foundation for rural revitalisation.

In 2018, the Bank released loans totalling CNY127.544 billion supporting various projects of agricultural modernisation, provided support for the construction of high-standard farmland of 5.6231 million mu through innovation model and expanded the green area of national reserve forest bases to 9.2039 million mu.

### *(1) Loans for rural land transfer and scale operation*

The Bank vigorously promoted high-standard farmland construction, fully served for the national strategy of rural vitalization, proactively and effectively enhanced the moderate operation in different forms to help farmer to get rid of poverty and become better off. As at 31 December 2018, the Bank released an aggregate of CNY28.323 billion in loans for the support of rural land transfer and scale operation, and had CNY48.149 billion in loan balance. It is estimated that after the completion of relevant projects, it will be an increase of 5.6231 million mu of the high standard farmland and agricultural acreage.

### *(2) Loans for modern agricultural park*

The Bank actively supports the construction of various types of agricultural and rural parks, promotes the integration of three industries, urban and rural integration, and the development of new agricultural and rural new industries. As to the year ended 2018, a total of CNY4.53 billion of loans for modern agricultural parks have been provided by the Bank; and the balance at the end of the year was CNY4.789 billion.

### *(3) Loans for construction of rural circulation system*

The Bank prioritised the support for the construction of traditional circulation formats, such as agriculture products market system, food safety logistics system, logistics nodes infrastructure and rural market system, and actively supported the development of “Internet+modern agriculture”, such as e-commerce industrial park, e-commerce platform for agriculture products and rural e-commerce operation service system. As at 31 December 2018, the balance of loans for the construction of rural circulation system was CNY45.435 billion, representing an increase of CNY13.626 billion as compared to that of at the beginning of the year.

(4) *Loans for leading enterprises in non-grain, cotton and oil industry*

According to the integrated development strategy of the primary industry, secondary industry and tertiary industry, the Bank focused on poverty alleviation, prioritised the support for the processing of competitive agriculture products and extension of industrial development, supported intensive processing and high-end customers with higher added value and gave full play to the leading role of major agriculture industrial enterprises. As at 31 December 2018, the Bank released an aggregate of CNY25.901 billion in loans for major industrial enterprises in non-grain, cotton and oil industry and had CNY32.826 billion in loan balance, of which loans for poverty alleviation amounted to CNY15.13 billion.

(5) *Loans for innovations in agricultural science and technology*

The Bank focused on supporting leading and high credit standing leading seed enterprises that use integrated cultivation-breeding-promotion operations as recognised by the Ministry of Agriculture, actively provide support to developing applications of scientific and technological achievements in the areas of agricultural machinery equipment, smart agriculture and ecological environmental protection, and supported the platform construction of agricultural science and technology park and helped the agricultural high-tech enterprises within the park. As at 31 December 2018, the Bank released an aggregate of CNY3.695 billion in loans for agricultural technology innovations, with the balance amounting to CNY4.789 billion.

(6) *Loans for forestry resource development and protection*

Drawing on the experience attained in pilot projects, the Bank conducted comprehensive loan business for forestry resource development and protection, and furthered its support for key forestry projects in afforestation, natural forestry resource protection, and another move of turning farmland and pasturage into forests and grasslands, prevention and control of desertification, and wetland conservation and restoration. As at 31 December 2018, the Bank completed related business trials and started to enforce the new policies nationwide with total loans released amounting to CNY14.397 billion and recorded loan balance of CNY37.724 billion.

(7) *Loans for marine resource development and protection*

The Bank actively carried out pilot loan services for marine resource development and protection, and provided key support for the fundamental and strategic marine industries, such as modern marine fishery, modern marine service industry, marine strategic emerging industry and other primary strategic marine industries that are engaged in protective development of marine resources, so as to contribute to the green development of marine economy. As at 31 December 2018, four pilot banks of the Bank approved loans totalling CNY6.34 billion and released CNY3.477 billion in loans, with a loan balance of CNY5.173 billion.

### *Making all efforts to serve rural modernisation*

The Bank increased the investment in the construction of rural infrastructure, proactively served rural supply-side structural reform, provided strong support for the weakness and key aspects during the process of agricultural and rural reform, and gave effective play to adjusting structure, strengthening areas of weakness and lowering costs to accelerate the construction of modern agriculture and facilitate the integrated urban-rural development. The Bank strongly supported renovation of shack settlements and made all efforts to accelerate the business development regarding renovation of shack settlements. The Bank actively implemented the construction requirement of “constructing, managing, maintaining and operating rural roads well”, focused on providing support for the transportation construction projects in contiguous poverty-stricken areas, the improvement of rural living environment, the disposal of rural sewage and garbage as well as rural dilapidated housing rehabilitation.

In 2018, the Bank released loans totalling CNY787.35 billion for infrastructure. As at 31 December 2018, balance of loans for infrastructure amounted to CNY2.60 trillion, representing a net increase of CNY444.93 billion compared to 2017.

#### *(1) Loans for renovation of shack settlements*

The Bank deeply implemented the work arrangements of the Party Central Committee and the State Council, gave full play to the role of major financing channel of renovation of shack settlements, focused on supporting the renovation of urban villages, the renovation of shack settlements in state-owned forest areas, and the dilapidated housing rehabilitation in state-owned reclamation areas, and continued to provide credit support for the renovation of shack settlements. The Bank approved loans amounting to CNY987.5 billion for renovation of shack settlements and released CNY587.6 billion in loans, representing a net increase of CNY531.6 billion over the beginning of the year.

#### *(2) Loans for water conservancy construction*

The Bank optimised its credit policies, created new financial products, improved service capabilities, continued to increase support for major national water conservancy projects, and promoted the development of local water conservancy infrastructure construction. The Bank released CNY33.51 billion in loans to finance 231 major water conservancy projects and farmland water conservancy construction projects in the year.

#### *(3) Loans for rural transportation*

In order to implement the construction requirement of “constructing, managing, maintaining and operating rural roads well”, the Bank actively provided support for the construction of rural highways to facilitate the connectivity and convenience between urban and rural areas and get through the “last one kilometer”, and spared no efforts to resolve transportation difficulties in rural areas. The Bank released CNY39.81 billion in loans for rural transportation to finance 207 transportation construction projects in the year.



*(4) Loans for improving rural living environment*

In order to improve rural production and living condition and build a beautiful village, the Bank actively supported the sewage and garbage disposal and dilapidated housing rehabilitation in rural areas, and promoted the improvement of rural living environment. The Bank released CNY28.77 billion in loans for improving living environment to finance 188 sewage and garbage disposal and dilapidated housing rehabilitation projects in rural areas in the year.

*(5) Loans for integrated construction of urban and rural areas*

The Bank provided stronger credit support for the new urbanization construction field, made all efforts to promote modern agriculture and coordinated development of urban and rural areas, finance construction projects of public service system involving rural education, medical treatment and elderly care, to ensure equal access to infrastructure and public services in both urban and rural areas. The Bank extended CNY76.76 billion in loans for integrated construction of urban and rural areas in the year of 2018. As at 31 December 2018, the balance of loans amounted to CNY580.77 billion.

*(6) Loans for eco-environmental construction*

In accordance with the requirements of “promoting green development, focusing on solving outstanding environmental problems, and strengthening the protection of ecosystems”, the Bank comprehensively strengthened ecological environmental protection and strengthened support for pollution prevention and control to support ecological restoration, environmental protection and pollution control projects, and focused on the actual action to support the win-win battle for the realization of the blue sky and clear water. In 2018, the Bank approved the eco-environment construction loan of CNY14.91 billion, granted loans of CNY5.08 billion, and supported 47 ecological environment construction projects.

***Supporting the promotion of coordinated regional development***

The Bank actively followed the national coordinated regional development strategy, increased efforts in model innovation, put national policy requirements into practice, and promoted a new landscape for regional development. The Bank organised and established Xiong'an Branch to vigorously support the construction of Xiong'an New Area and promote the coordinated development of Beijing, Tianjin, and Hebei province. The Bank focused on key areas such as poverty alleviation, agricultural and rural infrastructure construction, and agro-industries, and strengthened support for old revolutionary base areas, ethnic minority areas, border areas, and poverty-stricken areas, and assisted in the development of the western regions. The Bank supported the construction of infrastructure projects such as water, electricity, road and communication and new urbanisation construction projects, promoted the economic development of the provinces along the Yangtze Economic Belt through the Belt and Road Initiative. The Bank launched new products for marine resource development and protection, and exploited new paths to serve the coordinated regional development.

## **Investment Business**

The investment business of the Bank mainly includes funding for key projects, intermediary, investment banking, asset management and equity investment business.

The Bank strived to enhance the risk control and investment management of its existing projects, and implemented mechanisms such as carrying out risk identification frequently, establishing appraisal mechanism, developing management measures and strengthening technology support, in order to guarantee a more controllable overall risk tolerance of the fund so that the fund may operate steadily.

For intermediary business, the Bank dedicated further to offer discount on service offerings through benefits sharing. Since 1 November 2017, investment and financing advisory service fee has been exempted if customers are to conduct financing through the Bank. For the year ended 31 December 2018, revenues from intermediary business amounted to CNY320 million, representing a decrease by 21 per cent. or CNY82 million as compared with that of 2017.

The investment banking business of the Bank mainly includes underwriting business of non-financial corporate debt financing instruments and credit asset securitisation business. As of the end of 2018, the Bank as the lead managers had successfully issued 4 tranches of debt financing instruments for non-financial enterprises, with a total amount of CNY4.5 billion, and realised breakthrough of issuance such as in short-term commercial paper, commercial paper, medium term note and private placement note. In 2018, the Bank did not issue any new credit asset securitization product, and the only one tranche of credit asset securitization product of the Bank which is in survival period is under normal payment on schedule.

The asset management business of the Bank mainly includes providing wealth management products of closed non-net value type, which are low-risk products (Risk Level I). Aside from the six guaranteed income products in 2015, the Bank mainly provides wealth management products of guaranteed floating income. As at the end of 2018, the Bank launched a total of 24 wealth management products for enterprises. As of 31 December 2018, all the mature products are under settlement according to the schedules, and the principal amount paid to the customers was CNY6.43 billion in total, with the customers' returns totalling CNY86.368 million and the wealth management business income CNY36.433 million. In terms of the tenors, there are 15 tranches financial products' tenor in 1-3 months, including four in 2015, three in 2016, five in 2017, three in 2018, and six in 3-6 months. Among them, there are two tranches in 2015, three in 2017, and one in 2018; three financial products' tenor in 6 months to 1 year, including one in 2015 and two in 2016. On April 27, 2018, after the release of the "Guiding Opinions on Regulating Asset Management Business of Financial Institutions", the Bank actively responded to the requirements of new regulatory regulations, formulated rectification plans, revised related systems, and designed wealth management products that met new regulatory requirements.

The Bank established the following subsidiaries together with other joint entities since 2012. As at the end of 2017, the Bank also invested through China Agriculture Industry Development Fund and Modern Seed Industry Development Fund in 41 projects with an aggregated amount of CNY4.267 billion.

- China Agricultural Industry Development Fund (中國農業產業發展基金): established in December 2012, with the total fund management size of CNY4 billion;
- Modern Seed Development Fund (現代種業發展基金): established in January 2013, with the initial fund management size of CNY1.5 billion; and
- Beijing Xiannong Investment Management Co., Ltd. (北京先農投資管理有限公司): established in January 2013 to manage, operate and advise Modern Seed Development Fund, with the registered share capital of CNY20 million.

As of 31 December 2018, there were 17 stocks projects of China Agricultural Industry Development Fund, with a stock volume of CNY2.679 billion; 22 stocks projects of Modern Seed Development Fund, with a stock scale of CNY1.262 billion. In April 2018, the MOF initiated jointly with 20 financial institutions to establish National Financial Guarantee Fund Co., Ltd. The fund raised in the first phase amounted to CNY66.1 billion, among which the central government injected CNY30 billion, accounting for 45.39 per cent. of the shares, and 20 financial institutions jointly invested CNY36.1 billion. The Bank has subscribed for a capital contribution of CNY1 billion, accounting for 1.51 per cent. of the shares. In November 2018, according to the requirements of the MOF, the Bank completed the payment of the first phase of the capital contribution of CNY250 million.

## International Business

The Bank's international business system includes international settlements in respect of the import and export trade and non-trade, and the capital, and relevant business such as foreign currency deposits, foreign exchange remittances, foreign exchange interbank borrowing, settlement and sales, and other foreign exchange lending business upon approval.

In 2018, the Bank handled an aggregated total of 49,076 international settlements that valued a total of USD11.029 billion. In the same year, the Bank's trade finance business was valued at USD1.503 billion; and revenues from foreign exchange business were CNY136 million.

In 2018, Moody's Investors Service, Inc. ("Moody's") and S&P assigned to the Bank the same ratings as China's sovereign debt. Please see the table below for the ratings of the Bank in 2018:

	<b>Rating Agency</b>	<b>Rating for China's Sovereign Debt</b>	<b>Rating for the Bank</b>
2018.....	Moody's	A1(stable)	A1(stable)
	S&P	A+(stable)	A+(stable)

## ***Funding Business***

The Bank raised funds through multiple means by leveraging financial bonds as the major fund-raising channel, and supplemented by other means including re-lending from PBOC, and inter-bank activities.

In 2018, the Bank raised a total of CNY1.11 trillion, providing powerful support for all areas of business development. As at 31 December 2018, interest-bearing liabilities of the Bank totalled CNY6.59 trillion, representing an increase by 10.48 per cent. or CNY0.63 trillion as compared with that as at 31 December 2017.

## ***Credit Rating***

According to the Articles of Associations of the Bank established by the state, the Bank is a state-owned policy-oriented statutory financial institution which is a separate legal entity under the direct authority of the State Council and aims to support the sustainable and healthy development of the agricultural industry and rural areas. With credit support from the state, the Bank plays a major and key role in rural financial system, provides further support for key areas and weak links in agriculture and rural areas, and promotes the sustainable and healthy development of economy and society. The bonds issued by the Bank are categorised as policy bonds and are supported by state credit. The Bank has a registered capital of CNY57 billion, which was allocated by the MOF on behalf of the State Council. The Bank's main sources of funds include the loans in the form of re-lending provided by the PBOC, issue of bonds, deposits by enterprises and institutions which maintain accounts with the Bank and fiscal deposits. According to the Special Decree, the Bank is a policy-oriented statutory financial institution under the direct authority of the State Council. The Bank operates on an autonomous basis as an economically independent entity with the goal of moderate profitability while preserving its capital. The Bank's business is subject to the supervision and direction of the PBOC and CBIRC. The final accounts of the Bank are reviewed by the MOF, and the policy-related loss incurred in the Bank's operations are reimbursed by the MOF. In the event the Bank experiences any liquidity shortages, the PBOC will provide funds to the Bank in the form of re-lending. The preference taxation policy which is aiming to support "Agricultural, Rural Areas and Farmers" is applicable to the Bank.

Article 59 of the *Administrative Measures on the Capital of Commercial Banks (for Trial Implementation)* promulgated and implemented by CBRC provides that the risk weightage for a commercial bank to a creditor of a policy bank of China shall be zero per cent.

## ***Sources of Funds***

In addition to capital contribution by the PRC government and the fiscal subsidies offered by the MOF, the Bank may obtain funds from a variety of sources, e.g. the issue of CNY denominated and foreign currency denominated debt securities in the domestic and international capital markets, deposits of enterprises, fiscal deposits and special deposits, interbank time deposits and loans in the form of re-lending from the PBOC. As at 31 December 2018, interest-bearing liabilities of the Bank reached CNY6.59 trillion, representing an increase of CNY0.63 trillion from 31 December 2017.

### ***Re-lending by the PBOC***

Pursuant to the PBOC Document, the Bank may also take up loans from the PBOC. Please refer to “*Relationship with the PRC Government – Government Support*”. The Bank may take up such loans from the PBOC to meet its cash flow needs prior to the availability of long-term stable financing.

### ***Interbank Borrowings***

The Bank’s interbank borrowings are unsecured loan facilities obtained from other financial institutions in the interbank market through mutual enquires and independent negotiations for the primary purpose of short-term position adjustment. These borrowings can effectively cover the Bank’s temporary funding demand which arises from the implementation of the policies of the PRC government on the purchase and sale of grain, cotton and oil.

The Bank was officially granted the right to engage in interbank borrowing business in October 2004. Since the official commencement of the interbank borrowing business in 2005, the business volume has been growing steadily. The deal value for the years ended 31 December 2017 and 2018 is CNY27.101 trillion and CNY21.435 trillion, respectively.

### ***Financial Bonds***

The Bank’s principal source of funds is the proceeds from issue of financial bonds to domestic banks and financial institutions. The interest rate and maturity date for the domestic financial bonds are determined by market forces. At the end of every year, the Bank submits its application to the PBOC for approval of its fundraising plan for the following year. The PBOC reviews such application in light of the Bank’s annual lending plan and the Bank’s funding from other sources. The Bank has been issuing CNY-denominated financial bonds through auctions in the domestic interbank market. The term of the bonds issued by the Bank ranges from three months to 20 years, covering all standard terms of bonds. The types of bonds issued include discount bonds, floating-rate bonds, and investor’s option bonds, which are in global public offering by means of open tender, scrolling additional issuance etc.

As at 31 December 2018, the Bank issued 1,105 batches of financial bonds in the PRC and raised approximately CNY8,008.16 billion in total; issued ten batches of financial bonds in Hong Kong and raised an aggregate principal amount of approximately CNY12.2 billion; issued one tranche of USD bonds and raised an aggregate principal amount of USD0.7 billion; issued one tranche of EUR bonds and raised an aggregate principal amount of EUR0.5 billion; and redeemed financial bonds in the PRC and offshore totalling approximately CNY3,824.51 billion and CNY11 billion respectively. As at 31 December 2018, the weighted average maturity of bonds outstanding was 3.94 years. In 2018, the Bank issued 195 batches of financial bonds in the PRC and raised an aggregate principal amount of approximately CNY1,110.0 billion, and redeemed bonds worth approximately CNY737.8 billion in total. In 2018, the weighted average term of bonds issued by the Bank was 5.02 years, the average issue cost was 4.06 per cent. and the average subscription rate was 3.23 times.

### ***Deposits of Enterprises***

As at 31 December 2018, the balance of foreign and domestic deposits of enterprises with the Bank reached approximately CNY1,282.347 billion, representing a decrease of CNY36.474 billion, or 2.77 per cent., from 31 December 2017. As at 31 December 2018, the balance of CNY deposits of enterprises with the Bank reached CNY1,281.84 billion, representing a decrease of CNY36.156 billion, or 2.74 per cent., from 31 December 2017.

### ***Fiscal Deposits***

As at 31 December 2018, the balance of fiscal deposits and special deposits of the Bank amounted to approximately CNY152.589 billion, representing an increase of CNY18.448 billion, or 13.75 per cent., from 31 December 2017.

### ***Interbank Time Deposits***

As at 31 December 2018, the balance of interbank time deposits of the Bank amounted to approximately CNY285.005 billion (including CNY285 billion deposits of the onshore SPVs), representing an increase of CNY283.127 billion, or 156.76 times, from 31 December 2017.

## **Fund Management**

### ***Interest Rate Management***

For the year ended 31 December 2018, the Bank's weighted average interest rate of loans was 4.87 per cent. (excluding Tibet branch, discount and rediscount according to the PBOC's requirement on statistics reporting), representing an increase of 0.12 per cent. from the year ended 31 December 2017.

### **Other Business**

The Bank's other businesses include funds transaction business, credit evaluation, approval and audit, loan responsibility management, loan distribution and payment supervision, post-loan management, credit asset risk control and asset quality and loan loss provisions.

### ***Funds Transactions Business***

The funds transaction business of the Bank mainly consists of inter-bank borrowing, bond repurchase, inter-bank deposit, bill transaction, investment in bonds and other businesses. For the year ended 31 December 2018, the total amount of funds transactions business conducted by the Bank was approximately CNY21.44 trillion, representing a decrease of approximately CNY5.67 trillion from the year ended 31 December 2017. The total amount of transactions includes approximately CNY20.04 trillion from the short-term currency market business (including interbank borrowings and bonds repurchase) which represents 93.47 per cent. of the total amount, approximately CNY168.528 billion from the note trading business which represents 0.79 per cent. of the total amount and approximately CNY1.23 trillion from interbank and bond trading business which represents 5.74 per cent. of the total amount. For the year ended 31 December 2018, the amount of the transaction in foreign exchange funds conducted by the Bank in the interbank foreign exchange market reached to USD6.263 billion, representing an increase of USD1.025 billion compared to the year ended 31 December 2017.

### ***Credit Evaluation, Approval and Audit***

The Bank has a credit management system that separates the credit reviewing and approval process from the credit granting process. Based on this system, the Bank conducts its credit business by allocating different job responsibilities (such as investigation, verification, and make loans) to different departments at different levels with different authorities.

### ***Loan Responsibility Management***

The Bank has guidelines on credit evaluation for its loans and guarantees.

Centered on the basic procedures of conducting its lending business, the Bank has implemented a three-level (namely, the performer level, the reviewer level and the approver level) loan due diligence management system for its lending business.

The performer is the specific operator of each aspect of the lending business. If there are multiple performers in each of the tasks such as due diligence, examination, and loan supervision, the department in charge shall determine the person in charge and the coordinators, and the person in charge shall bear the main responsibility.

The reviewer reviews and verifies the work of the performer. If there is more than one reviewer in the same aspect of the business, the chief reviewer shall make the final review, and the other reviewers shall be the assistant reviewers, among which the chief reviewer bears the main responsibility.

The approver has the right to make decisions on each aspect of the lending business. The chairman of the Loan Review Committee (hereinafter referred to as the “**Loan Review Committee**”) or the deputy chairman of the Loan Review Committee shall bear the main responsibility for the deliberation and approval of the lending business.

According to the Measures for the Due Diligence Management of the Lending Business of the Agricultural Development Bank of China 2018 Amendment (No. 327 of 2018) and the Agricultural Development Bank of China General Rules of Loans 2017 Amendment (No. 140 of 2017), the loan responsibility management is divided into the following steps:

#### ***(1) Acceptance for Handling***

- The customer service manager of the account opening branch will act as the performer to conduct a preliminary investigation of the customer’s loan application and provide initial investigation comments and for an application considered to be acceptable to the performer, to collect and collate information concerning such loan application for reporting to the higher level, which information together with the investigation comments will form the application materials of such customer. The customer service manager will be responsible for the truthfulness and validity of the application materials.



- The vice president in charge of the customer service department of the account opening branch will act as the final reviewer to review the initial investigation comments and provide review comments and to review the application materials and provide review comments. He will be responsible for the compliance, truthfulness and completeness of the application materials.
- The president of the account opening branch will act as the verifier to verify the initial investigation comments and decide whether to report to the higher level branch and to review the application materials and decide whether to accept and handle the loan application on a preliminary basis.

*(2) Application Reassessment*

- The customer service manager of the reassessing branch (a second-tier branch and/or a branch at the provincial level between the accounting opening branch and the authorised approving branch) will act as the performer to reassess the application materials submitted by the branch at the lower level and provide the reassessment comments. In the absence of any objection after such reassessment, the customer service manager of the reassessing branch will be responsible for the validity, completeness and compliance of the application materials.
- The head of the customer service department and the vice president in charge of customer service of the reassessing branch will act as the reviewer to review the reassessment comments and application materials and provide review comments.
- The president of the second-level branch will act as the verifier to review and verify the reassessment comments and application materials and decide whether to accept and handle the reassessment.

*(3) Investigation*

- The members of an investigation team made up of the customer service manager of the authorised approving branch and the customer service managers transferred from other relevant branches at all levels will act as the performers to conduct an investigation on the customer's loan application based on the type of loan for which a customer has applied for in accordance with the relevant credit regulations, demonstrate the necessity and feasibility of granting such loan, prepare the investigation report and present the investigation findings, and collect the relevant information, which together with the investigation report and related documents will be collated to form the investigation materials. The investigators will be responsible for the truthfulness and validity of the investigation materials.
- The vice-head of the customer service department of the authorised approving branch (including the head of the relevant division where the head office is the authorised approving branch) will act as the reviewer to review the investigation materials and provide review comments.
- The president in charge of the customer service department of the authorised approving branch will act as the final verifier to verify the investigation materials and decide whether to forward the investigation materials to the finance planning department, legal affairs department, credit approval department and risk management department for review.

*(4) Loan Pricing and Loan Plan Examination*

- The loan pricing examination personnel from the loan planning department of the authorised approving branch will act as the performer to examine the aspects relating to loan pricing in the investigation materials submitted by the customer service department in accordance with the loan pricing regulations and provide examination comments. The loan pricing examination personnel will be responsible for the compliance and feasibility of the loan pricing.
- The loan plan examination personnel from the loan planning department of the authorised approving branch will act as the performer to examine the loan plan, in particular to examine the compatibility of the financing needs with the relevant loan plan and provide examination comments. The loan plan examination personnel will be responsible for the feasibility of the loan size.
- The vice-head of the loan planning department of the authorised approving branch (including the head of the relevant division where the head office is the authorised approving branch) will act as the reviewer in respect of the loan pricing and loan plan examination to review the comments of the relevant examination performer.
- The head of the loan planning department of the authorised approving branch will act as the reviewer and upon the approval of whom, the review comments will be submitted to approval department for consolidation. The head of the credit approval department will act as approver to decide whether to submit such comments to the Loan Review Committee.

*(5) Legal Examination*

- The legal examination personnel from the legal compliance department of the authorised approving branch (including the legal examination personnel transferred from other relevant branches at all levels) will act as the performer to examine the investigation materials on the security to be provided for the loan according to the type of loan for which a customer has applied and the regulations relating to the legal examination, and present the legal examination comments. The legal examination personnel will be responsible for the legality of the loans and the security.
- The vice-head of the legal compliance department of the authorised approving branch (including the head of the relevant division where the head office is the authorised approving branch) will act as the reviewer to review the legal examination comments and provide review comments.
- The head of the legal compliance department of the authorised approving branch will act as the reviewer and upon the approval of whom, the review comments will be submitted to approval department for consolidation. The head of the credit approval department will act as approver to decide whether to submit such comments to the Loan Review Committee for review.

*(6) Loan Examination*

- The loan examination personnel from the credit approval department of the authorised approving branch (including the loan examination personnel transferred from other relevant branches at all levels) will act as the performer to examine the completeness and compliance of the investigation materials and the risks involved according to the lending business examination measures and guidelines on lending business management, highlight the risks involved in the loan and provide loan examination comments.
- The vice-head of the credit approval department of the authorised approving branch (including the head of the relevant division where the head office is the authorised approving branch) will act as the reviewer to review the loan examination comments and provide review comments.
- The head of the credit approval department of the authorised approving branch will act as the reviewer and upon the approval of whom, the review comments will be submitted to approval department for consolidation. The head of the credit approval department will act as approver to decide whether to submit such comments to the Loan Review Committee for consideration.

*(7) Risk Examination*

- The loan examination personnel from the risk management department of the authorised approving branch will act as the performer to examine the guarantor's guarantee ability and collateral value according to the relevant regulations and measures on lending business and present the legal examination comments. The legal examination personnel will be responsible for the legality of the loans and the security.
- The loan examination personnel from the risk management department of the authorised approving branch will act as the reviewer and upon the approval of whom, the review comments will be submitted to approval department for consolidation. The head of the credit approval department will act as approver to decide whether to submit such comments to the Loan Review Committee for review.

*(8) Consideration*

- For any lending business which is subject to the consideration of the Loan Review Committee Meeting, the Loan Review Committee of the authorised approving branch shall hold a Loan Review Committee Meeting according to relevant regulations to consider and vote on the lending business. Voting shall take the form of disclosed ballot and decisions shall be made by the special majority of votes.

#### *(9) Examination and approval*

- The authorised approving person shall examine and approve the lending business according to the result of the consideration, investigation/examination comments and information on the relevant lending business. The president (general manager) of the authorised approving branch or the vice president (deputy general manager) who has been authorised by the president (general manager) will act as the authorised approver.
- The lending procedure of head office is from the investigation and review within provincial branches (in relation to credit loan examination, fund pricing examination, legal examination and guarantee ability/collateral value examination), the review comments of which will be submitted to the head office for further examination (credit loan examination and legal examination), review and approval. The responsibility of each branch will be consistent with those as specified in the basic procedures above.

The authorised approver has the right to reject any lending business that has been approved by the Loan Review Committee Meeting or to propose a review, but has no right to alter any voting result of the Loan Review Committee Meeting which rejects or proposes to review any lending business. The authorised approver has the final say with regard to the approval of a loan.

#### ***Loan Distribution and Payment Supervision***

Before a loan is disbursed, the responsible customer service manager will deliver the loan contract or agreement to the authorised signatories of the lender and the borrower for signing after the Bank is permitted by the supervision procedure of the contract. After the Bank has agreed on the conditions of the loan with the customer pursuant to the relevant review and approval comments, the loan will be disbursed. In the event of any failure to fulfil such conditions by the customer, the Bank will refuse to disburse the loan. When disbursing the loan, the Bank will examine the relevant evidence to ensure that the loan will be utilised for the agreed purposes. In the event of any failure to utilise the loan for the agreed purposes, the Bank will discontinue the grant of any subsequent loan.

#### ***Post-loan Management***

After releasing the loans, the Bank may regularly inspect the execution of loan agreements as well as the operations, financial condition and guarantees of the customers. The Bank's branch at a higher level may regularly supervise the post-loan inspection conducted by the Bank's branch at a lower level. Once a potential risk that may endanger the safety of the Bank's credit assets is identified, the Bank may choose to discontinue its relationship with clients whose industries have been classified as "restricted" and "eliminated" by the State Council, or who have been classified as having high financial risks or who have been restricted from enjoying the credit support policies of the Bank. The account opening branch of the Bank may also supervise the borrower's performance under the loan agreement so as to ensure that the borrower pays the principal and interest on time.

## ***Credit Asset Risk Control***

The Bank adopts a credit asset quality classification system so as to regularly evaluate its credit asset quality. The Bank's credit assets are classified as Normal, Special Mention, Substandard, Doubtful and Loss based on the risks involved, of which the assets classified as Substandard, Doubtful and Loss are non-performing assets. Credit assets are classified as Normal if the borrower is capable of performing its obligations under the contract and there is no sufficient reason to believe the principal and interest of the loan will not be fully repaid when due. Credit assets are classified as Special Mention if the borrower is currently capable of repaying the principal and interest of the loan, but there are certain factors which may adversely affect the repayment. Credit assets are classified as Substandard if the borrower is obviously having difficulty in repaying the loan and is incapable of fully repaying the principal and interest of the loan by solely relying on its usual operating revenue. Certain losses may still be incurred even if the Bank enforces the security. Credit assets are classified as Doubtful if the borrower is incapable of fully repaying the principal and interest of the loan and relatively serious losses will certainly be incurred even if the Bank enforces the security. Credit assets are classified as Loss if the principal and interest of the loan cannot be recovered or only a very small portion is recovered after all possible measures or necessary legal proceedings have been taken or initiated. The Bank has put in place a system for identifying and monitoring the non-performing credit assets so as to identify any new non-performing credit asset according to the defined procedures and standards. The main factors considered by the Bank in the evaluation of credit asset quality are to assess the possibility of such customer fully repaying the principal and interest of the loan when due based on the customer's credit rating and by reference to the evaluation results of such customer and its debts.

Meanwhile, the Bank has further optimised its NPL management mechanism and implemented a series of management measures. For example, the Bank implemented a management mechanism where NPL recovery was correlated with credit sources, financial loss, bad debt write-off and differentiated lending authority. The Bank has also waived off-balance-sheet overdue interest, restructured loans, taken collateral for debt, transferred NPL in batches and carried out bad debt write-offs to eliminate risks. For the year ended 31 December 2018, the Bank recovered NPL worth CNY89.7278 million by waiving off-balance-sheet overdue interest, representing an increase of CNY68 million from the year ended 31 December 2017.

## ***Asset Quality and Loan Loss Provisions***

### ***(1) Asset Quality***

The Bank's credit assets are classified as "Normal, Special Mention, Substandard, Doubtful and Loss" based on the default risks involved, of which the assets classified as "Substandard, Doubtful and Loss" are non-performing assets. As at 31 December 2018, the breakdowns of the outstanding CNY loans of the Bank classified as "Normal", "Special Mention", "Substandard", "Doubtful" and "Loss" are set out below:

<b>Classification</b>	<b>Outstanding amounts</b>
	<i>(Unit: ten thousand CNY)</i>
Normal .....	457,575,964.53
Special Mention .....	47,300,056.48
Substandard .....	383,250.94
Doubtful .....	3,405,429.55
Loss .....	274,052.50

As at 31 December 2018, the outstanding amount of NPL of the Bank increased by CNY2.80 billion from 31 December 2017 to CNY40.6 billion. The NPL ratio was 0.80 per cent., representing a decrease of 0.01 per cent. from 31 December 2017. For the year ended 31 December 2018, the annual total recovery of non-performing loans by cash reached CNY4.2 billion, representing an increase of CNY0.13 billion from the year ended 31 December 2017.

The information of collaterals and/or guarantees in the loans of the Bank as to the year ended 31 December 2018 is set out below:

<b>Types of collateral of the loans</b>	<b>Amount</b>
	<i>Unit: CNY Yuan</i>
Unsecured Loans .....	2,152,812,837,183.45
Guaranteed Loans.....	1,202,755,588,922.31
Mortgage Loans .....	526,077,061,425.57
Pledged Loans.....	1,208,036,011,998.44
Total Loans and Advances to Customers .....	<u>5,089,681,499,529.77</u>

(2) *Loan Loss Provisions*

The Bank maintains loan loss provisions against potential default in the payment of loan principal on the basis of the evaluation conducted by the Bank on its loan assets included in its consolidated balance sheet. The off-balance-sheet loan assets (which mainly include bank acceptance bills which totalled CNY1.727 billion as at 31 December 2018 and the letter of credit which totalled CNY2.563 billion as at 31 December 2018) are not counted in such evaluation or calculation of such loan loss provisions. According to the agency arrangements between the Bank and the MOF, the Bank has no liability for the payment of any principal and interest with respect to any loan projects undertaken by the PRC central or provincial government authority or guaranteed by the PRC central or provincial government authority. The document issued by MOF with regard to the making of loan loss provision specifically provides that the document applies mutatis mutandis to policy banks. The Bank has made full provision for loss in connection with policy loans.

(3) *Provisions for Assets Write-down*

For the year ended 31 December 2018, the loan loss provision made by the Bank recorded a net increase of CNY32.976 billion, representing a decrease of CNY9.092 billion from the year ended 31 December 2017. As at 31 December 2018, the outstanding amount of the Bank's loan loss provision was CNY173.197 billion, and the loan loss provision coverage was 409.40 per cent., representing an increase of 15.72 per cent. from 31 December 2017. In addition, for the year ended 31 December 2018, the outstanding amount of the provisions for write-down of assets for debt payment was CNY3.941 billion, representing an increase of CNY2.435 billion from 31 December 2017.

## **DEBT REPAYMENT RECORD**

The Bank has never defaulted in the repayment of principal of or interest on any of its obligations.

## **EMPLOYEES**

As at 31 December 2018, the Bank has employed approximately 52,202 staff.

## **PROPERTIES**

The registered office and head office of the Bank is located at A2 Yuetanbeijie Street, Xicheng District, Beijing 100045, China.



## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The operations of the Bank are currently managed by one chairman, one vice chairman, five vice presidents, one assistant to president, one secretary of the board and one chief risk officer.

The chairman, vice chairman, president and vice presidents are appointed by the State Council. The business address of the management of the Bank is at A2 Yuetanbeijie Street, Xicheng District, Beijing 100045, China.

As of the date of this Offering Circular, the Bank's board of directors (the "**Board of Directors**") has been constituted and comprises 11 members, comprising three executive directors and eight non-executive directors. The Board of Directors plays a high level role in the oversight and supervision of the Bank. It is responsible for providing overall direction to the Bank and in particular, providing general guidance with respect to the Bank's policy-oriented objectives, in line with the expertise of its directors. The Board of Directors oversees five committees, namely the Strategic Development and Investment Committee, the Audit Committee, the Risk Management Committee, the Internal Control Committee and the Manpower and Remuneration Committee. However, the Board of Directors is not responsible for managing the day-to-day functioning and operations of the Bank nor is it responsible for implementing, or overseeing the implementation of, the resolutions approved by the Board of Directors.

The Bank's Party Committee is the organization of CPC established within the Bank serving as the Bank's leadership, and plays an important role in the overall management and effective implementation of the Bank's strategic direction. As at the date of this Offering Circular, there are eight members.

The following table sets forth the members of the Party Committee as well as their roles as at the date of this Offering Circular:

<b>Name</b>	<b>Position</b>
Mr. Xie Xuezhi .....	Secretary of the Party Committee, Chairman
Mr. Qian Wenhui .....	Deputy secretary of the Party Committee, Vice Chairman and President
Mr. Lin Li .....	Member of the Party Committee, Vice President, Executive Director
Mr. He Xingxiang .....	Member of the Party Committee, Vice President
Mr. Wang Zhaohe .....	Member of the Party Committee, Leader of the Committee for Discipline Inspection under the Central Commission for Discipline Inspection
Mr. Sun Lansheng .....	Member of the Party Committee, Vice President
Mr. Xu Yiding .....	Member of the Party Committee

### **Chairman**

The Bank's chairman is the legal representative of the Bank.

### **President, Vice Presidents and Assistant to President**

The president is responsible for the operational management of the Bank. Vice presidents and assistant to president provide support to the president and are authorised by the president to further delegate work and responsibilities.

Board of Supervisors

The Bank’s board of supervisors is designated by the State Council, and represents the state to monitor the financial activities, operational management and performance of the president and senior management of the Bank.

Departments

Each of the vice presidents and assistant to president is responsible for certain departments of the Bank and are authorised by the president to delegate work and responsibilities.

Set out below is the organisation chart of the Bank:



(The Poverty Alleviation Finance Department is in charge of Poverty Alleviation Comprehensive Business Department, Poverty Alleviation Relocation Department, Industry Development Poverty Alleviation Department, Infrastructure Poverty Alleviation Department and Poverty Alleviation Credit and Risk Control Department.)

**Biographies of the Chairman, Vice Chairman, President, Executive Director, Vice Presidents, Assistant to President and Secretary of the Board and the Chief Risk Officer**

Set out below are the biographies of the Bank's chairman, president, vice presidents, assistant to president and secretary of the board as at the date of this Offering Circular.

**Mr. Xie Xuezhong**, *Secretary of the Party Committee, Chairman*. Dr. Xie was appointed as secretary of the Party Committee and chairman of the Bank in March 2015. He holds a PhD degree. He began his career in July 1976 and was formerly appointed as assistant president of Dongbei University of Finance & Economics in June 1994, deputy director general of Department of Personnel and Education of the MOF in April 1996, director general of Department of Tax Regime and Rules of the MOF in July 1998, director general of Department of Taxation of the MOF in June 2000, vice chairman of the People's Government of Tibet Autonomous Region in September 2002, member of the Party Leadership Group of National Council for Social Security Fund and vice president in October 2004, member of the Party Leadership Group of State Administration of Taxation and deputy administrator in April 2007, deputy secretary of the Party Leadership Group of State Administration of Taxation and deputy administrator in April 2012.

**Mr. Qian Wenhui**, *Vice-secretary of the Party Committee, Vice Chairman and President, and concurrently the director of the Poverty Alleviation Finance Department*. Mr. Qian was appointed as deputy secretary of the Party Committee, vice chairman and the president of the Bank in December 2017. He holds a master's degree. He began his career in July 1985 and was formerly appointed as deputy general manager of China Construction Bank Shanghai Branch in November 1999, the head of Asset and Liability Management Committee Office of China Construction Bank and concurrently Head Office Structural Reform Office of the China Construction Bank from October 2001 to March 2003, the general director of Asset and Liability Management Committee Office of China Construction Bank from March 2003 to October 2004 (concurrently the head of the Restructuring and Reform Office of China Construction Bank from October 2003 to October 2004), member of the Party Committee and vice president of the Bank of Communications from October 2004 to January 2007 (concurrently the general manager of Bank of Communications Shanghai Branch from July 2005 to November 2006), member of the Party Committee, executive director and vice president of Bank of Communications from January 2007 to February 2015, deputy secretary of the Party Committee and the chairman of Supervisory Board of Industrial and Commercial Bank of China from February 2015 to December 2017. He was concurrently appointed as the director of the Poverty Alleviation Finance Department from July 2018.

**Mr. Lin Li**, *Member of the Party Committee, Vice President and Executive Director*. Dr. Lin, was appointed as a vice president of the Bank and a member of the Party Committee of the Bank in January 2014. He is a senior economist, holds a PhD degree in economics. He began his career in July 1990. In February 2003, he was appointed as secretary of the Board and deputy general manager of the General Office (Office of the Party Committee) of China Everbright Group. From March 2005 to December 2008, he served as member of the Board, secretary of the Board, general manager of the General Office (Office of the Party Committee) of China Everbright Group. During this period of time, Dr. Lin also served as director of the Office for Restructuring Affairs of China Everbright Group, director of Executive Director Office of China Everbright Group Co., Ltd (Hong Kong), chairman of the Supervisory Board of China Everbright Investment and Assets Management Co., Ltd, secretary of the Party Committee and chairman of the Board of Everbright Property Company Limited. From December 2008 to January 2014, he served successively as deputy secretary of the

Party Committee, disciplinary secretary, vice president, and executive vice president of China Everbright Bank. From January 2014, he served as the member of the Party Committee and the vice president of the Bank and from February 2018, he served as the executive director, the member of the Party Committee and the vice president of the Bank.

**Mr. He Xingxiang**, *Member of the Party Committee, Vice President*. Mr. He was appointed as a vice president of the Bank and a member of the Party Committee of the Bank in October 2014. With a master's degree in management, Mr. He began his career in August 1982. He was formerly appointed as member of the Party Committee and deputy general manager of Jilin Branch of Bank of China in March 2003, secretary of the Party Committee and general manager of Hainan Branch of Bank of China in September 2004, secretary of the Party Committee and general manager of Shandong Branch of Bank of China in April 2008.

**Mr. Wang Zhaohe**, *Member of the Party Committee, the leader of the Committee for Discipline Inspection of the Bank under the Central Commission for Discipline Inspection*. With a Doctor's degree, Mr. Wang began his career in August 1985. He was formerly the vice director who took charge of the work, and the director of the organization department of the Party Committee in Dalian Maritime University from April 1994 to March 1996. From March 1996, he served as the member of the standing committee of the Party Committee, the director of organization department and the assistant principal of Dalian Maritime University. He was appointed as the deputy secretary of the Party Committee of Dalian Maritime University in December 1997. From December 1998, he acted as the deputy secretary and the secretary of Committee for Discipline Inspection in Dalian Maritime University, and the deputy principal from December 2000, and took charge of the work of Party Committee from December 2004. In May 2005, he was appointed as the secretary of the Party Committee and the principal of the university. From May 2011, he was appointed as the member of the standing committee of the Party Committee and the secretary of Committee for Discipline Inspection of China FAW Group. Mr. Wang was appointed as leader of the Committee for Discipline Inspection of the Bank under the Central Commission for Discipline Inspection and member on the Party Committee of the Bank in January 2019.

**Mr. Sun Lansheng**, *Member of the Party Committee, Vice President*. Mr. Sun was appointed as a member of the Party Committee and vice president of the Bank in April 2018. With a master's degree from the Party School of the Central Committee of CPC, Mr. Sun is a senior economist and began his career in October 1988. He was formerly appointed as deputy director of the Party Committee of the Bank in December 2000, member of the Party Committee and deputy director of Guangxi Branch of the Bank in March 2008, member of the Party Committee of Zhejiang Branch of the Bank in January 2010 and secretary of the Party Committee and president of Ningbo Branch, president of Fujian Branch of the Bank in March 2012 and chief risk officer of the Bank in April 2017. In July 2018, Mr. Sun resigned from the position as the chief risk officer of the Bank.

**Mr. Xu Yiding**, *Member of the Party Committee*. With a Doctor's degree, Mr. Xu is a senior economist and began his career in July 1988. He was appointed successively as deputy director of the Office for Research, deputy director of Regulation Office for Research and director of the Office for Research of the Bank in April 1999, assistant to president and member of the Party Committee of Shandong Branch of the Bank in July 2002, deputy general manager of the Credit Department of the Bank in January 2005, vice president, member of the Party Committee and secretary of Committee for Discipline Inspection of Yunnan Branch of the Bank in March 2011. In January 2014, he was appointed as president and secretary of the Party Committee of Guizhou Branch of the Bank. He

served as general manager of Operation of Head Office of the Bank from December 2014, general manager of Development Department of Poverty Alleviation of the Bank from July 2015, general manager of Financial Department of Poverty Alleviation of the Bank from December 2015, general manager of Integrated Operations Department of Poverty Alleviation (Relocation Department of Poverty Alleviation) of the Bank from May 2016, vice president of Financial Department of Poverty Alleviation and general manager of Integrated Operations Department of Poverty Alleviation (Relocation Department of Poverty Alleviation) of the Bank from March 2017, vice president of Financial Department of Poverty Alleviation and general manager of Integrated Operations Department of Poverty Alleviation (Relocation Department of Poverty Alleviation as well as Industrial Development Department of Poverty Alleviation) from October 2018. Mr. Xu was appointed as a member of the Party Committee of the Bank in July 2019.

**Mr. Zhu Yuanyang**, *Assistant to President*. Mr. Zhu was appointed as assistant president and general manager of the Customer Relations Department I of the Bank in September 2014. With a master's degree from the Party School of the Central Committee of CPC, Mr. Zhu began his career in July 1977. He was formerly appointed as deputy general manager of the Credit Department I of the Bank in August 1998, general manager of the Credit Department I, general manager of the Customer Relations Department I of the Bank since December 2000, secretary of the Party Committee and general manager of Heilongjiang Branch of the Bank in August 2008, general manager of the Customer Relations Department I of the Bank in January 2011. From March 2016, he served as the assistant to president of the Bank.

**Mr. Zhou Liangwei**, *Secretary of the Board*. Mr. Zhou was appointed as secretary of the board of the Bank in April 2017. With a master's degree in economics, Mr. Zhou is a senior economist and began his career in December 1980. He was formerly appointed as member of the Party Committee and assistant to president of Jiangxi Branch of the Bank in August 2001, vice president of Jiangxi Branch of the Bank in August 2003, deputy secretary of the Party Committee of Jiangxi Branch of the Bank in December 2006, deputy secretary of the Party Committee and president of Anhui Branch of the Bank in April 2009, general manager of finance and accounting department of the Bank in March 2012 and secretary of the Party Committee and president of Guangdong Branch of the Bank in March 2016.

**Mr. Li Xiaohui**, *Chief Risk Officer*. Mr. Zhu began his career in August 1985 and successively held the position as the secretary of deputy director level, and the secretary of director level in the office division of the Office for National Statistics from November 1993. He was appointed successively as the director of staff education division under the human resources and education department (organization department of the Party Committee) and the director of Labor and wage division after he started to work in the Bank from October 1998. In December 2000, Mr. Zhu started to hold the position as the deputy head of the human resources and education department and the vice director of the organization department of the Party Committee of the Bank from January 2005, he was appointed as the vice general manager of the human resources department of the Bank. He was appointed as the vice president and the member of the Party Committee of Yunnan branch of the Bank from March 2008, and as the vice president, Secretary of Committee for Discipline Inspection and the member of the Party Committee of Beijing branch of the Bank in January 2010. Mr. Zhu started to hold the position as the general manager of the legal and compliance department of the Bank from January 2014, and the president and the secretary of the Party Committee of Liaoning branch of the Bank from October 2015. In December 2017, he was appointed as the general manager of the human resources department and the director of the organization department of the Party Committee of the Bank. Mr. Li was appointed as the chief risk officer of the Bank in January 2019.



## **PRC CURRENCY CONTROLS RELATING TO RENMINBI**

### **Current Account Items**

Under PRC foreign exchange control regulations, current account items refer to any transaction for international receipts and payments involving goods, services, earnings and other frequent transfers.

Prior to July 2009, all current account items were required to be settled in foreign currencies with limited exceptions. Following progressive reforms, Renminbi settlement of imports and exports of goods and of services and other current account items became permissible nationwide in 2012.

Since July 2013, the procedures for cross-border Renminbi trade settlement under current account items have been simplified and trades through e-commerce can also be settled under in Renminbi under the current regulatory regime. A cash pooling arrangement for qualified multinational enterprise group companies was introduced in late 2014, under which a multinational enterprise group can process cross-border Renminbi payments and receipts for current account items on a collective basis for eligible member companies in the group. In addition, the eligibility requirements for multinational enterprise groups have been lowered and the cap for net cash inflow has been increased in September 2015.

The PBOC also permits enterprises in the China (Shanghai) Free Trade Pilot Zone (“**Shanghai FTZ**”) to establish an additional cash pool in the local scheme in the Shanghai FTZ, but each onshore company within the group may only elect to participate in one cash pooling programme. In November 2016, PBOC Shanghai Headquarters further allowed banks in Shanghai to provide multinational enterprise groups with services of full-function onshore cash pooling, which will enable broader scope for utilising pooled cash.

The regulations referred to above are subject to interpretation and application by the relevant PRC authorities. Local authorities may adopt different practices in applying these regulations and impose conditions for settlement of current account items.

### **Capital Account Items**

Under PRC foreign exchange control regulations, capital account items include cross-border transfers of capital, direct investments, securities investments, derivative products and loans. Capital account payments are generally subject to approval of, and/or registration or filing with, the relevant PRC authorities.

Until recently, settlement of capital account items, for example, the capital contribution of foreign investors to foreign invested enterprises in the PRC, was generally required to be made in foreign currencies. Under progressive reforms, foreign enterprises are now permitted to use Renminbi to settle all capital account items that can be settled in foreign currencies. Cross-border Renminbi payment infrastructure and trading facilities are being improved. Approval, registration and filing requirements specifically for capital account payments in Renminbi are being removed gradually.

PRC entities are also permitted to borrow Renminbi-denominated loans from foreign lenders (which are referred to as “**foreign debt**”) and lend Renminbi-denominated loans to foreign borrowers (which are referred to as “**outbound loans**”), as long as such PRC entities have the necessary quota, approval or registration. PRC entities may also denominate security or guarantee arrangements in Renminbi and make Renminbi payments thereunder to parties in the PRC as well as other jurisdictions (which is referred to as “**cross-border security**”). Under current rules promulgated by SAFE and PBOC, foreign debts borrowed, outbound loans extended, and the cross-border security provided by a PRC onshore entity (including a financial institution) in Renminbi shall, in principle, be regulated under the current PRC foreign debt, outbound loan and cross-border security regimes applicable to foreign currencies. After piloting in the free trade zones, the PBOC and SAFE launched a nation-wide system of macro-prudential management on cross-border financing in 2016, which provides for a unified regime for financings denominated in both foreign currencies and Renminbi.

Since September 2015, qualified multinational enterprise groups can extend Renminbi-denominated loans to, or borrow Renminbi-denominated loans from, eligible offshore member entities within the same group by leveraging the cash pooling arrangements. The Renminbi funds will be placed in a special deposit account and may not be used to invest in stocks, financial derivatives, or non-self-use real estate assets, or purchase wealth management products or extend loans to enterprises outside the group. Enterprises within the Shanghai FTZ may establish another cash pool under the Shanghai FTZ rules to extend inter-company loans, although Renminbi funds obtained from financing activities may not be pooled under this arrangement.

The securities markets, specifically the Renminbi Qualified Foreign Institutional Investor (“**RQFII**”) regime and the China Interbank Bond Market (“**CIBM**”), have been further liberalised for foreign investors. The PBOC has relaxed the quota control for RQFII, and has also expanded the list of eligible foreign investors in CIBM, removed quota restriction, and granted more flexibility for the settlement agents to provide the relevant institutions with more trading facilities (for example, in relation to derivatives for hedging foreign exchange risk).

Interbank foreign exchange market is also opening-up. In January 2016, CFETS set forth qualifications, application materials and procedure for foreign participating banks (which needs to have a relatively large scale of Renminbi purchase and sale business and international influence) to access the inter-bank foreign exchange market.

Recent reforms introduced were aimed at controlling the remittance of Renminbi for payment of transactions categorised as capital account items. There is no assurance that the PRC Government will continue to gradually liberalise the control over Renminbi payments of capital account item transactions in the future. The relevant regulations are relatively new and will be subject to interpretation and application by the relevant PRC authorities. Further, if any new PRC regulations are promulgated in the future which have the effect of permitting or restricting (as the case may be) the remittance of Renminbi for payment of transactions categorised as capital account items, then such remittances will need to be made subject to the specific requirements or restrictions set out in such rules.



## TAXATION

*The following summary of certain tax consequences of the purchase, ownership and disposition of the Bonds is based upon applicable laws, regulations, rulings and decisions in effect as at the date of this Offering Circular, all of which are subject to change (possibly with retroactive effect). This summary does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Bonds and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Neither these statements nor any other statements in this Offering Circular are to be regarded as advice on the tax position of any Bondholder or any person acquiring, selling or otherwise dealing in the Bonds or on any tax implications arising from the acquisition, sale or other dealings in respect of the Bonds. Persons considering the purchase of the Bonds should consult their own tax advisers concerning the possible tax consequences of purchase, ownership and disposition of the Bonds.*

### PRC

The following summary describes the principal PRC tax consequences of ownership of the Bonds by beneficial owners who, or which, are not residents of Mainland China for PRC tax purposes. These beneficial owners are referred to as non-PRC Bondholders in this section. In considering whether to invest in the Bonds, investors should consult their individual tax advisers with regard to the application of PRC tax laws to their particular situations as well as any tax consequences arising under the laws of any other tax jurisdiction. Reference is made to PRC taxes from the taxable year beginning on or after 1 January 2008.

### Income Tax

Pursuant to the EIT Law and its implementation regulations and IIT Law of the PRC, which was amended on 30 June 2011 and took effect on 1 September 2011 and further amended on 31 August 2018 and took effect on 1 January 2019, and its implementation regulations, an income tax is imposed on payment of interest by way of withholding in respect of debt securities, issued by PRC enterprises to non-PRC Bondholders, including non-PRC resident enterprises and non-PRC resident individuals. The current rates of such income tax are 10 per cent. for non-PRC resident enterprise Bondholders in the case of non-resident enterprise without offices or premises inside the PRC or with offices or premises within PRC but such gains have no actual connection to the offices or premises, 25 per cent. enterprise income tax rate for non-resident enterprise Bondholders in the case of non-resident enterprise holders with offices or premises inside the PRC and such gains are obtained by the offices or premises and 20 per cent. for non-PRC resident individuals.

Such income tax shall be withheld by the Bank that is acting as the obligatory withholder and such PRC enterprise shall withhold the tax amount from each payment due. To the extent that the PRC has entered into arrangements relating to the avoidance of double taxation with any jurisdiction, such as Hong Kong, that allow a lower rate of withholding tax, such lower rate may apply to qualified non-PRC resident enterprise Bondholders. The tax so charged on interests paid on the Bonds to non-PRC Bondholders who, or which are residents of Hong Kong (including enterprise holders and individual holders) as defined in the Arrangement will be 7 per cent. of the gross amount of the interest pursuant to the Arrangement and relevant interpretation of the Arrangement formulated by SAT. To enjoy this preferential tax rate of 7 per cent., the Bank could apply, on behalf of the Bondholders, to SAT for the application of the tax rate of 7 per cent. in accordance with the Arrangement on the interest payable in respect of the Bonds.

## **VAT**

Circular 36 confirms that business tax will be completely replaced by VAT from 1 May 2016. With effect from 1 May 2016, the income derived from the provision of financial services which attracted business tax are entirely replaced by, and subject to, VAT.

According to Circular 36, the entities and individuals providing the services within China shall be subject to VAT. The services are treated as being provided within China where either the service provider or the service recipient is located in China. The services subject to VAT include the provision of financial services such as the provision of loans. It is further clarified under Circular 36 that “loans” refers to the activity of lending capital for another’s use and receiving the interest income thereon. Based on the interpretation of “loans” under Circular 36, the issuance of Bonds may be treated as the Bondholders providing loans to the Bank, which thus could be regarded as the provision of financial services that could be subject to VAT. Further, given that the Bank is located in the PRC, the Bondholders would be regarded as providing the financial services within China and consequently, the Bondholders shall be subject to VAT at the rate of 6 per cent. when receiving the interest payments under the Bonds. In addition, the Bondholders shall be subject to the local levies at approximately 12 per cent. of the VAT payment and consequently, the combined rate of VAT and local levies would be around 6.72 per cent. Given that the Bank pays interest income to Bondholders who are located outside of the PRC, the Bank, acting as the obligatory withholder in accordance with applicable law, shall withhold VAT and local levies from the payment of interest income to Bondholders who are located outside of the PRC.

Where a Bondholder who is an entity or individual located outside of the PRC resells the Bonds to an entity or individual located outside of the PRC and derives any gain, since neither the service provider nor the service recipient is located in the PRC, theoretically Circular 36 does not apply and the Bank does not have the obligation to withhold the VAT or the local levies.

Circular 36 became effective on 1 May 2016 and the above disclosure may be subject to further change upon the issuance of further clarification rules and/or different interpretation by the competent tax authority. There is uncertainty as to the application of Circular 36.

Pursuant to the EIT Law, the Business Tax Laws and the VAT reform detailed above, the Bank shall withhold EIT, (should such tax apply) from the payments of interest in respect of the Bonds for any non-PRC-resident Bondholder and the Bank shall withhold business tax or VAT (should such tax apply) from the payments of interest in respect of the Bonds for any Bondholders located outside of the PRC. However, in the event that the Bank is required to make such a deduction or withholding (whether by way of EIT, business tax or VAT otherwise), the Bank has agreed to pay such additional amounts as will result in receipt by the Bondholders of such amounts after such withholding or deduction as would have been received by them had no such withholding or deduction been required. For more information, see Condition 7 (*Taxation*) of the Terms and Conditions of the Bonds.

## **Stamp duty**

No PRC stamp duty will be imposed on non-PRC Bondholders either upon issuance of the Bonds or upon a subsequent transfer of Bonds to the extent that the register of Bondholders is maintained outside the PRC and the issuance and the sale of the Bonds is made outside of the PRC.

## HONG KONG

### Withholding tax

No withholding tax is payable in Hong Kong in respect of payments of principal (including any premium payable on redemption of the Bonds) or interest on the Bonds or in respect of any capital gains arising from the sale of the Bonds.

### Profits tax

Hong Kong profits tax is chargeable on every person carrying on a trade, profession or business in Hong Kong in respect of profits arising in or derived from Hong Kong from such trade, profession or business (excluding profits arising from the sale of capital assets).

Interest on the Bonds may be deemed to be profits arising in or derived from Hong Kong from a trade, profession or business carried on in Hong Kong in the following circumstances:

- (a) interest on the Bonds is derived from Hong Kong and is received by or accrues to a corporation carrying on a trade, profession or business in Hong Kong;
- (b) interest on the Bonds is derived from Hong Kong and is received by or accrues to a person, other than a corporation, carrying on a trade, profession or business in Hong Kong and is in respect of the funds of that trade, profession or business; or
- (c) interest on the Bonds is received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance (Cap. 112) of Hong Kong (the “**IRO**”)) and arises through or from the carrying on by the financial institution of its business in Hong Kong; or
- (d) interest on the Bonds is received by or accrues to a corporation, other than a financial institution, and arises through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the IRO).

Sums received by or accrued to a financial institution by way of gains or profits arising through or from the carrying on by the financial institution of its business in Hong Kong from the sale, disposal and redemption of Bonds will be subject to Hong Kong profits tax. Sums received by or accrued to a corporation, other than a financial institution, by way of gains or profits arising through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the IRO) from the sale, disposal or other redemption of Bonds will be subject to Hong Kong profits tax.

Sums derived from the sale, disposal or redemption of Bonds will be subject to Hong Kong profits tax where received by or accrued to a person, other than a financial institution, who carries on a trade, profession or business in Hong Kong and the sum has a Hong Kong source unless otherwise exempted. The source of such sums will generally be determined by having regard to the manner in which the Bonds are acquired and disposed of.

In certain circumstances, Hong Kong profits tax exemptions (such as concessionary tax rates) may be available. Investors are advised to consult their own tax advisors to ascertain the applicability of any exemptions to their individual position.

## **Stamp duty**

No Hong Kong stamp duty will be chargeable upon the issue or transfer of a Bond.

## **FATCA**

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a “foreign financial institution” may be required to withhold on certain payments it makes to persons that fail to meet certain certification, reporting, or related requirements. The Bank may be a foreign financial institution for these purposes. A number of jurisdictions have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (“IGAs” and each an “IGA”), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Bonds, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Bonds, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Bonds, such withholding would not apply prior to 1 January 2019 and Bonds issued on or prior to the date that is six months after the date on which final regulations defining “foreign passthru payments” are filed with the U.S. Federal Register generally would be “grandfathered” for purposes of FATCA withholding unless materially modified after such date. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Bonds.

## **GERMANY**

### **Federal Republic of Germany**

The following general overview does not consider all aspects of income taxation in the Federal Republic of Germany (“**Germany**”) that may be relevant to a holder of the Bonds in the light of the holder’s particular circumstances and income tax situation. It is not intended to be, nor should it be construed to be, legal or tax advice. It is based on German tax laws and regulations, all as currently in effect and all subject to change at any time, possibly with retroactive effect. Prospective holders are urged to consult their own tax advisers as to the particular tax consequences to them of subscribing, purchasing, holding and disposing of the Bonds, including the application and effect of state, local, foreign and other tax laws and the possible effects of changes in the tax laws of Germany.

### **German resident investors**

#### ***Interest income***

If the Bonds are held as private assets (*Privatvermögen*) by an individual investor whose residence or habitual abode is in Germany, payments of interest under the Bonds are generally taxed as investment income (*Einkünfte aus Kapitalvermögen*) at a 25 per cent. flat tax (*Abgeltungsteuer*) (plus a 5.5 per cent. solidarity surcharge (*Solidaritätszuschlag*) thereon and, if applicable to the individual investor, church tax (*Kirchensteuer*)).

The flat tax is generally collected by way of withholding (see subsequent paragraph – *Withholding tax*) and the tax withheld shall generally satisfy the individual investor’s tax liability with respect to

the Bonds. If, however, no or not sufficient tax was withheld other than by virtue of a withholding tax exemption request (*Freistellungsauftrag*) (e.g. in case there is no Domestic Disbursing Agent as defined in the subsequent paragraph – *Withholding Tax*), the investor will have to include the income received with respect to the Bonds in its annual income tax return. The flat tax will then be collected by way of tax assessment. The investor may also opt for inclusion of investment income in its income tax return if the aggregated amount of tax withheld on investment income during the year exceeded the investor's aggregated flat tax liability on investment income (e.g. because of available losses carried forward or foreign tax credits). If the investor's individual income tax rate which is applicable on all taxable income including the investment income is lower than 25 per cent., the investor may opt to be taxed at individual progressive tax rates with respect to its investment income.

Individual investors are entitled to a saver's lump sum tax allowance (*Sparer-Pauschbetrag*) for investment income of 801 Euro per year (1,602 Euro for jointly assessed investors). The saver's lump sum tax allowance is also taken into account for purposes of withholding tax (see subsequent paragraph – *Withholding tax*) if the investor has filed a withholding tax exemption request (*Freistellungsauftrag*) with the respective Domestic Disbursing Agent (as defined below). The deduction of related expenses for tax purposes is not permitted.

The coalition agreement between the German Christdemocratic Party, the German Christian Social Union and the German Socialdemocratic Party for the formation of the current German federal government provides that the flat tax regime shall be partially abolished for certain capital investment income, including interest income. The coalition agreement further provides that the solidarity surcharge shall be abolished in stages provided that the individual income does not exceed certain thresholds. There is however no draft bill available yet and a lot of details are hence still unclear. That means however that income received by holders holding the Bonds as private assets may be taxed at individual progressive income tax rates of up to 45 per cent. in the future (plus a 5.5 per cent. solidarity surcharge thereon, unless abolished or reduced in the future, and church tax, if applicable to the individual holder). According to a recently published draft bill of the German federal ministry of finance for the amendment of the solidarity surcharge act dated 6 August 2019, the solidarity surcharge shall only be levied for wage tax and income tax purposes from the assessment period 2021 onwards if the individual income tax of the holder exceeds the threshold of EUR16,956 (EUR33,912 for jointly assessed investors). Pursuant to the draft bill, the solidarity surcharge shall remain in place for purposes of the withholding tax, the flat tax regime and the corporate income tax.

If the Bonds are held as business assets (*Betriebsvermögen*) by an individual or corporate investor which is tax resident in Germany (i.e. a corporation with its statutory seat or place of management in Germany), interest income from the Bonds is subject to personal income tax at individual progressive rates or corporate income tax (each plus a 5.5 per cent. solidarity surcharge thereon and church tax, if applicable to the individual investor) and, in general, trade tax. The effective trade tax rate depends on the applicable trade tax factor (*Gewerbesteuerhebesatz*) of the relevant municipality where the business is located. In case of individual investors the trade tax may, however, be partially or fully creditable against the investor's personal income tax liability depending on the applicable trade tax factor and the investor's particular circumstances. The interest income will have to be included in the investor's personal or corporate income tax return. Any German withholding tax (including surcharges) is generally fully creditable against the investor's personal or corporate income tax liability or refundable, as the case may be.

## ***Withholding tax***

If the Bonds are kept or administered in a domestic securities deposit account by a German credit or financial services institution (*Kredit-oder Finanzdienstleistungsinstitut*) (or by a German branch of a foreign credit or financial services institution), or by a German securities trading business (*Wertpapierhandelsunternehmen*) or a German securities trading bank (*Wertpapierhandelsbank*) (altogether the “**Domestic Disbursing Agent**”) which pays or credits the interest, a 25 per cent. withholding tax, plus a 5.5 per cent. solidarity surcharge thereon, resulting in a total withholding tax charge of 26.375 per cent., is generally levied on the interest payments. If church tax applies, the applicable withholding tax rate is in excess of the aforementioned rate if church tax is collected for the individual investor which is provided for as a standard procedure unless the holder has filed a blocking notice (*Sperrvermerk*) with the German Federal Central Tax Office (*Bundeszentralamt für Steuern*). In the latter case the investor has to include the investment income in the tax return and will then be assessed to church tax.

The Domestic Disbursing Agent may generally deduct from the basis of the withholding tax negative investment income realized by the individual investor of the Bonds via such Domestic Disbursing Agent (e.g. losses from the sale of other securities with the exception of shares). The Domestic Disbursing Agent may also deduct interest accrued on the Bonds or other securities paid separately upon the acquisition of the respective security via the Domestic Disbursing Agent. In addition, subject to certain requirements and restrictions the Domestic Disbursing Agent may credit foreign withholding taxes levied on investment income in a given year regarding securities held by the individual investor in the custodial account with the Domestic Disbursing Agent.

## ***Capital gains from sale or redemption***

Subject to the saver’s lump sum tax allowance for investment income described under the paragraph Interest income above, capital gains from the sale or redemption of the Bonds held as private assets are taxed at the 25 per cent. flat tax (plus a 5.5 per cent. solidarity surcharge thereon and, if applicable to the individual investor, church tax). The capital gain is generally determined as the difference between the proceeds from the sale or redemption of the Bonds and the acquisition costs. Expenses directly and factually related (*unmittelbarer sachlicher Zusammenhang*) to the sale or redemption are taken into account. Otherwise, the deduction of related expenses for tax purposes is not permissible. The same applies to proceeds from the separate disposal of interest claims (i.e. without the Bonds) or to proceeds from the payment of interest claims if the Bonds have been disposed separately.

Where the Bonds are acquired and/or sold in a currency other than Euro, the acquisition costs will be converted into Euro at the time of acquisition, the sales proceeds will be converted in Euro at the time of sale, and only the difference will then be computed in Euro.

Capital losses from the sale or redemption of Bonds held as private assets are generally tax-recognised irrespective of the holding period of the Bonds. The losses may, however, not be used to offset other income like employment or business income but may only be offset against investment income subject to certain limitations. Losses not utilised in one annual assessment period may be carried forward into subsequent assessment periods but may not be carried back into preceding assessment periods.



According to the view of German tax authorities, a bad debt loss (*Forderungsausfall*) and a waiver of a receivable (*Forderungsverzicht*) (to the extent the waiver does not qualify as a hidden contribution) shall, in general, not be treated as a sale, so that losses suffered upon such bad debt loss or waiver shall not be deductible for tax purposes. However, in contrast to the view of the German tax authorities, the German Federal Fiscal Court decided in 2017 that a final bad debt loss with respect to a capital claim shall be deductible for tax purposes; the question whether this also applies to a waiver of a receivable has been left open by the court. With respect to a (voluntary) waiver of receivable a lower German fiscal court confirmed the view of the German tax authorities in a final decision and another lower fiscal court rejected the jurisdiction of the German Federal Fiscal Court with respect to the tax deductibility of a bad debt loss. Two further decisions in this context are currently still pending with the German Federal Fiscal Court.

While the German tax authorities previously took the position that a disposal (and, as a consequence, a tax loss resulting from such disposal) shall not be recognized if the Bonds are sold at a market price, which is lower than the transaction costs or if the level of transaction costs is restricted because of a mutual agreement that the transaction costs are calculated by subtracting a certain amount from the sales price, the German tax authorities have recently concluded in an amendment from 10 May 2019 to the tax decree issued by the German Federal Ministry of Finance dated 18 January 2016 that the recognition as disposal shall not depend on the amount of any consideration or the amount of the transaction costs.

While the German tax authorities previously took the position that capital losses shall not be recognised by the German tax authorities if no (or only de minimis) payments are made to the individual investors on the maturity or redemption date of the Bonds, the German Federal Fiscal Court has published a decision to the contrary with regard to losses incurred in connection with knock-out certificates. In this decision the German Federal Fiscal Court took the view that exceeding the knock-out threshold (i.e. no payments on the day of exceeding the knock-out threshold) shall be treated similar to a bad debt loss as a sale at the value zero, so that losses suffered shall also be deductible for tax purposes. According to the amendment to the tax decree issued by the German Federal Ministry of Finance dated 18 January 2016 recently published on 16 September 2019, the German Federal Ministry of Finance now also applies the principles of the ruling of the German Federal Fiscal Court.

However, according to the recently published draft bill of the German Federal Government for an annual Tax Act 2019 (*Jahressteuergesetz 2019*) dated 31 July 2019 the view of the federal ministry of finance on the non-deductibility of capital losses for tax purposes in the scenarios described above shall largely be codified in the German Income Tax Act and apply as of 1 January 2020.

The flat tax is generally collected by way of withholding (see subsequent paragraph – *Withholding tax*) and the tax withheld shall generally satisfy the individual investor's tax liability with respect to the Bonds. With respect to the return filing, investors shall refer to the description under paragraph Interest income above.

If the Bonds are held as business assets (*Betriebsvermögen*) by an individual or corporate investor which is tax resident in Germany, capital gains from the Bonds are subject to personal income tax at individual progressive tax rates or corporate income tax (plus solidarity surcharge thereon and church tax, if applicable to the individual investor) and, in general, trade tax. The effective trade tax rate depends on the applicable trade tax factor of the relevant municipality where the business is located.



In case of an individual investor the trade tax may, however, be partially or fully creditable against the investor's personal income tax liability depending on the applicable trade tax factor and the investor's particular circumstances. The capital gains will have to be included in the investor's personal or corporate income tax return. Capital losses from the sale or redemption of the Bonds should generally be tax-recognised and may generally be offset against other income. Any German withholding tax (including surcharges) is generally fully creditable against the investor's personal or corporate income tax liability or refundable, as the case may be.

### ***Withholding tax***

If the Bonds are kept or administered by a Domestic Disbursing Agent from the time of their acquisition, a 25 per cent. withholding tax, plus a 5.5 per cent. solidarity surcharge thereon, is levied on the capital gains, resulting in a total withholding tax charge of 26.375 per cent. If the Bonds were sold or redeemed after being transferred to a securities deposit account with a Domestic Disbursing Agent, the 25 per cent. withholding tax (plus a 5.5 per cent. solidarity surcharge thereon) would be levied on 30 per cent. of the proceeds from the sale or the redemption, as the case may be, unless the investor or the previous depository bank was able and allowed to provide evidence for the investor's actual acquisition costs to the current Domestic Disbursing Agent. If church tax applies, the applicable withholding tax rate is in excess of the aforementioned rate if church tax is collected for the individual investor which is provided for as a standard procedure unless the holder has filed a blocking notice (*Sperrvermerk*) with the German Federal Central Tax Office (*Bundeszentralamt für Steuern*).

No withholding is generally required on capital gains from the disposal or redemption of the Bonds which is derived by German resident corporate investors and, upon application, by individual investors holding the Bonds as business assets, subject to certain requirements.

Any capital losses incurred from the disposal or redemption of the Bonds will not be taken into account for withholding tax purposes.

### **Non-German tax resident investors**

Income derived from the Bonds by investors who are not tax resident in Germany is in general not subject to German income taxation, and no withholding tax shall be withheld, unless (i) the Bonds are held as business assets of a German permanent establishment of the investor or by a permanent German representative of the investor, (ii) the income derived from the Bonds does otherwise constitute German source income (such as income derived from the letting and leasing of certain property located in Germany) or (iii) the income is paid or credited by a Domestic Paying Agent against presentation of the Bonds or interest coupons (so-called over-the-counter transaction, *Tafelgeschäfte*).

If the income derived from the Bonds is subject to German taxation according to (i) to (iii) above, the income is subject to German income taxation and withholding tax similar to that described above for German tax residents. Under certain circumstances, foreign investors may benefit from tax reductions or tax exemptions under applicable double tax treaties (*Doppelbesteuerungsabkommen*) entered into with Germany.

## **Inheritance and gift tax**

The transfer of Bonds to another person by way of gift or inheritance may be subject to German gift or inheritance tax, respectively, if *inter alia* the testator, the donor, the heir, the donee or any other acquirer had his residence, habitual abode or, in case of a corporation, association of persons (*Personenvereinigung*) or asset pool (*Vermögensmasse*), has its seat or place of management in Germany at the time of the transfer of property, except as provided under (i), the testator's or donor's Bonds belong to a business asset attributable to a permanent establishment or a permanent representative in Germany.

Special regulations may apply to certain German expatriates.

Prospective investors are urged to consult with their tax advisor to determine the particular inheritance or gift tax consequences in light of their particular circumstances.

## **Other taxes**

The purchase, sale or other disposal of Bonds does not give rise to capital transfer tax, value added tax, stamp duties or similar taxes or charges in Germany. However, under certain circumstances entrepreneurs may choose liability to value added tax with regard to the sales of Bonds to other entrepreneurs which would otherwise be tax exempt. Net wealth tax (*Vermögensteuer*) is, at present, not levied in Germany.

## **The proposed Financial Transaction Tax**

The European Commission has published a proposal for a Directive for a common financial transaction tax (the “FTT”) in certain participating Member States, including Germany. The proposed FTT has a very broad scope and could apply to certain dealings in financial instruments (including secondary market transactions).

The FTT as originally proposed could apply to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in financial instruments where at least one party is a financial institution, and either (i) at least one party is established or deemed to be established in a participating Member State or (ii) the financial instruments are issued in a participating Member State.

According to the coalition agreement between the German Christian Democratic Party, the German Christian Social Union and the German Social Democratic Party, the current German government still has the intention to introduce a FTT. In June 2018, Germany and France agreed to further pursue the implementation of a FTT in the EU for which the current French financial transaction tax (which is mainly focused on transactions regarding shares in listed companies with a market capitalization of more than EUR 1 billion) could serve as a role model. Therefore, France and Germany recently presented a common position paper on the introduction of an EU-wide FTT based on the French model to the High Level Working Party at a meeting of the Council of the European Union.

However, the FTT proposal remains subject to negotiation between the (still) participating Member States and its adoption and the scope of any such tax is uncertain. Additional EU member states may decide to participate. Prospective holders of the Bonds are advised to seek their own professional advice in relation to the FTT.

## **LUXEMBOURG**

The comments below are intended as a basic summary of certain tax consequences in relation to the purchase, ownership and disposal of the Bonds under Luxembourg law. Persons who are in any doubt as to their tax position should consult a professional tax adviser.

### **Withholding Tax**

Under Luxembourg tax law currently in effect and with the possible exception of interest paid to certain individual Bondholders, there is no Luxembourg withholding tax on payments of interest (including accrued but unpaid interest). There is also no Luxembourg withholding tax, with the possible exception of payments made to certain individual Bondholders, upon repayment of principal in case of reimbursement, redemption, repurchase or exchange of the Bonds.

#### ***Luxembourg residents***

In accordance with the law of 23 December 2005, as amended, on the introduction of a withholding tax on certain interest payments on savings income, interest payments made by Luxembourg paying agents to Luxembourg individual residents are subject to a 20 per cent. withholding tax. Responsibility for withholding such tax will be assumed by the Luxembourg paying agent.

### **Income Taxation on Principal, Interest, Gains on Sales or Redemption**

#### ***Luxembourg tax residency of the Bondholders***

Bondholders will not be deemed to be resident, domiciled or carrying on business in Luxembourg solely by reason of holding, execution, performance, delivery, exchange and/or enforcement of the Bonds.

#### ***Taxation of Luxembourg non-residents***

Bondholders who are non-residents of Luxembourg and who do not have a permanent establishment, a permanent representative or a fixed base of business in Luxembourg with which the holding of the Bonds is connected, will not be subject to taxes (income taxes and net wealth tax) or duties in Luxembourg with respect to payments of principal or interest (including accrued but unpaid interest), payments received upon redemption, repurchase or exchange of the Bonds or capital gains realised upon disposal or repayment of the Bonds.

#### ***Taxation of Luxembourg residents***

Bondholders who are residents of Luxembourg will not be liable for any Luxembourg income tax on repayment of principal.

Interest received by an individual resident in Luxembourg is, in principle, reportable and taxable at the progressive rate unless the interest has been subject to withholding tax (see above “Withholding Tax” – *Luxembourg residents*) or to the self-applied tax, if applicable. Indeed, in accordance with the Luxembourg law of 23 December 2005, as amended, Luxembourg resident individuals, acting in the framework of their private wealth, can opt to self-declare and pay a 20 per cent. tax on interest payments made by paying agents located in an EU Member State other than Luxembourg, or a Member State of the European Economic Area other than an EU Member State.

The withholding tax or self-applied tax are the final tax liability for the Luxembourg individual resident taxpayers receiving the interest payment in the framework of their private wealth. Individual Luxembourg resident Bondholders receiving the interest as business income must include this interest in their taxable basis. If applicable, the 20 per cent. Luxembourg withholding tax levied will be credited against their final income tax liability.

Luxembourg resident individual Bondholders are not subject to taxation on capital gains upon the disposal of the Bonds, unless the disposal of the Bonds precedes the acquisition of the Bonds or the Bonds are disposed of within six months of the date of acquisition of these Bonds. Upon the sale, redemption or exchange of the Bonds, accrued but unpaid interest will be subject to the 20 per cent. withholding tax or the self-applied tax, if applicable. Individual Luxembourg resident Bondholders receiving the interest as business income must include the portion of the price corresponding to this interest in their taxable income. The 20 per cent. Luxembourg withholding tax levied will be credited against their final income tax liability.

Luxembourg resident corporate Bondholders, or non-resident Bondholders which have a permanent establishment, a permanent representative or a fixed base of business in Luxembourg with which the holding of the Bonds is connected, must for income tax purposes include in their taxable income any interest (including accrued but unpaid interest) as well as the difference between the sale or redemption price and the lower of the cost or book value of the Bonds sold or redeemed. Luxembourg resident corporate Bondholders which are companies benefiting from a special tax regime (such as (a) family wealth management companies subject to the law of 11 May 2007, as amended, (b) undertakings for collective investment subject to the law of 17 December 2010, as amended, (c) specialised investment funds subject to the law of 13 February 2007, as amended, or (d) reserved alternative investment funds governed by the law of 23 July 2016, provided it is not foreseen in the incorporation documents that (i) the exclusive object is the investment in risk capital and that (ii) article 48 of the aforementioned law of 23 July 2016 applies) are tax exempt entities in Luxembourg, and are thus not subject to any Luxembourg tax (i.e., corporate income tax, municipal business tax and net wealth tax) other than the annual subscription tax calculated on their (paid up) share capital (and share premium) or net asset value.

### **Net Wealth tax**

Luxembourg net wealth tax will not be levied on the Bonds held by a corporate Bondholder, unless (a) such Bondholder is a Luxembourg resident other than a Bondholder governed by (i) the laws of 17 December 2010 on undertakings for collective investment, as amended, (ii) the law of 13 February 2007 on specialised investment funds, as amended, (iii) the law of 22 March 2004 on securitisation, as amended, (iv) the law of 15 June 2004 on the investment company in risk capital, as amended, (v) the law of 11 May 2007 on family estate management companies, as amended, or (vi) the law of 23 July 2016 on reserved alternative investment funds, or (b) the Bonds are attributable to an enterprise or part thereof which is carried on in Luxembourg through a permanent establishment or a permanent representative.

## **Other taxes**

No stamp, registration, transfer or similar taxes or duties will be payable in Luxembourg by Bondholders in connection with the issue of the Bonds, nor will any of these taxes be payable as a consequence of a subsequent transfer or redemption of the Bonds, unless the documents relating to the Bonds are (a) voluntarily registered in Luxembourg, or (b) appended to a document that requires mandatory registration in Luxembourg. There is no Luxembourg value added tax payable in respect of payments in consideration for the issuance of the Bonds or in respect of the payment of interest or principal under the Bonds or the transfer of the Bonds. Luxembourg value added tax may, however, be payable in respect of fees charged for certain services rendered to the Issuer, if for Luxembourg value added tax purposes such services are rendered or are deemed to be rendered in Luxembourg and an exemption from Luxembourg value added tax does not apply with respect to such services. Bondholders not permanently resident in Luxembourg at the time of death will not be subject to inheritance or other similar taxes in Luxembourg in respect of the Bonds. No Luxembourg gift tax is levied upon a gift or donation of the Bonds, if the gift is not passed before a Luxembourg notary or recorded in a deed registered in Luxembourg.

## **SUMMARY OF CERTAIN DIFFERENCES BETWEEN PRC GAAP AND IFRS**

The consolidated financial statements of the Bank have been prepared in accordance with the PRC Accounting Standards. Other than on reversal of impairment provisions taken on assets, PRC Accounting Standards have substantively converged with IFRS. Accordingly, there are no other significant differences between the principal accounting policies adopted by the Bank and IFRS. The difference on reversal of impairment provisions taken on assets is discussed in further detail in this section.

### **Reversal of Impairment Losses on Assets**

In accordance with to PRC Accounting Standards No. 8 – Impairment of Assets, an asset impairment loss that has been recognised shall not be reversed in subsequent accounting periods, while in accordance with IAS 36 Impairment of Assets, an entity shall assess at the end of each reporting period whether there is any indication that an impairment loss recognised in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the entity shall estimate the recoverable amount of that asset. An impairment loss recognised in prior periods for an asset other than goodwill can be reversed if, and only if, there has been a change in the estimates used to determine the recoverable amount of that asset since the last impairment loss was recognised.

### **Business Combinations Under the Common Control**

A business combination under the common control has specific provisions in PRC Accounting Standards No. 20 – Business Combinations, and the recognition and measurement of the investment has specific provisions in accordance with to PRC Accounting Standards No. 2 – Long-term Equity Investments, but IFRS 3 Business Combinations does not make specific discussion on business combination under the common control.

For the years ended 31 December 2017 and 2018, respectively, the Bank had no such reversal of impairment losses on assets and business combinations under the common control. Therefore, the above technical difference had no substantial impact on the consolidated financial statements of the Bank included elsewhere in this Offering Circular.

### **Application of fair value**

IFRS emphasize the use of fair value, while PRC Accounting Standards emphasize book value. Like international accounting standards, IFRS emphasize the use of fair value in asset valuation, especially in asset transactions. According to the current accounting system and the issued accounting standards in Mainland China, the book value is basically used as the basis of assets valuation. This difference is highlighted in the treatment of investment and non-monetary transactions.

The above analysis is not meant to be an exhaustive description of all significant differences between PRC GAAP and IFRS. In making an investment decision, investors must rely upon their own examination of the Bank, the Group, the terms of the offering and the financial information included herein. Potential investors should consult their own professional advisers for an understanding of any differences that may exist between PRC GAAP and IFRS, and how those differences might affect the financial information.

## SUBSCRIPTION AND SALE

The Bank has entered into a subscription agreement with the Joint Lead Managers dated 30 October 2019 (the “**Subscription Agreement**”), pursuant to which and subject to certain conditions contained therein, the Bank has agreed to sell to the Joint Lead Managers, and the Joint Lead Managers have agreed to, severally but not jointly, subscribe and pay for or to procure subscribers to subscribe and pay for (i) the CNY Bonds at an issue price of 100 per cent. and (ii) the CNY Green Bonds at an issue price of 100 per cent. of their respective principal amount as set out in the Subscription Agreement.

The Subscription Agreement provides that (1) the Joint Lead Managers and their respective affiliates, and their respective directors, officers, employees or agents will be indemnified against certain liabilities in connection with the offer and sale of the Bonds; (2) the Bank will pay each Joint Lead Manager a management commission in respect of the Bonds subscribed by it; and (3) the Bank may pay certain third parties (such as the Agents) certain fees and expenses. The Subscription Agreement provides that the obligations of the Joint Lead Managers are subject to certain conditions precedent, and entitles the Joint Lead Managers to terminate it in certain circumstances prior to payment being made to the Bank.

The Joint Lead Managers and certain of their respective subsidiaries or affiliates may have in the past performed and may in the future perform certain investment banking and advisory services for, and enter into certain commercial banking transactions with, the Bank or its affiliates, from time to time, for which they have received customary fees and expenses. The Joint Lead Managers and their respective subsidiaries or affiliates may, from time to time, engage in transactions with and perform services for the Bank and/or its subsidiaries in the ordinary course of business.

In connection with the offering of the Bonds, the Joint Lead Managers and/or their respective affiliate(s) may act as an investor for its own account and may take up Bonds in the offering and in that capacity may retain, purchase or sell for its own account such securities and any securities of the Bank and may offer or sell such securities or other investments otherwise than in connection with the offering. Accordingly, references herein to the Bonds being offered should be read as including any offering of the Bonds to the Joint Lead Managers and/or their respective affiliates acting in such capacity. Such persons do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so. The Joint Lead Managers or their respective affiliates may purchase the Bonds for its own account or for the accounts of their customers and enter into transactions, including credit derivative, such as asset swaps, repackaging and credit default swaps relating to the Bonds and/or other securities of the Bank or its subsidiaries or associates at the same time as the offer and sale of the Bonds or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Bonds to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchasers of the Bonds).

### General

The distribution of this Offering Circular or any offering material and the offering, sale or delivery of the Bonds is restricted by law in certain jurisdictions. Therefore, persons who may come into possession of this Offering Circular or any offering material are advised to consult their own legal advisers as to what restrictions may be applicable to them and to observe such restrictions. This Offering Circular may not be used for the purpose of an offer or invitation in any circumstances in which such offer or invitation is not authorised.



No action has been or will be taken in any jurisdiction by the Bank or the Joint Lead Managers that would permit a public offering, or any other offering under circumstances not permitted by applicable law, of the Bonds, or possession or distribution of this Offering Circular, any amendment or supplement thereto issued in connection with the proposed resale of the Bonds or any other offering or publicity material relating to the Bonds, in any country or jurisdiction where action for that purpose is required. Accordingly, the Bonds may not be offered or sold, directly or indirectly, and neither this Offering Circular nor any other offering material or advertisements in connection with the Bonds may be distributed or published, by the Bank or the Joint Lead Managers, in or from any country or jurisdiction, except in circumstances which will result in compliance with all applicable rules and regulations of any such country or jurisdiction and will not impose any obligations on the Bank or the Joint Lead Managers. If a jurisdiction requires that an offering of Bonds be made by a licensed broker or dealer and a Joint Lead Manager or any affiliate of the Joint Lead Managers is a licensed broker or dealer in that jurisdiction, such offering shall be deemed to be made by such Joint Lead Manager or such affiliate on behalf of the Bank in such jurisdiction.

### **United States**

The Bonds have not been and will not be registered under the Securities Act and may not be offered or sold within the United States unless pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

Each Joint Lead Manager has represented, warranted and undertaken that it has not offered or sold and will not offer or sell any Bonds constituting part of its allotment within the United States except in accordance with Rule 903 of Regulation S under the Securities Act and, accordingly that neither it nor any of its affiliates (including any person acting on behalf of the Joint Lead Managers or any of its affiliates) has engaged or will engage in any directed selling efforts with respect to the Bonds. Terms used in this paragraph have the meaning given to them by Regulation S under the Securities Act.

### **Hong Kong**

Each of the Joint Lead Managers has represented and agreed that:

- (a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Bonds other than (1) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the “SFO”) and any rules made under the SFO; or (2) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the “C(WUMP)O”) or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and
- (b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Bonds, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Bonds which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the SFO and any rules made under the SFO.

## PRC

Each of the Joint Lead Managers has represented, warranted and undertaken that the Bonds are not being offered or sold and may not be offered or sold, directly or indirectly, in the PRC (for such purposes, not including the Hong Kong and Macau Special Administrative Regions or Taiwan), except as permitted by the securities laws of the PRC.

## Japan

The Bonds have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the “**Financial Instruments and Exchange Act**”).

Accordingly, each of the Joint Lead Managers has represented, warranted and undertaken that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Bonds in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

## United Kingdom

Each of the Joint Lead Managers has represented, warranted and undertaken that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the “**FSMA**”)) received by it in connection with the issue or sale of any Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the Bank; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom.

## Singapore

Each of the Joint Lead Managers has acknowledged that this Offering Circular has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each of the Joint Lead Managers has represented, warranted and agreed that it has not offered or sold any Bonds or caused the Bonds to be made the subject of an invitation for subscription or purchase and will not offer or sell any Bonds or cause the Bonds to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Bonds, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289 of Singapore), as modified or amended from time to time including by any subsidiary legislation as may be applicable at the relevant time (together, the “**SFA**”)) pursuant to Section 274

of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Bonds are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Bonds pursuant to an offer made under Section 275 of the SFA except:

- (1) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (2) where no consideration is or will be given for the transfer;
- (3) where the transfer is by operation of law;
- (4) as specified in Section 276(7) of the SFA; or
- (5) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Shares and Securities-based Derivatives Contracts) Regulations 2018 of Singapore.

*Singapore Securities and Futures Act Product Classification: In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the "SFA") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "CMP Regulations 2018"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Bonds are 'prescribed capital markets products' (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).*

## **Taiwan**

The Bonds have not been and will not be registered or filed with, or approved by, the Financial Supervisory Commission of Taiwan and/or other regulatory authority of Taiwan pursuant to relevant securities laws and regulations of Taiwan and may not be issued, offered or sold within Taiwan through a public offering or in circumstances which constitute an offer within the meaning of the Securities and Exchange Act of Taiwan that requires a registration, filing or approval of the Financial

Supervisory Commission of Taiwan and/or other regulatory authority of Taiwan. No person or entity in Taiwan has been authorised to offer or sell the Bonds in Taiwan. The Bonds may be made available outside Taiwan for purchase outside Taiwan by Taiwan resident investors, but may not be offered or sold in Taiwan.

## **Macau**

The Bonds have not been and will not be promoted, distributed, sold or delivered in Macau, or any document relating to the Bonds be distributed or circulated in Macau, except under the terms of and in compliance with the Macau Financial System Act and any other laws in Macau that may apply to the offer and sale of the Bonds in Macau. The Bonds have not been and will not be registered or otherwise authorised for public offer under the Financial System Act of Macau, thus may not be offered or sold in Macau, unless such offer is made by Macau licensed entities according to the Macau Financial System Act and upon their communication to the Macau Monetary Authority, in observation of the guidelines and recommendations issued by the Macau local regulatory authority from time to time.

## GENERAL INFORMATION

1. **Legal Entity Identifier:** The Legal Entity Identifier code of the Bank is 3003 00C 10203 11000158.
2. **Clearing Systems:** The CNY Bonds have been accepted for clearance through CMU with the CMU Instrument Number BCMKFB19030, ISIN HK0000536356 and Common Code number 206618833. The CNY Green Bonds have been accepted for clearance through CMU with the CMU Instrument Number BCMKFB19029, ISIN HK0000536349 and Common Code number 206619597.
3. **Authorisations:** The Bank has obtained all necessary consents, approvals and authorisations in connection with the issue and performance of its obligations under the Bonds, the Deeds of Covenant and the Fiscal Agency Agreement, including (i) the written resolutions of the 17th Party Committee's work conference meeting of the Bank dated 16 April 2019; (ii) the written resolutions of the Board of Directors dated 27 September 2019; (iii) the registration with the NDRC in accordance with the NDRC Circular by the Bank with respect to the issuance of the Bonds; and (iii) the approval from the PBOC dated 26 March 2019 obtained by the Bank in respect of the Bonds.
4. **Registrations and Filings:** The Bank undertakes to submit or cause to be submitted with the NDRC, the PBOC and SAFE after the Issue Date, within the time period prescribed by the NDRC, the PBOC and SAFE respectively, in each case pursuant to relevant laws and regulations, the requisite information and documents as required by the relevant regulatory authority. The Bank will submit for recordation of the proceeds of the Bonds to the Capital Account Information System of SAFE and may directly go through the formalities for withdrawal and repayment in connection with foreign debts pursuant to the Interim Measures and the Foreign Debts Measures.
5. **No Significant/Material Adverse Change:** There has been no significant change in the financial or trading position of the Bank or the Group since 31 December 2018 and there has been no material adverse change, or any development reasonably likely to involve an adverse change, in the financial or trading position, prospects or results of operations of the Bank since 31 December 2018.
6. **Statement on Prospect:** The Bank expected the business operations and financial performance in the year of 2019 to be in line with trends displayed in the year of 2018.
7. **Litigation:** As at the date of this Offering Circular, neither the Bank, its subsidiaries or the Group is involved in any litigation or arbitration proceedings that the Bank believes are material in the context of the Bonds, nor is the Bank aware that any such proceedings are pending or threatened.
8. **Available Documents:** Copies of the Deeds of Covenant, the Fiscal Agency Agreement, the approval of the PBOC dated 26 March 2019, the registration certificate issued by the NDRC, this Offering Circular, the Extract of the Articles of Association of the Bank, will be available free of charge for inspection and collection from the Issue Date at the corporate headquarters and principal place of business of the Bank in the PRC at A2 Yuetanbeijie Street, Xicheng District, Beijing 100045, PRC and at the office of the Fiscal Agent at 20 Pedder Street, Central, Hong Kong during normal business hours, so long as any of the Bonds is outstanding. Copies

of the Bank's annual report for the years ended 31 December 2017 and 2018 will be available for inspection and collection from the Issue Date at the Fiscal Agent's office at 20 Pedder Street, Central, Hong Kong, during normal business hours, so long as any of the Bonds is outstanding.

Copies of the Audited Financial Statements and of the Extract of the Articles of Association of the Bank, and in each case the corresponding English translation(s), will be available free of charge for inspection from the Issue Date at the offices of Linklaters LLP at One Silk Street, London EC2Y 8HQ, United Kingdom during normal business hours, so long as any of the Bonds is outstanding.

9. **Financial Statements:** English translations of the Audited Financial Statements, which have been audited by Grant Thornton (in respect of the Group's 2017 audited consolidated financial information) and PwC (in respect of the Group's 2018 audited consolidated financial information), are included elsewhere in this Offering Circular. These consolidated financial statements of the Bank have been prepared in accordance with PRC GAAP. These consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in other countries and jurisdictions.
10. **Listing:** An application has been made to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Bonds by way of debt issues to Professional Investors only. It is expected that such permission will become effective on or around 7 November 2019.

An application has been made to the Luxembourg Stock Exchange for the Bonds to be admitted to trading on the EuroMTF market and listed on the Official List of the Luxembourg Stock Exchange. An application has also been made for the CNY Green Bonds to be displayed on the LGX.

In respect of Bonds admitted to trading on a market operated by the LuxSE and listed in the Official List of the LuxSE and as long as the rules of such exchange so require, all notices regarding the Bonds will be published in a Luxembourg daily newspaper with general circulation in Luxembourg (which is expected to be the Luxemburger Wort) or on the LuxSE website ([www.bourse.lu](http://www.bourse.lu)).

Application will be made to the Frankfurt Stock Exchange for the Bonds to be admitted to trading in the Quotation Board of the Open Market (*Freiverkehr*) at the Frankfurt Stock Exchange and the Bonds will be available for trading on the China Europe International Exchange AG (CEINEX).

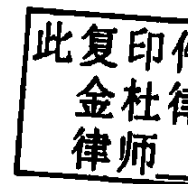
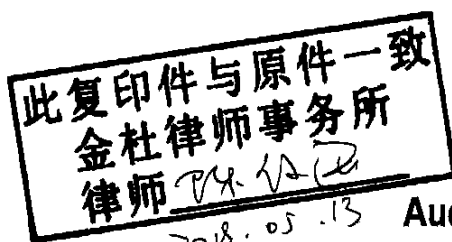
Application has also been made to the London Stock Exchange for the Bonds to be admitted to trading on the ISM. The ISM is not a regulated market for the purposes of MiFID II. The ISM is a market designated for professional investors. Bonds admitted to trading on the ISM are not admitted to the Official List of the United Kingdom Listing Authority. The London Stock Exchange has not approved or verified the contents of this Offering Circular. Such admission to trading is expected to be effective on or immediately following the Issue Date.

Application has been made to the MOX for the listing of the Bonds by way of debt issues to MOX Professional Investors only. Admission to the listing of the Bonds on the MOX shall not be taken as an indication of the merits of the Issuer or the Bonds.

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**Auditor's Report**

**Zhitongshenzi [2018] No. 110ZA5582**

**To the owner of Agricultural Development Bank of China,**

We have audited the accompanying consolidated and parent financial statements of Agricultural Development Bank of China Company Limited (hereinafter "ADBC"), which comprise the consolidated and parent statement of financial position as at December 31, 2017, the consolidated and parent statement of comprehensive income, the consolidated and parent statement cash flows and the consolidated and parent statement of changes in equity for the year then ended, and the notes to the consolidated and parent financial statements.

In our opinion, the accompanying financial statements have been prepared in accordance with Accounting Standards for Business Enterprises and present fairly, in all material respects, the consolidated and parent financial position of the ADBC as at December 31, 2017, and the consolidated and parent financial performance and cash flows for the year then ended.

**Basis of Forming the Audit Opinion**

We conducted our audit in accordance with Chinese Certified Public Accountants' Auditing Standards (hereafter, the Standards). Section *Auditor's Responsibilities for the Audit of the Financial Statements* further illustrate our responsibilities in accordance with the Standards. In accordance with the Chinese Certified Public Accountants Ethical Requirements, we are independent of the ADBC and fulfill our ethical responsibilities. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management of the ADBC is responsible for preparing and presenting the financial statements in accordance with Accounting Standards for Business Enterprises and for the purpose of fair presentation and designing, implementing and maintaining internal control necessary to the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

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During the preparation of the financial statements, the management is responsible for assessing the ADBC' s going-concern capability; disclosing, where applicable, matters in relation to the going-concern status; and applying the going-concern assumption for preparation of the financial statements, unless the management plans to liquidate the ADBC, discontinue operation of the ADBC or has no other practical alternative.

Those charged with governance are responsible for monitoring the ADBC' s financial reporting process.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objective is to obtain reasonable assurance as to whether the financial statements are free from material misstatements, whether due to fraud or error; and issue an audit report which includes an audit opinion. Reasonable assurance is a high level assurance; however, a high level assurance does not guarantee a material misstatement is always detected by an audit performed in accordance with the Standards. A misstatement can be resulted from either fraud or error. Misstatements are material if individually or in aggregate the misstatements may influence the economic decision of the users of the financial statements by using the financial statements.

During the performance of our audit in accordance with the Standards, we involve professional judgements and maintain profession skepticism; also, we perform the following procedures:

- A. We identify and assess risks of material misstatements resulted from fraud or error; design and implement audit procedures to mitigate those risks; and obtain sufficient and appropriate audit evidence as basis for forming the audit opinion. As fraud may involve collusion, forgery, willful omission, false statement or override over internal controls, the risk of not detecting material misstatements resulted from fraud is higher than the risk of not detecting material misstatements resulted from error.
- B. We obtain an understanding of internal controls relevant to the audit and design audit procedures accordingly, but not for the purpose of expressing an opinion on the effectiveness of internal controls.
- C. We assess the appropriateness of accounting policies adopted by the management and the reasonableness of accounting estimates adopted by and related disclosure presented by the management.
- D. We conclude on the appropriateness of the management's going-concern assumption; we also conclude on the existence of significant uncertainty in relation to matters or events which

may trigger significant doubt on ADBC's going-concern status. Where we conclude that significant uncertainty exists, we disclose in our audit report, in accordance with the Standards, a paragraph that the users of the financial statements shall pay attention to the relevant disclosure in the financial statements. Where disclosure is insufficient, we express a qualified opinion. Our conclusion is formed on the basis of information available up to the date our audit report; however, future matters and events may still affect ADBC's going-concern status.

E. We evaluate the overall presentation, structure and contents (including disclosure) of the financial statements; we also evaluate the fairness of transactions and balances presented by in the financial statements.

F. We obtain sufficient and appropriate audit evidence regarding to ADBC's financial information of the entities or business activities in order to express opinion on the financial statements. We are responsible for the guidance, supervision and execution of the group audit. We take full responsibility for the audit opinion.

We communicate with those charged with governance on the planned audit scope, timing arrangement and significant audit findings; we also communicate with those charged with governance internal control weakness, which warrants attention, identified during the course of our audit.

Grant Thornton  
Certified Public Accountants

Chinese Certified Public Accountant:

Chinese Certified Public Accountant:

Beijing • China

May 15, 2018

## Consolidated and Parent Statement of Financial Position

As of December 31, 2017

Prepared by: Agricultural Development Bank of China Company Limited

Currency: CNY

Items	Note	December 31, 2017		December 31, 2016	
		Consolidated	Parent	Consolidated	Parent
<b>Assets</b>					
Cash and deposits with central bank	V . 1	199,799,191,531.39	168,262,748,113.36	190,940,170,756.21	184,291,423,151.48
Deposits with banks	V . 2	190,982,690,383.53	190,982,690,383.53	300,804,498,359.64	300,804,498,359.64
Precious metal					
Placements with banks and other financial institutions	V . 3	83,973,420,000.00	83,973,420,000.00	63,213,070,000.00	63,213,070,000.00
Financial assets at fair value through profit or loss	V . 4	1,203,866,690.74	1,203,866,690.74	622,507,467.55	622,507,467.55
Derivative financial assets	V . 5	2,840,907.67	2,840,907.67		
Financial assets held under resale agreements	V . 6	211,903,186,000.00	211,903,186,000.00	177,315,513,000.00	177,315,513,000.00
Interests receivable	V . 7	18,830,941,733.12	18,828,852,500.40	13,944,858,250.59	13,942,713,718.91
Loans and advances	V . 8	4,507,160,518,959.51	4,507,160,518,959.51	3,980,920,773,224.40	3,980,920,773,224.40
Available-for-sale financial assets					
Held-to-maturity investments	V . 9	523,384,925,008.02	97,713,601,292.25	531,429,195,721.07	80,014,206,533.57
Investments classified as receivables	V . 10	426,969,125,832.25	426,969,125,832.25	309,433,102,500.00	309,433,102,500.00
Long-term equity investments	V . 11	1,546,559,800.49	459,546,559,800.49	1,590,419,679.56	459,590,419,679.56
Investment Property					
Fixed assets	V . 12	16,584,401,316.74	16,584,401,316.74	16,764,562,432.87	16,764,562,432.87
Intangible assets	V . 13	486,565,613.64	486,565,613.64	461,028,074.80	461,028,074.80
Goodwill					
Deferred tax assets	V . 14	29,443,824,595.10	27,062,370,095.10	20,618,100,335.97	19,729,900,335.97
Other assets	V . 15	9,226,554,401.42	9,226,554,401.42	8,198,710,625.12	8,198,710,625.12
<b>Total assets</b>		<b>6,221,498,612,773.62</b>	<b>6,219,907,301,907.10</b>	<b>5,616,256,510,427.78</b>	<b>5,615,302,429,103.87</b>

# Consolidated and Parent Statement of Financial Position (Continued)

As of December 31, 2017

Prepared by: Agricultural Development Bank of China Company Limited

Currency: CNY

Items	Note	December 31, 2017		December 31, 2016	
		Consolidated	Parent	Consolidated	Parent
<b>Liabilities</b>					
Borrowings from the central bank	V. 16	694,200,000,000.00	694,200,000,000.00	562,000,000,000.00	562,000,000,000.00
Deposits from banks and other financial institutions	V. 17	14,397,990,471.70	14,397,990,471.70	25,325,514,621.28	25,325,514,621.28
Placement from banks and other financial institutions	V. 18			21,920,226.30	21,920,226.30
Financial liabilities at fair value through profit or loss	V. 19	1,202,814,246.58	1,202,814,246.58	608,045,205.48	608,045,205.48
Derivative financial liabilities	V. 20			103,658.11	103,658.11
Financial assets sold under repurchase agreements					
Deposits received	V. 21	1,452,962,349,805.95	1,452,962,349,805.95	1,429,185,280,492.75	1,429,185,280,492.75
Employee benefits payable	V. 22	7,947,948,434.21	7,947,948,434.21	5,713,299,710.66	5,713,299,710.66
Taxes and fees payable	V. 23	7,083,976,677.35	5,496,812,279.40	3,031,783,673.61	2,080,568,414.85
Interests payable	V. 24	92,664,129,320.31	92,664,129,320.31	80,145,133,300.16	80,145,133,300.16
Provision					
Bonds payable	V. 25	3,813,134,606,622.10	3,813,134,606,622.10	3,389,011,140,807.91	3,389,011,140,807.91
Deferred tax liabilities	V. 14	1,701,029.96	1,701,029.96	10,496,336.61	10,496,336.61
Other liabilities	V. 26	2,311,864,586.82	2,311,864,586.82	2,703,007,140.78	2,703,007,140.78
<b>Total Liabilities</b>		<b>6,085,907,381,194.98</b>	<b>6,084,320,216,797.03</b>	<b>5,497,755,725,173.65</b>	<b>5,496,804,509,914.89</b>
<b>Owner's equity:</b>					
Paid-in capital	V. 27	57,000,000,000.00	57,000,000,000.00	57,000,000,000.00	57,000,000,000.00
Capital reserve	V. 28	12,397,525.36	12,397,525.36	12,397,525.36	12,397,525.36
Less: treasury stock					
Other comprehensive income	V. 29	10,725,113.94	10,725,113.94	38,542,936.65	38,542,936.65
Surplus reserve	V. 30	11,748,190,669.02	11,747,776,022.16	10,036,364,254.30	10,036,077,647.78
General risk reserve	V. 31	24,000,000,000.00	24,000,000,000.00	24,000,000,000.00	24,000,000,000.00
Retained earnings	V. 32	42,819,918,270.32	42,816,186,448.61	27,413,480,537.82	27,410,901,079.19
Equity attributable to owners of the Company		135,591,231,578.64	135,587,085,110.07	118,500,785,254.13	118,497,919,188.98
Non-controlling interests					
<b>Total owner's equity</b>		<b>135,591,231,578.64</b>	<b>135,587,085,110.07</b>	<b>118,500,785,254.13</b>	<b>118,497,919,188.98</b>
<b>Total Liabilities and owner's equity</b>		<b>6,221,498,612,773.62</b>	<b>6,219,907,301,907.10</b>	<b>5,616,256,510,427.78</b>	<b>5,615,302,429,103.87</b>

Chairman of Board (Legal representative):

Vice president in Charge of the Accounting Work:

Person in Charge of the Accounting Department:

# Consolidated and Parent Statement of Comprehensive Income

For the Year Ended December 31, 2017

Prepared by: Agricultural Development Bank of China Company Limited

Currency: CNY

Items	Note	2017		2016	
		Consolidated	Parent	Consolidated	Parent
<b>I. Operating income</b>		<b>89,576,655,403.79</b>	<b>83,566,828,698.60</b>	<b>71,149,273,769.18</b>	<b>67,589,855,687.44</b>
Net interest income	V. 33	54,307,052,920.70	54,147,476,320.58	47,818,710,165.62	47,760,026,318.53
Interest income		214,252,995,293.87	214,093,418,693.75	187,224,306,038.94	187,165,622,191.85
Interest expense		159,945,942,373.17	159,945,942,373.17	139,405,595,873.32	139,405,595,873.32
Net income from fees and commissions	V. 34	82,628,577.43	82,628,577.43	711,587,821.19	711,587,821.19
Income from fees and commissions		401,677,209.13	401,677,209.13	976,926,301.25	976,926,301.25
Expenses of fees and commissions		319,048,631.70	319,048,631.70	265,338,480.06	265,338,480.06
Investment income/(loss)	V. 35	22,217,003,875.27	16,366,753,770.20	12,658,524,610.67	9,157,790,376.02
Within: investment gains/(loss) from associates and joint ventures		-12,842,056.36	-12,842,056.36	10,156,047.59	10,156,047.59
Gain/(loss) from change of fair value	V. 36	125,098.78	125,098.78	6,679,021.05	6,679,021.05
Exchange gain/(loss)		60,253,290.14	60,253,290.14	72,785,227.31	72,785,227.31
Other operating income	V. 37	12,909,591,641.47	12,909,591,641.47	9,880,986,923.34	9,880,986,923.34
<b>II. Operating expenses</b>		<b>72,128,250,253.81</b>	<b>66,120,130,753.18</b>	<b>52,291,723,176.09</b>	<b>48,719,314,770.88</b>
Taxes and surcharges	V. 38	955,422,501.17	920,321,000.54	2,392,079,376.25	2,344,161,061.04
Operating and administrative expenses	V. 39	23,354,943,630.68	23,354,943,630.68	21,404,275,358.75	21,270,775,268.75
Impairment losses on assets	V. 40	47,485,595,137.84	41,512,577,137.84	28,336,994,686.71	24,946,004,686.71
Costs of other businesses	V. 37	332,288,984.12	332,288,984.12	158,373,754.38	158,373,754.38
<b>III. Operating profit</b>		<b>17,448,405,149.98</b>	<b>17,446,697,945.42</b>	<b>18,857,550,593.09</b>	<b>18,870,540,916.56</b>
Add: non-operating income	V. 41	203,262,958.16	203,262,958.16	822,987,167.47	808,412,357.37
Less: non-operating expenses	V. 42	350,477,284.28	350,477,284.28	301,601,844.75	301,601,844.75
<b>IV. Total profit</b>		<b>17,301,190,823.86</b>	<b>17,299,483,619.30</b>	<b>19,378,935,915.81</b>	<b>19,377,351,429.18</b>
Less: income tax expenses	V. 43	182,926,676.64	182,499,875.50	3,171,778,092.27	3,171,381,970.61
<b>V. Net profit</b>		<b>17,118,264,147.22</b>	<b>17,116,983,743.80</b>	<b>16,207,157,823.54</b>	<b>16,205,969,458.57</b>
Net profit attributable to owners of the company		17,118,264,147.22		16,207,157,823.54	
Net profit attributable to non-controlling interests					
<b>VI. Other comprehensive income, net of tax</b>		<b>-27,817,822.71</b>	<b>-27,817,822.71</b>	<b>38,542,936.65</b>	<b>38,542,936.65</b>
Other comprehensive income attributable to owners of the parent company, net of tax		-27,817,822.71	-27,817,822.71	38,542,936.65	38,542,936.65
(1) Other comprehensive income that will not be reclassified subsequently to profit or loss					
(2) Other comprehensive income that may be reclassified subsequently to profit or loss		-27,817,822.71	-27,817,822.71	38,542,936.65	38,542,936.65
Other comprehensive income attributable to owners of the parent company, net of tax		-27,817,822.71	-27,817,822.71	38,542,936.65	38,542,936.65
Other comprehensive income attributable to non-controlling owners, net of tax					
<b>VII. Total comprehensive income</b>		<b>17,090,446,324.51</b>	<b>17,089,165,921.09</b>	<b>16,245,700,760.19</b>	<b>16,244,512,395.22</b>
Total comprehensive income attributable to owners of the company		17,090,446,324.51		16,245,700,760.19	
Total comprehensive income attributable to non-controlling interests					

Legal representative, Chairman of Board:

Vice president of accounting and finance:

Finance manager:

# Consolidated and Parent Statement of Cash Flows

For the Year Ended December 31, 2017

Prepared by: Agricultural Development Bank of China Company Limited

Currency: CNY

Items	Note	2017		2016	
		Consolidated	Parent	Consolidated	Parent
<b>I. Cash flows from operating activities</b>					
Net increase in customer deposits and due to banks		15,024,813,273.05	15,024,813,273.05	517,065,760,978.25	517,065,760,978.25
Net increase in borrowings from the central bank		132,200,000,000.00	132,200,000,000.00	256,200,000,000.00	256,200,000,000.00
Net increase in placements from other financial		-20,828,769,701.69	-20,828,769,701.69	-58,004,085,850.21	-58,004,085,850.21
Net increase in financial assets sold under repurchase					
Net decrease in financial assets held under resale					
Cash received from interests, fees and commissions		217,698,449,172.10	217,538,872,571.98	190,454,511,329.51	190,395,827,482.42
Other cash received in relation to operating activities	V. 44	2,548,897,343.53	2,548,897,343.53	45,289,187,794.43	45,274,612,984.33
<b>Cash inflows from operating activities</b>		346,643,390,086.99	346,483,813,486.87	951,005,374,251.98	950,932,115,594.79
Net increase in loans and advances to customers		686,739,845,575.73	686,739,845,575.73	659,785,885,942.68	659,785,885,942.68
Net increase in balances with PBOC and banks		-93,312,319,321.26	-93,312,319,321.26	239,086,547,186.35	239,086,547,186.35
Net increase in placements with other financial					
Net increase in financial assets held under resale					
Net decrease in financial assets sold under repurchase					
Cash paid for interests, fees and commissions		26,877,502,561.77	26,877,502,561.77	21,280,437,210.80	21,280,437,210.80
Cash paid to and on behalf of employees		14,428,220,645.68	14,428,220,645.68	12,645,185,069.65	12,645,185,069.65
Taxes and fees paid		11,571,787,543.32	10,327,938,874.43	18,501,633,149.07	18,191,889,228.98
Other cash paid in relation to operating activities	V. 44	44,099,788,564.82	44,099,788,564.82	36,001,612,084.86	36,001,609,431.53
<b>Sub-total</b>		690,404,825,570.06	689,160,976,901.17	987,301,300,623.41	986,991,554,069.99
<b>Net cash flows from operating activities</b>		-343,761,435,483.07	-342,677,163,414.30	-36,295,926,371.43	-36,059,438,475.20
<b>II. Cash flows from investing activities</b>					
Cash received from investment withdrawal		504,934,432,967.38	482,814,210,495.65	275,551,968,187.12	271,522,272,487.12
Cash receipts associated with investment income		20,711,296,034.81	14,509,975,624.47	9,396,747,017.31	5,720,594,867.19
Net cash receipts associated with disposal of fixed					
Net cash receipts associated with disposal of					
Other Cash received in relation to investing activities	V. 44	168,285,443.76	168,285,443.76	114,554,092.17	114,554,092.17
<b>Cash inflows from investing activities</b>		525,814,014,445.95	497,492,471,563.88	285,063,269,296.60	277,357,421,446.48
Cash paid for investments		503,397,083,626.58	501,047,508,626.58	826,012,605,560.97	782,299,710,660.97
Cash paid for acquisition of fixed assets, intangible assets and other non-current assets		1,272,744,397.69	1,272,744,397.69	1,989,797,095.92	1,989,797,095.92
Net cash paid for acquisition of subsidiaries and other					
Other cash paid in relation to investing activities					
<b>Cash outflows for investing activities</b>		504,669,828,024.27	502,320,253,024.27	828,002,402,656.89	784,289,507,756.89
<b>Net cash flows from investing activities</b>		21,144,186,421.68	-4,827,781,460.39	-542,939,133,360.29	-506,932,086,310.41
<b>III. Cash flows from financing activities</b>					
Cash received from investment					
Within: Cash received by subsidiaries from non-controlling interests					
Cash received for bonds issued		1,201,614,149,792.08	1,201,614,149,792.08	1,245,725,138,668.62	1,245,725,138,668.62
Other cash received in relation to financing activities				4,000,000.00	4,000,000.00
<b>Cash inflows from financing activities</b>		1,201,614,149,792.08	1,201,614,149,792.08	1,245,729,138,668.62	1,245,729,138,668.62
Cash paid for settlement of debt		781,865,761,031.46	781,865,761,031.46	607,135,962,087.32	607,135,962,087.32
Cash paid for dividends, profit distribution and interests		104,727,248,556.74	104,727,248,556.74	86,687,841,037.11	86,687,841,037.11
Within: Cash paid by subsidiaries to non-controlling owners					
Other cash paid in relation to financing activities					
Within: cash paid to non-controlling owners of the					
<b>Cash outflows for financing activities</b>		886,593,009,588.20	886,593,009,588.20	693,823,803,124.43	693,823,803,124.43
<b>Net cash flows from financing activities</b>		315,021,140,203.88	315,021,140,203.88	551,905,335,544.19	551,905,335,544.19
<b>IV. Effect of foreign exchange rate changes on cash and cash equivalents</b>					
<b>V. Net increase in cash and cash equivalents</b>		-7,596,108,857.51	-32,483,804,670.81	-27,329,724,187.53	8,913,810,758.58
Add: opening balances of cash and cash equivalents		78,036,892,374.18	71,388,144,769.45	105,366,616,561.71	62,474,334,010.87
<b>VI. Closing balances of Cash and cash equivalents</b>		70,440,783,516.67	38,904,340,098.64	78,036,892,374.18	71,388,144,769.45

Chairman of Board (Legal representative):

Vice president in Charge of the Accounting Work:

Person in Charge of the Accounting Department:



# Consolidated Statement of Changes in Equity

For the Year Ended December 31, 2017

Currency: CNY

Prepared by: Agricultural Development Bank of China Company Limited

2017

Items	Equity attributable to owners of the company						Non-controlling interests	Total owner's equity
	Paid-in capital	Capital reserve	Less: treasury stock	Other comprehensive income	Surplus reserve	General risk reserve	Retained earnings	
I. Closing balance of last year Add: Changes in accounting policies Corrections of prior period errors Business combination under common control Others	57,000,000,000.00	12,397,525.36		38,542,936.65	10,036,364,254.30	24,000,000,000.00	27,413,480,537.82	118,500,785,254.13
II. Opening balance of this year	57,000,000,000.00	12,397,525.36		38,542,936.65	10,036,364,254.30	24,000,000,000.00	27,413,480,537.82	118,500,785,254.13
III. Increases and decreases of this year (with "-" for decreases)				-27,817,822.71	1,711,826,414.72		15,406,437,732.50	17,090,446,324.51
(1) Total comprehensive income				-27,817,822.71			17,118,264,147.22	17,090,446,324.51
(2) Capital invested and reduced by the owners								
1. Capital invested by the owners								
3. Share-based payments recognised in equity								
4. Others								
(3) Profit distribution								
1. Appropriation of surplus reserve								
2. Extraction of general risk reserve								
3. Profit distributed to owners								
4. Others								
(4) Transfers within the owners' equity								
1. Transfer from capital reserves to capital								
2. Transfer from surplus reserves to capital								
3. Recovery of losses by surplus reserve								
4. Recovery of losses by general risk reserve								
6. Others								
(5) Others								
IV. Closing balance of current year	57,000,000,000.00	12,397,525.36		10,725,113.94	11,748,190,669.02	24,000,000,000.00	42,819,918,270.32	135,591,231,578.64

Chairman of Board (Legal representative):

Vice president in Charge of the Accounting Work:

Person in Charge of the Accounting Department:

# Consolidated Statement of Changes in Equity

For the Year Ended December 31, 2016

Currency: CNY

Prepared by: Agricultural Development Bank of China

Items	2016							Non-controlling interests	Total owner's equity
	Equity attributable to owners of the company								
	Paid-in capital	Capital Reserve	Less: treasury stock	Other comprehensive income	Surplus reserves	General risk preparation	Retained earnings		
I. Closing balance of last year	57,000,000,000.00	6,857,001.90			8,415,648,471.94	24,000,000,000.00	12,827,038,496.64		102,249,543,970.48
Add: Changes in accounting policies									
Corrections of prior period errors									
Business combination under common control									
Others									
II. Opening balance of this year	57,000,000,000.00	6,857,001.90			8,415,648,471.94	24,000,000,000.00	12,827,038,496.64		102,249,543,970.48
III. Increases and decreases of this year ( with "-" for decreases)		5,540,523.46		38,542,936.65	1,620,715,782.36		14,586,442,041.18		16,251,241,283.65
(1) Total comprehensive income				38,542,936.65			16,207,157,823.54		16,245,700,760.19
(2) Capital invested and reduced by the owners									
1. Capital invested by the owners									
3. Share-based payments recognised in equity									
4. Others									
(3) Profit distribution		5,540,523.46			1,620,715,782.36		-1,620,715,782.36		5,540,523.46
1. Appropriation of surplus reserve									
2. Extraction of general risk reserve					1,620,715,782.36		-1,620,715,782.36		
3. Profit distributed to owners									
4. Others		5,540,523.46							5,540,523.46
(4) Transfers within the owners' equity									
1. Transfer from capital reserves to capital									
2. Transfer from surplus reserves to capital									
3. Recovery of losses by surplus reserve									
4. Recovery of losses by general risk reserve									
6. Others									
(5) Others									
IV. Closing balance of current year	57,000,000,000.00	12,397,525.36		38,542,936.65	10,036,364,254.30	24,000,000,000.00	27,413,480,537.82		118,500,785,254.13

Chairman of Board (Legal representative):

Vice president in Charge of the Accounting Work:

Person in Charge of the Accounting Department:

## For the Year Ended December 31, 2017

Currency: CNY

Person in Charge of the Accounting Department:

**Vice president in Charge of the Accounting Work:**

**Chairman of Board (Legal representative):**

# **Parent Statement of Changes in Equity**

For the Year Ended December 31, 2016

Currency: CNY

Prepared by: Agricultural Development Bank of China

Items	2016					
	Paid-in capital	Capital reserve	Less: treasury stock	Other comprehensive income	Surplus reserve	General risk reserve
<b>I. Closing balance of last year</b>	57,000,000,000.00	6,857,001.90			8,415,480,701.92	24,000,000,000.00
Add: Changes in accounting policies						
Corrections of prior period errors						
Others						
<b>II. Opening balance of this year</b>	57,000,000,000.00	6,857,001.90			8,415,480,701.92	24,000,000,000.00
<b>III. Increases and decreases of this year (with "-" for decreases)</b>		5,540,523.46		38,542,936.65	1,620,596,945.86	14,585,372,512.71
(1) Total comprehensive income						
(2) Capital invested and reduced by the owners						
1. Capital invested by the owners		5,540,523.46		38,542,936.65		16,205,969,458.57
3. Share-based payments recognised in equity						5,540,523.46
4. Others						
(3) Profit distribution		5,540,523.46			1,620,596,945.86	-1,620,596,945.86
1. Appropriation of surplus reserve						
2. Extraction of general risk reserve					1,620,596,945.86	-1,620,596,945.86
3. Profit distributed to owners						
4. Others						
(4) Transfers within the owners' equity						
1. Transfer from capital reserves to capital						
2. Transfer from surplus reserves to capital						
3. Recovery of losses by surplus reserve						
4. Recovery of losses by general risk reserve						
6. Others						
(5) Others						
<b>IV. Closing balance of current year</b>	57,000,000,000.00	12,397,525.36		38,542,936.65	10,036,077,647.78	24,000,000,000.00

Chairman of Board (Legal representative):

Vice president in Charge of the Accounting Work:

Person in Charge of the Accounting Department:

## Notes to the Financial Statements

### Note I General Information about ADBC

#### 1. Bank Profile

Established in November 1994 in accordance with the "Notice on the Establishment of Agricultural Development Bank of China" (Guofa [1994] No. 25) of the State Council on April 19, 1994, the Agricultural Development Bank of China ( hereinafter, "ADBC" or "Bank" ) is the only state-owned agricultural policy bank in China under the direct leadership of the State Council. In December 2014, the board of directors was set up by the approval of the State Council and the board of supervisors was assigned by the State Council to exercise the supervision function of the asset owner on behalf of the state. The head office of ADBC is the first level legal person and the chairman is the legal representative. The vertical leadership management system is implemented in ADBC and business activities are carried out by all branches according to the law and within the scope authorized by the head office.

The ADBC is operating with the financial institution license of the PRC (No. A0002H111000001) issued by China Banking Regulatory Commission (hereinafter, "CBRC") and business license (Unified social credit code: 91100000100017045K) approved by State Administration for Industry and Commerce of China. The registered address of ADBC is No. Jia 2 Yuetanbei Street, Xicheng District, Beijing.

The main responsibility of ADBC is to raise funds through market based on national credit in accordance with national laws, regulations and policies, in order to undertake agricultural policy-based financial services as prescribed by the state, to provide financial support for agricultural funds, and to serve agriculture and rural economic development.

The principal operating activities of ADBC include: providing special reserve loans arranged by the People's Bank of China (hereinafter, "PBOC") and subsidized by the government for grain, cotton, oil, pork, sugar, factory silk, and chemical fertilizers, as well as local fertilizer, sugar, and meat reserve credits; providing loan for purchase and resale of grain, cotton, and oil; providing loan for food contract purchase; providing loan for cotton and linen processing enterprise; allocation of government financial support fund by opening special grain risk reserve account for government and allocating funds; issuing financial bonds; business deposits of enterprises and institutions within the scope; settlement of enterprises and institutions; foreign fundraising; international settlement business under the import and export trade of customers within the business scope, and foreign exchange deposits, foreign exchange remittances, inter-bank foreign exchange lending compatible with international settlement business, valet foreign exchange trading and other services; providing loan for large grain processing enterprises; providing loan for grain and cotton oil industrialization leading enterprise; providing loan for other grain enterprise; providing loan in relation with grain and oil seed; providing loan for cotton enterprises for pre-purchase, cotton deep processing, cotton breeding, acquisition and processing, cotton exports, national macro-control and cotton import; technical equipment transformation loan for cotton enterprises; collection and payment for enterprises; local currency transactions in the national interbank market; postal savings agreement deposits; agricultural small business loans, rural infrastructure construction loans, agriculture comprehensive development loan, agricultural production materials loan business; other business approved by the State Council and the CBRC; insurance concurrent agency (only for branches with insurance concurrent agency licenses, the validity period is subject to the license) ). (Projects subject to approval according to law may be operated after approval by relevant departments)

By the end of 2017, ADBC has a total of 32 provincial level branches ( including Beijing branch ) , 334 second-level branches and 1,826 county-level sub-branches.

The financial statements were approved by the Board of Directors of the ADBC on May 15, 2018.

## 2. Scope of the consolidation

There is one subsidiary within the scope of the consolidation, which is China Agriculture Development Key Construction Fund Co., Ltd.

## **Note II Basis for preparation of the financial statements**

The financial statements of ADBC are prepared in accordance with the Accounting Standards for Business Enterprises promulgated by the Ministry of Finance and its application guidelines, explanations and other relevant provisions (collectively referred to as "Accounting Standards for Business Enterprises"). The financial statements of ADBC are prepared on the basis of going concern.

ADBC adopts the accrual basis for accounting.

## **Note III Significant Accounting Principles and Accounting Estimates**

### 1. Statement of Compliance with Accounting Standards for Business Enterprises

ADBC's financial statements has been prepared in accordance with Accounting Standards for Business Enterprises and present truly and completely the financial position of the consolidation and the bank as at 31 December 2017 and the operation results, cash flows and relevant information for the year then ended.

### 2. Accounting period

The accounting period of ADBC is the calendar year from January 1 to December 31.

### 3. Functional currency

Yuan (CNY) is the functional currency of ADBC. The foreign currency of the bank is accounted for using separate account system.

The functional currency of ADBC and its domestic subsidiaries is CNY. The reporting currency used by ADBC for the preparation of the financial statements is CNY.

### 4. Preparation methods for the consolidated financial statements

#### (1) The scope of consolidation

The scope of consolidation is determined on the basis of control. Control refers to the power of ownership over the investee(s) by the Bank; the Bank enjoys variable returns through participating in relevant activities of the investee(s) and has the ability to influence the return through the power of ownership over the investee(s). A subsidiary is an entity that is controlled by the Bank (including the enterprises, the divisible portion of the investees, structured entity and etc.).

#### (2) Preparation methods

The consolidated financial statements are prepared by the Bank on the basis of the financial statements

of the Bank and its subsidiaries and on the basis of other relevant information. In the preparation of the consolidated financial statements, the accounting policies and accounting periods of the Bank and its subsidiaries are required to be consistent, and material intra-group transactions and balances are eliminated.

(3) Loss of control of subsidiaries

If control over a subsidiary is lost due to part disposal of shares held or other reasons, the remaining shares in the relevant entity are measured at the disposal-date fair value. The excess of the sum of the consideration received for the disposal and the disposal-date fair value of the remaining shares over the cumulative net assets attributable to the Bank immediately before the disposal is recognized as investment income in profit or loss for the period during which the loss of control occurs.

Other comprehensive income associated with the disposed subsidiary is reclassified to investment income in profit or loss for the period during which the loss of control occurs, except for other comprehensive income arising from the re-measurement of changes in net liabilities or net assets of the defined benefit plan.

5. Recognition criteria for cash and cash equivalents

Cash and cash equivalents refer to short-term, highly liquid monetary assets that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, including cash, non-restrictive funds deposited in central bank and funds formed bank deposits.

6. Translation of transactions

At the balance sheet date, foreign currency monetary items are translated using the spot exchange rate at the balance sheet date. The exchange difference arising from the difference between the spot exchange rate on the balance sheet date and the spot exchange rate at the time of initial recognition or the previous balance sheet date is recognized in profit and loss of the current period. Foreign currency non-monetary items measured at historical cost are translated using the spot exchange rates on the dates of the transactions. Foreign currency non-monetary items measured at fair value are translated at the spot exchange rate on the date when the fair value is determined. Difference between the re-translated functional currency amount and the original functional currency amount is recognized in profit and loss of the current period.

7. Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

(1) Recognition and derecognition of financial instruments

Financial assets and liabilities are recognized when the Bank becomes one party in the financial instrument contract.

A financial asset is derecognized when any of the following conditions is satisfied:

- ① the contractual rights to the cash flows from the financial asset expire;
- ② the financial asset has been transferred and significant risks and rewards attached to the ownership



of the financial asset has been transferred to the transferee ; Or

③ the financial asset has been transferred, the entity has neither transferred nor retained significant risks and rewards attached to the ownership of the financial asset, and the entity has given up the control over the financial assets.

Financial assets purchased and sold in regular transactions are recognized and de-recognized on the relevant transaction dates.

## (2) Classification and measurement of financial assets

Financial assets shall be classified as follows at initial recognition: financial assets at fair value through profit or loss, held to maturity investment, loans and receivables, and available-for-sale financial assets. Transaction costs directly associated with the acquisition of financial assets measured by fair value with changes in fair value recognized in profit or loss are recognized in profit or loss for the period during which the transactions occur; transaction costs directly associated with the acquisition of other categories of financial assets are included in the relevant financial assets' initial measurement.

### 1) Financial assets at fair value through profit or loss:

Financial assets measured by fair value with changes in fair value recognized in profit or loss include financial assets held for trading and financial assets designated as measured by fair value with changes in fair value recognized in profit or loss.

A financial asset held for trading is any financial asset that satisfies any of the following conditions:

- a. the purpose of acquiring the financial asset is for disposal in the near future; or
- b. is part of an identifiable portfolio of financial instruments which is collectively managed and the Bank's recent management of which is for short-term profit realization; or
- c. is a derivative financial instrument, except for a designated effective hedging instrument, a financial guarantee contract, or a derivative financial instrument, which is linked to an equity instrument which is not quoted in an active market and of which the fair value cannot be reliably measured, and the settlement of which is by the delivery of the relevant equity instrument.

Financial assets at fair value through profit or loss shall be subsequently measured at the fair value. Any gains or losses arising from changes in the fair value and any dividends or interest income earned on the financial assets are recognized in the profit or loss for the period.

The financial assets designated as measured by fair value with changes in fair value recognized in profit or loss mainly include bonds investment and other debt instrument investments. Financial liabilities designated as at fair value through profit or loss mainly include self-operated wealth management products and structured deposits, notes, certificates of deposit and financial liabilities associated with precious metals. Such financial assets and financial liabilities are subsequently measured at fair value. All realized and unrealized gains and losses are recognized in profit or loss.

### 2) Held-to-maturity investments

A held-to-maturity investment is a non-derivative financial asset with fixed maturity date and fixed or determinable recoverable amount and which the Bank's is clearly intention and ability to hold to maturity.

Held-to-maturity investments shall be subsequently measured at amortized cost using the effective interest method. Gains or losses arising from derecognition, impairment or amortization shall be recognized in profit or loss for the current period.

The effective interest rate method is a method to calculate the amortized cost of a financial asset or liability (or group of financial assets or liabilities) and its interest income or expense for each period using the effective interest rate. The effective interest rate is the rate that is used to discount the cash flows attached to a financial asset or financial liability over its life to its present value.

In the computation of the effective interest rate applicable to a financial asset or financial liability, the Bank estimates future cash flows of the financial asset or financial liability on the basis of its contract terms (excluding future credit loss) and all payments, transaction costs, discounts or premium between the contracting parties that form part of the effective interest rate.

### 3) Loans and receivables

A loan or receivable is a non-derivative financial asset which is not quoted in an active market and of which the recoverable amount is either fixed or determinable. Financial assets classified as loans and receivables by the Bank include balances at the central bank, deposits with banks, interest receivables, loans and advances, investments classified as receivables, discounted bills, loans to banks and other financial institutions, other receivables and etc.

The following non-derivative financial assets are not classified as loans and receivables:

- a. non-derivative financial assets that are ready to be sold immediately or sold in the near future;
- b. it is designated as a non-derivative financial asset measured at fair value through profit or loss in the initial recognition;
- c. is designated as an available-for-sale non-derivative financial asset at initial recognition;
- d. it may be difficult for the Bank to recover almost all non-derivative financial assets of initial investment due to reasons other than the deterioration of the debtor's credit.

Loans and receivables shall be subsequently measured at amortized costs by effective interest rate method. Gains or losses arising from derecognition, impairment or amortization shall be recognized in profit or loss for the period.

Discounted bills are issued by the Bank to customers who hold outstanding bills of exchange. The discounted bills are measured at par value deducted by the discounted interest income of the unrealized bills, and the discounted interest income of the bills is measured by effective interest rate method.

When conditions permit, the Bank will seek to restructure the loan instead of obtaining the ownership of the collateral, which may involve rollovers and new loan terms. Once the terms are renegotiated, the loan will no longer be considered overdue. Management continues to review the restructured loan to ensure that it satisfies all conditions and that future payments are likely to occur. The loan continues to be assessed for impairment in a single or combined manner and is measured at the initial effective interest rate.

### 4) Available-for-sale financial assets

An available-for-sale financial asset is a non-derivative financial asset that is designated as

available-for-sale upon its initial recognition or a financial asset that is neither of the other categories of financial assets.

Available-for-sale financial assets are subsequently measured at fair value, and gains or losses arising from changes in the fair value are recognized as other comprehensive income, except that impairment losses and exchange differences related to amortized cost of monetary financial assets denominated in foreign currencies are recognized in profit or loss, and transferred in profit or loss when those financial assets are derecognized.

Interests obtained during the period in which the financial assets available-for-trade are held and cash dividends declared by investees shall be recognized as investment income.

### (3) Classification and measurement of financial liabilities and equity instruments

The financial instruments issued by the Bank are recognized as financial liabilities or equity instruments based on the substance of the contractual arrangements of the financial instruments and the definition of financial liabilities and equity instruments.

The financial liabilities of the Bank are classified as financial liabilities at fair value through profit or loss and other financial liabilities. For financial liabilities that are not classified as fair value through profit or loss, the related transaction cost is included in the initial recognition amount.

#### 1) Financial liabilities measured at fair value through profit or loss

Financial liabilities measured by fair value with changes in fair value recognized in profit or loss include financial liabilities held for trading and financial liabilities designated as measured by fair value with changes in fair value recognized in profit or loss.

A financial liability held for trading is any financial liability that satisfies any of the following conditions:

- a. the purpose of acquiring the financial liability is for disposal in the near future; or
- b. is part of an identifiable portfolio of financial instruments which is collectively managed and the Bank's recent management of which is for short-term profit realization; or
- c. is a derivative financial instrument, except for a designated effective hedging instrument, a financial guarantee contract, or a derivative financial instrument, which is linked to an equity instrument which is not quoted in an active market and of which the fair value cannot be reliably measured, and the settlement of which is by the delivery of the relevant equity instrument.

A financial liability can be designated upon initial recognition as measured by fair value with changes in fair value recognized in profit or loss if any of the following conditions is satisfied:

- a. the designation removes or significantly reduces the difference in recognition or measurement of gain or loss relating to the financial liability if the financial liability is measured otherwise;
- b. it is officially documented in the Bank's risk management or investment strategy that the portfolio of financial assets (and liabilities) to which the financial liability belongs is managed, evaluated and reported to key management personnel on the basis fair value.
- c. it includes embedded derivatives that need to be split separately.

#### 2) Other financial liabilities

Other financial liabilities are non-derivative financial liabilities other than financial liabilities at fair value through profit or loss. Other financial liabilities are measured at amortized cost using the effective interest rate method. The gain or loss arising from derecognition or amortization is recognized in profit or loss.

(4) Derivatives and embedded derivatives

The derivative financial instruments of the Bank are mainly forward settlement contracts. It is initially measured at the fair value on the date when the derivative transaction contract is signed and is subsequently measured at its fair value. A derivative financial instrument with a positive fair value is recognized as an asset, and a derivative financial instrument with a negative fair value is recognized as a liability.

(5) Fair value of financial instruments

See Note III.8 for fair value measurement of financial assets and financial liabilities.

(6) Impairment of financial assets

The Bank assesses financial assets on each balance sheet date for impairment, except for financial assets measured by fair value with changes in fair value recognized in profit or loss. Impairment loss is recognized when objective evidence indicates that the financial asset is impaired.

Objective evidence showing the impairment of financial assets refers to the items that actually occurred after the initial recognition of financial assets have an impact on the expected future cash flow of the financial asset, and the enterprise can reliably measure the impact.

The objective evidences that indicate the financial asset is impaired include:

- ① significant financial difficulty of the issuer or obligor;
- ① a breach of contract, such as a default or delinquency in interest or principal payments;
- ③ the Bank made concessions to debtors with financial difficulties due to economic or legal considerations;
- ② it becomes probable that the borrower will enter bankruptcy or other financial reorganization;
- ③ the disappearance of an active market for the financial asset because of significant financial difficulties of the issuer;
- ⑥ observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
  - Adverse changes in the payment status of borrowers in the portfolio, and
  - National or local economic conditions that correlate with defaults on the assets in the portfolio.
- ⑦ a major adverse change in the technical market economy or legal environment in which the equity instrument investor is unable to recoup the investment costs;

⑧a serious or non-temporary decline in the fair value of an equity instrument investment, if the fair value of the equity investment on the balance sheet date is less than 50% (inclusive) of its initial investment cost or the fair value of the equity investment is less than the initial investment cost for more than 12 months (inclusive);

The fair value of the equity investment is less than the initial investment cost for more than 12 months (inclusive) means the average monthly fair value of the equity instrument investment is lower than its initial investment cost for 12 consecutive months.

⑨Other objective evidence of impairment of financial assets.

#### 1) Impairment of financial assets measured at amortized cost

Where objective evidences indicate that the financial asset is impaired, an impairment allowance is provided as the excess of the cost or amortized cost of the financial asset over the present value of its future cash flows and an equivalent impairment loss is recognized in profit or loss. The present value of expected future cash flows is determined using the original effective interest rate of the financial assets. The original effective interest rate is the actual interest rate calculated and determined when the financial asset is initially recognized. For financial assets with floating interest rates, the current effective interest rate stipulated in the contract is used as the discount rate when calculating the present value of future cash flows.

In actual operation, the observed market price is also used to determine the fair value of financial assets and the impairment loss is determined accordingly.

The impairment of loans and receivables is recognized in accordance with "Regulations on the Administration of Loan Impairment Provisions of Commercial Banks" issued by the CBRC (CBRC Order [2011] No. 4) which requires a provision coverage ratio of 150% and a provision-to-loan ratio of 2.5%.

After the impairment is recognized, if events subsequent to the recognition of the impairment are objectively evidential that the impairment no longer exists, the impairment allowance and impairment loss are reversed; however, the reversal shall not cause the carrying amount of the financial asset exceeds its carrying amount as at the reversal date as if no impairment allowance was recognized.

When a financial asset is not recoverable and all necessary procedures have been executed, the asset is written off. The amount recovered after the write-off is recognized in the current profit and loss.

#### 2) Impairment of available-for-sale financial assets

Where an available-for-sale financial asset is impaired, its cumulative loss arising from decrease in fair value recognized in capital reserves is reclassified to profit or loss for the period during which the financial asset is impaired. The amount reclassified to profit or loss is the residual after deducting withdrawn principal, cumulative amortization, impairment-date fair value and impairment previously recognized in profit or loss from the acquisition cost.

After the impairment is recognized, if events subsequent to the recognition of the impairment are objectively evidential that the impairment no longer exists, the impairment allowance is reversed. The reversal of impairment of available-for-sale equity instruments and available-for-sale debt instruments is recognized in other comprehensive income and profit or loss for the period during which the reversal occurs respectively.



3) Impairment of financial assets measured at cost

Where an equity instrument which is not quoted in an active market and of which the fair value cannot be reliably measured is impaired, and where a derivative financial asset which is linked to such equity instrument and the settlement of which is by delivery of such equity instrument, the difference between the book value of the financial asset and the present value of the future cash flow of the financial asset based on current market rate of return is recognized as an impairment loss. The impairment is irreversible.

(7) Recognition and measurement for transfer of financial assets

The transfer of financial assets refers to the transfer or delivery of financial assets to the other party (the transferee) other than the issuer of the financial assets.

A financial asset is derecognized when any of the following conditions is satisfied:

- 1) the contractual rights to receive cash flows from the financial asset expire;
- 2) the financial asset has been transferred and significant risks and rewards attached to the ownership of the financial asset has been transferred to the transferee ; or
- 3) the financial asset has been transferred, the entity has neither transferred nor retained significant risks and rewards attached to the ownership of the financial asset, and the entity has given up the control over the financial assets.

Where the Bank has neither transferred nor retained significant risks and rewards attached to the ownership of a transferred financial asset, and has not given up the control over it, the transferred financial asset is continued to be recognized proportionate to the degree of the Bank's continuing involvement. The degree of the Bank's continuing involvement with the transferred financial asset is represented by the risk faced by the Bank resulting from changes in the value of the transferred financial assets.

(8) Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the netted amount is disclosed on the financial statements if, and only if, all of the following conditions are satisfied:

- a. the Bank has the legal right to offset recognized financial assets and financial liabilities and the legal right is readily exercisable; and
- b. the Bank is intended to settle the financial assets and financial liabilities in cash or to simultaneously dispose the financial assets and settle the financial liabilities.

If the above conditions are not satisfied, the relevant financial assets and financial liabilities are not offset and are disclosed in full on the financial statements.

8. Fair value measurement

Fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Bank measures relevant assets or liabilities at fair value, assuming that an orderly transaction of selling assets or transferring liabilities takes place in the principal market of the relevant assets or

liabilities. In the absence of a principal market, the Bank assumes that the transaction takes place in the most advantageous market for the relevant assets or liabilities. The principal market (or the most advantageous market) is the trading market that the bank can enter at the measurement date. The Bank measures the fair value of an asset or a liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

If there is an active market for financial assets or liabilities, the Bank uses quotations in the active market to determine their fair value. If financial instruments do not exist in the active market, the bank adopts valuation technology to determine its fair value.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs. Unobservable input values are used only when observable input values are not available or not practicable.

Assets and liabilities measured or disclosed at fair value in financial statements are determined at the lowest level of input, which is of significant importance to the measurement of fair value as a whole - Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date; Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; Level 3 inputs are unobservable inputs for the asset or liability.

On each balance sheet day, the bank reassesses the assets and liabilities identified in the financial statements that are continuously measured at fair value to determine whether conversion occurs between the levels of fair value measurement.

#### 9. Purchases of resale and repo transactions (including securities borrowing and lending transactions)

Sold assets that are repurchased on a certain date in the future according to agreements are not derecognized in the balance sheet. The proceeds from the sale of such assets, including accrued interest, are shown on the balance sheet as financial assets sold under repurchase agreements to reflect the economic nature of the loans made to the Bank. The difference between the selling price and the repurchase price is calculated by using the effective interest method during the period specified by agreement, and is recognized in interest expense.

On the contrary, assets that are resold at the time of purchase on a certain date in the future as agreed upon in the agreement will not be recognized on the balance sheet. The cost of purchasing such assets, including accrued interest, is disclosed in the balance sheet as the purchase of resale fund. The difference between the purchase price and the resale price is calculated by using the effective interest method during the period specified by agreement, and is recognized in interest income.

Securities borrowing and lending transactions are generally accompanied by collateral, securities or cash as collateral. Securities transfers between counterparties are reflected in the balance sheet only when the risks and benefits associated with securities ownership are transferred simultaneously. Cash or cash collateral is recognized as assets or liabilities.



Borrowed securities are not recognized in the balance sheet. If such securities are sold to a third party, the obligation to repay the bonds is recognized as financial liabilities held for trading and is measured at fair value, and the resulting gains or losses are recognized in current profits and losses.

#### 10. Long-term equity investment

Long-term equity investments include equity investments in subsidiaries and joint ventures. If the bank can exert significant influence on the investee, it shall be the joint venture of the bank.

##### (1) Determination of initial investment cost

Long-term equity investment in the formation of business combination: long-term equity investment acquired by business combination under the same control are measured at the acquirer's share of the combination date book value of the acquiree's net equity in the ultimate controller's consolidated financial statements. Long-term equity investment acquired through business combination not under common control is measured at combination cost on the combination date.

Long-term equity investments acquired not through business combination: the initial investment cost of the long-term equity investment paid in cash shall be the actual purchase price. The long-term equity investment obtained by issuing equity securities shall take the fair value of equity securities as the initial investment cost.

##### (2) Subsequent measurement and profit and loss recognition method

Investment in subsidiaries is measured by cost method, and equity method is used to measure investment in joint ventures.

For long-term equity investments measured by cost method, the declared cash dividend or profit of the invested unit shall be recognized as the investment income and shall be included in the current profit or loss, except for the declared but unpaid cash dividends or profits contained in the payment or consideration actually made at the time of investment

When the cost of long-term equity investments measured using the equity method on initial recognition exceeds the Bank's share of the fair value of the respective investee's net identifiable assets, no adjustment is made to the cost of the investment for the excess. When the Bank's share of the fair value of an investee's net identifiable assets exceeds the cost of the respective long-term equity investment measured using the equity method on initial recognition, adjustment is made to the cost of the investment for the difference and the difference is carried to profit or loss for the period during which the investment is recognized.

Investment income or loss and other comprehensive income for the relevant period from long-term equity investments measured using the equity method is measured at the Bank's share of the net profit or loss and other comprehensive income of the respective investee for the relevant period, and the book value of long-term equity investments is adjusted accordingly. If the investee declares profit distribution or cash dividends, long-term equity investments are reduced by the Bank's share of declared profit distribution or cash dividends in the investee. Long-term equity investments will be adjusted and capital reserves are recognized with variations other than net profit or loss, other comprehensive income, and profit distribution. When computing the Bank's share of the net profit or loss of the investee for the relevant period, net profit or loss of the investee for the relevant period is adjusted, if necessary, for the fair value of the investee's identifiable assets and identifiable liabilities on acquisition and the Bank's accounting policies and accounting period.

If, for reasons such as additional investment, it is possible to exert a significant influence on the invested unit or to implement joint control but does not constitute control, the initial investment cost shall be calculated in accordance with the fair value of the original equity and the sum of the new investment cost as a change in equity method. The differences between the fair value and book value of the original equity on the date of conversion, and the cumulative changes in the fair value originally recorded in other comprehensive earnings are transferred to the profit and loss of the current period for the change of equity method.

Where the joint control or significant influence of the invested unit is lost due to the disposal of part of the equity investment, the remaining equity after disposal shall be accounted for according to "Accounting Standards for Enterprises No. 22 - Recognition and Measurement of Financial Instruments" on the date of the loss of joint control or significant influence, and the difference between the fair value and the book value shall be recorded into the profit and loss of the current period. The other comprehensive gains recognized by the original equity investment due to the equity method shall be accounted for on the same basis as the assets or liabilities directly disposed of by the investee when the equity method is terminated. The changes of other owners' equity related to the original equity investment shall be transferred to the profit and loss of the current period.

If losing control over the investee due to the disposal of part of the equity investment, the remaining equity after disposal can exercise joint control or exert significant influence on the investee, it shall be accounted for according to the equity method and adjusted according to the equity method when the remaining equity is deemed to be self-acquired. If the residual equity after disposal can't exercise joint control or exert significant influence on the investee, the accounting treatment shall be carried out in accordance with the relevant provisions of "Accounting Standards for Enterprises No. 22 - Recognition and Measurement of Financial Instruments". The difference between the fair value and the book value on the date of loss of control shall be recorded in the profit and loss of the current period.

When losing control, but having common control or significant influence on investees due to decrease in shareholding ratio arising from capital increase by another investor, the bank shall recognize increased share of the net assets of the investee after the increase of capital according to the new share-holding ratio. The difference between the original book value of the long-term equity investment corresponding to the part of the decline in the proportion of the carry-over shares is recorded in the profit and loss of the current period. Then, according to the new shareholding ratio, the equity method is used to adjust the investment.

The unrealized internal transaction gains and losses between the bank and the joint venture shall be assigned to the bank according to the proportion of shares held, and the investment gains and losses shall be recognized on the basis of set-off. However, if the loss of unrealized internal transactions between the bank and the investee belongs to the loss of impairment of the transferred assets, it shall not be offset.

### (3) Basis on determining joint control and significant influence on the investee

Joint control refers to the common control over an arrangement in accordance with the relevant agreements, and the related activities of the arrangement must be agreed by the participants who share the control rights before making decisions. In judging the existence of joint control, the first step is to determine whether the arrangement is collectively controlled by all participants or groups of participants, and the second step is to determine whether the decision-making of the relevant activities of the arrangement must be unanimously agreed by the participants of the arrangement under collective control. If all participants or a group of participants must act in concert to determine the relevant activities of an arrangement, it is considered that all participants or a group of participants collectively

control the arrangement. If there is a combination of two or more participants who can collectively control an arrangement, it does not constitute joint control. If there is a common control, no protective rights are considered.

Significant influence means that the investor has the right to participate in the decision-making of the financial and business policies of the investee, but cannot control or control the formulation of these policies together with other parties.

In determining whether a significant influence can be exerted on the investee, the effect of the investor's direct or indirect holding of the voting shares of the investee and the current enforceable potential voting rights held by the investor and other parties on the assumption of conversion to the equity of the investee is taken into account. It includes the influence of the current convertible warrants, stock options and convertible corporate bonds issued by the investee.

When the Bank directly or indirectly owns 20% (including 20%) or more of the investees but less than 50% of the voting shares through subsidiaries, it is presumed to have a significant influence on the investees, unless there is clear evidence that the bank cannot participate in the production and operation decision-making of the investees, and no significant influence is created. When the Bank owns voting shares under 20% (excluding) of the investee, it is presumed not to have a significant impact on the investee unless there is clear evidence that it can participate in the decision-making of the production and operation of the investee under such circumstances, which has a significant influence.

#### (4) Impairment test and impairment provision

The method of calculating assets impairment of the investment of subsidiaries and joint ventures see Note III.16.

### 11. Fixed assets and accumulated depreciation

#### (1) Recognition criteria of fixed assets

Fixed assets are physical assets which are held for production of goods, rendering of services, rental and daily operation and management and of which the useful life exceeds one accounting period.

Fixed assets include houses and buildings, transportation equipment, electronic computers and ancillary equipment, other machinery and equipment and construction in progress.

A fixed asset is recognized only when it is probable that economic benefits associated with the asset will flow to the Bank and the cost of the asset can be measured reliably.

Fixed assets are initially measured at cost.

#### (2) The method for depreciation

A fixed asset is depreciated using the straight-line method except for construction in progress.

The cost of construction in progress is measured at the actual expenditure incurred, including construction expenditure and capitalization of borrowing costs and other applicable costs incurred prior to the completion. An item of construction in progress is reclassified to fixed asset upon reaching condition necessary to be capable of operating in the manner intended by management.

Depreciation of a fixed asset starts in the next month of the month in which the fixed asset reaches its

predetermined usable condition. Depreciation is discontinued when the fix asset is derecognized or reclassified to held-for-sale assets. The useful lives, rates of estimated residual value and annual depreciation rates for each category of fixed assets are presented in the following table:

Category	Depreciation period(year)	Residual value rate (%)	Annual depreciation rate (%)
Buildings	20-30	5	3.17-4.75
Transportation vehicles	5-6	5	15.83-19.00
Electronic equipment	5	5	19.00
Other machinery and equipment	5-11	5	8.64-19.00

The impairment allowance shall be deducted in the calculation of depreciation rate for fixed assets that are impaired.

- (3) See Note III.16 for details of assessment for impairment of fixed assets and impairment allowance for fixed assets.
- (4) The Bank assesses the useful life, the estimated net residual value and the depreciation method for fixed assets at each financial year-end. If circumstance indicates change is required, change in accounting estimates is carried out.
- (5) Overhaul cost

The overhaul cost is recognized in the cost of fixed assets when evidence indicates that the conditions for the recognition of fixed assets are satisfied; otherwise, the overhaul cost is recognized in profit or loss for the current period. Fixed assets are depreciated during regular overhaul intervals

## 12. Intangible assets

Intangible assets include the right of use for land, computer software and other intangible assets.

Intangible assets are measured at cost on initial recognition, and the useful lives are assessed upon acquisition. For an item of intangible assets which is with a finite useful life, the residual amount after deducting its estimated residual value and previously recognized impairment from its cost is amortized over its estimated remaining useful life using the amortization method that reflects the expected realization method of the economic benefits associated with the asset. If it is unable to determine the expected realization method of the economic benefits associated with the asset, straight-line method is adopted. Intangible assets with infinite useful life are not amortized.

Useful lives of intangible assets are reviewed at each financial year-end. If circumstances indicate that there is a change in the useful life of an item of intangible assets with a finite useful life, a change in accounting estimates is carried out. If circumstances indicate that the useful life of an item of intangible assets with infinite useful life becomes finite, the useful life of the intangible asset is estimated and the intangible asset is amortized accordingly.

If it is estimated that no economic benefits will flow to the Bank from an intangible asset on the balance sheet date, the book value of the intangible asset shall be transferred to current profit and loss.

See Note III.16 for details of assessment for impairment for intangible assets.

### 13. Research and development expenditure

For the expenses of internal research and development projects, the Bank classifies them into research expenses and development expenses. Expenditure incurred during the research phase is recognized as an expense when it is incurred.

Expenditure incurred during the development phase can only be capitalized if all of the following conditions are met:

- (1) It is technically feasible to complete the intangible asset so that it will be available for use or sale;
- (2) The Bank has clear intention to complete the intangible asset and to use or sell it;
- (3) It is evidential that the intangible asset will generate economic benefits either by selling the intangible asset itself or the goods produced by the intangible asset or by using it internally;
- (4) There are sufficient technical, financial and other resources to complete the intangible asset and the Bank is able to use it or sell it;
- (5) The bank is able to measure reliably the expenditure attributable to the intangible asset during its development.

Where a research and development project cannot be separated into the research stage and development stage, all expenditure incurred for the project is recognized in profit or loss when it is incurred.

Expenditure incurred during the development phase which cannot meet all conditions above is recognized in profit and loss when it is incurred.

The Bank's research and development projects, which meet the above-mentioned conditions and are through technical feasibility and economic feasibility study, could enter the development stage.

Expenditures that have been capitalized in the development stage are transferred to intangible assets from the date when the project is capable of operating in the manner intended by management.

### 14. Debt assets

When the bank obtains the debt assets, if the amount of debt assets is lower than the sum of the principal of the creditor's rights and the interest in the statement, it shall be recorded as the amount of debt assets. Where the amount of debt assets equals or exceeds the sum of the principal of the creditor's right and the interest in the statement, it shall be recorded as the amount of the sum of the principal of the creditor's right and the interest in the statement. Taxes and fees owed to the debt assets paid for obtaining the debt assets, prepaid litigation costs and related taxes and fees paid for obtaining debt assets are recognized debt assets. When there is evidence that the net realizable value of debt assets is lower than the book value, the bank reduces the book value to the net realizable value.

When the bank disposes of debt assets, if the disposal income obtained is greater than the book value of the debt assets, the difference is recognized as non-operating income. If the disposal income is less than the book value of the debt assets, the difference is recognized as non-operating expenses. Expenses incurred during the custody process are directly charged to other operating expenses. Expenses occurred during the disposal process are reduced from disposal income.



The method for calculating assets impairment of debt assets see Note III.16.

#### 15. Deferred charges

The deferred charges incurred by the Bank are measured at actual cost and amortized on average over the expected benefit period. For deferred charges that cannot benefit the future accounting period, the amortized value is fully recognized in the current profit and loss.

#### 16. Impairment of assets

Non-current non-monetary assets, such as long-term equity investments in subsidiaries, joint ventures and associates, fixed assets, construction in progress, intangible assets, and etc. (exclusive of deferred tax assets and financial assets), are assessed for impairment on each balance-sheet date. If circumstances on a balance sheet date indicate that a non-current non-monetary asset is impaired, the recoverable amount of the asset is estimated. The recoverable amounts of goodwill, intangible assets with infinite useful life and intangible assets which have not yet reached the conditions of their intended use or sales are tested annually irrespective of whether there is indication of impairment.

If the carrying amount of a non-current non-monetary asset exceeds its estimated recoverable amount, the excess of the carrying amount over the estimated recoverable amount is recognized as impairment allowance and an impairment loss of the same amount is recognized. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs of disposal and the present value of its future cash flows. Impairment allowance is generally calculated on the basis of individual assets. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of a cash-generating unit to which the asset belongs is estimated. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Where the recoverable amount a cash-generating unit (or group of units) is lower than its carrying amount, an impairment loss is recognized.

Impairment loss recognized in accordance with this section is irreversible in subsequent periods.

#### 17. Bonds payable

The financial bonds issued by the bank are treated as liabilities in accordance with the amount actually received (deducting the relevant transaction costs); The difference between the amount actually received by a bond issuance and the total par value of the bond is amortized as a premium or discount on the bond by the straight-line method according to the remaining maturity of the bond. Gains or losses that arise from the amortization of each period are recognized in current profits and losses. The issuance cost of bonds is amortized in line with the remaining period; each period amortization is recognized into current profits and losses.

#### 18. Provisions

A contingent liability is recognized as provision if all or the following conditions are satisfied:

- a. the Bank has a present obligation as a result of a past event;
- b. it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and

c. a reliable estimate can be made of the amount of the obligation.

A provision is measured on a balance-sheet date as the best estimate of the amount that is required for the fulfillment of the present obligation after taking into account of the risks and uncertainty associated with the respective contingent events and the time value of money. If the time value of money has a significant impact, the best estimate is determined by discounting the relevant future cash outflows. The Bank reviews the book value of the estimated liabilities on the balance sheet date and adjusts the book value to reflect the current best estimate.

Where some or all of the expenditure required settling a provision is expected to be reimbursed by another party, the reimbursement shall be recognized when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset. The amount recognized for the reimbursement shall not exceed the amount of the provision.

## 19. Revenue

Revenue is recognized when it is probable that the associated economic benefits will flow to the Bank and the amount of revenue can be measured reliably.

### (1) Interest income

The corresponding interest income is recognized by using an effective interest method. Effective interest method is used in the calculation of the amortized cost of a financial asset or a financial liability and in the allocation and recognition of the interest revenue or interest expense in profit or loss over the relevant period. Effective interest rate refers to 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 or to the amortized cost of a financial liability. The Bank considers all the contract terms of the financial instruments when forecasting future cash flows, but does not consider expected credit losses. The calculation includes all transaction costs and premiums attributable to the effective interest rate component.

After the impairment of financial assets, the interest income is recognized as the interest rate calculated by discounting the future cash flow when the impairment loss is determined.

### (2) Fees and commission income

Fees and commission income are usually recognized on the accrual basis when providing relevant services.

The bank earns fees and commissions by providing various kinds of services to customers. Among them, for those services that are provided over a period of time, fees and commission income are averagely recognized during the corresponding period. For other services, fees and commission income are recognized when the transactions are completed.

### (3) Foreign exchange gains or losses

Exchange gains and losses are mainly the exchange margin resulting from the exchange rate fluctuations in the foreign exchange exposure retained by the Bank and the exchange gains and losses resulting from the Bank's foreign exchange transactions.



## 20. Expenditure recognition

Interest expense is recognized in the income statement using the effective interest method, and other expenses are recognized on the accrual basis.

## 21. Government Grants

The Government grants are recognized when the conditions attached to the government grants are satisfied and when it can be received.

In general, the Bank recognizes a government grant when it is actually received and measures at the amount actually received. However, a government grant may be recognized as receivable if it is objectively evidential on the reporting date that conditions for the grant receipt are satisfied and that the grant is receivable. If a government grant is in the form of non-monetary assets, it is measured by fair value of the assets; if the fair value of the assets granted cannot be reliably measured, the grant is measured by nominal value of the assets.

Government grants obtained by the Bank which are relevant to construction or acquisition of long-term assets are classified as asset-related government grants; all other government grants are classified as revenue-related government grants. For government grants without specified beneficiary, the Bank performs classification in accordance with the following criteria:

a. Where a grant is obtained for a specified project, the grant is spitted into asset-related and revenue related portions proportionate to the project's investment to expense ratio; the classification is reviewed on each balance sheet date and revised if necessary.

b. Where a grant is obtained for general purpose, the grant as a whole is classified as a revenue-related government grant.

The government grants that include both asset-related and income-related components are distinguished for separate accounting treatment; if it is difficult to distinguish, the government grants should be classified as income-related government grants as a whole.

Grants related to assets are recognized as deferred income and amortized over the useful life of the relevant assets using reasonable and systematic methods. A grant related to income is recognized as deferred income if it is related to expenses or loss to be incurred in the future and is carried to profit or loss for the period during which the relevant expenses or loss are recognized; it is recognized in profit or loss for the period during which it is received or becomes receivable if it is related to expenses or loss already incurred.

Where a recognized grant becomes repayable, the amount repayable is firstly charged to the remaining deferred income (if any); the remaining amount after charge to deferred income is recognized in profit or loss for the period during which it becomes repayable.

## 22. Deferred income tax assets and deferred income tax liabilities

Income tax includes current income tax and deferred income tax. Except for the deferred income tax related to the transactions or events that are directly recognized in owners' equity, income tax expense is recognized in profit or loss.

Based on the temporary differences between the book value and the tax base of assets and liabilities on the balance sheet date, the Bank adopts the balance sheet liability method to recognize deferred

income tax.

Deferred tax liabilities shall be recognized for all taxable temporary differences, unless the taxable temporary differences arise in the following transactions:

(a) Initial recognition of assets or liabilities arising from transactions with the following characteristics: the transaction is not a business combination, and the transaction occurs without affecting accounting profits or taxable income;

(b) For the temporary tax-payable differences related to the investment of subsidiaries and joint ventures, the time for the temporary differences to be reversed can be controlled and the temporary differences may not be reversed in the foreseeable future.

For deductible temporary differences, deductible losses and tax deductions that can be carried forward for subsequent years, the Bank recognizes the resulting deferred income tax assets limited to the amount of future taxable income likely to be obtained to offset deductible temporary differences, deductible losses and tax credits, unless the deductible temporary difference is generated in the following transactions:

(a) The transaction is not business combination and does not affect accounting profits or taxable income when the transaction occurs;

(b) For the deductible temporary differences related to the investment of subsidiaries and joint ventures, and satisfying the following conditions, the corresponding deferred income tax assets shall be recognized: the temporary differences are likely to be reversed in the foreseeable future, and the amount of taxable income to be used to offset the deductible temporary differences may be obtained in the future.

On the balance sheet date, the Bank measures deferred income tax assets and deferred income tax liabilities according to the applicable tax rates for the period during which the assets are expected to be recovered or the liabilities are liquidated, and reflects the impact of income tax on the manner in which assets are expected to be recovered or liabilities are liquidated on the balance sheet date.

On the balance sheet date, the bank reviews the book value of deferred income tax assets. If it is probable that sufficient taxable income will not be available in the future to offset the benefits of deferred tax assets, the carrying amount of deferred tax assets shall be write down. When it is probable that sufficient taxable income will be obtained, the amount of the write-down will be reversed.

## 23. Operating leases

### (1) Operating lease to which the Bank is the lessee

Lease payments for an operating lease to which the Bank is the lessee is amortized over the lease term using the straight-line method and recognized in the cost of the relevant asset or as expense, whichever is applicable. Initial expenses incurred for activities directly attributable to the lease are recognized in profit or loss for the period during which they are incurred.

### (2) Operating lease to which the Bank is the lessor

Rental income from an operating lease to which the Bank is the lessor is amortized over the lease term using the straight-line method. Significant initial expenses incurred for activities are recognized in profit

or loss for the period during which they are incurred.

#### 24. Employee Benefits

##### (1) The range of employee benefits

Employee compensation refers to various forms of remuneration or compensation provided by an enterprise to obtain services provided by employees or to terminate labor relations. Employee benefits include short-term compensation and post-employment benefits. The benefits provided by the enterprise to the employee's spouse, children, dependents, deceased employee survivors and other beneficiaries are also included in employee benefits.

##### (2) Short-term employee benefits

Short-term employee benefits include wages, bonuses, allowances and subsidies, welfare, health insurance, maternity insurance, work injury insurance, housing funds, labor union funds, employee education funds, and etc. Short-term employee benefits are recognized as liabilities and profit or loss account or the costs associated with the asset during the accounting period when employees actually provide services. If the liability is not expected to be fully paid within 12 months after the end of the reporting period in which the employee provides the relevant services, and the financial impact is significant, the liability is measured at the discounted amount.

##### (3) Post-employment Benefit

Post-employment benefits include basic retirement security, unemployment insurance, supplementary pensions, supplementary medical insurance and supplementary retirement benefits.

Apart from basic retirement security, employees of the Bank participate in the supplementary pensions and supplementary medical insurance established by the Bank after approval by the Ministry of Finance and record by the Ministry of Human Resources and Social Security. The bank pays to the supplementary pensions and supplementary medical insurance according to a certain proportion of the employees' salary in the previous year, and the payment obligation is recorded in profit and loss of the current period when it occurs.

#### 25. Fiduciary business

The Bank acts as the custodian, trustee or agent of the customers in the fiduciary business. The bank's balance sheet does not include the assets it holds as a result of its fiduciary business and the commitment to return the assets to its customers. The risks and benefits of the assets are borne by the customers, and the bank receives only intermediate business income, excluding provision for impairment.

##### (1) Entrusted loan

The entrusted loan refers to the loan provided by the principal (entrusted deposit), which is issued, supervised and recovered by the bank on behalf of the principal according to the requirements of the loan object, purpose, amount, term and interest rate determined by the principal. The risk is borne by the principal.

##### (2) Agent syndicated loan

Agent syndicated loan is a syndicated loan issued by the bank as an agent.

(3) Non-guaranteed wealth management products

Non-guaranteed wealth management products refer to wealth management products that the Bank accepts the entrustment and authorization of investors, and conducts transactions, investment, allocation and management of investors' funds or assets independently according to prior agreement, and pays the proceeds to customers according to the agreed conditions and actual investment income, which do not guarantee the customer's principal payment, fixed income or minimum income.

(4) Other business

The Bank acts as an agent for other businesses, such as collecting premiums and collecting intermediary business income.

26. Asset securitization business

The bank securitizes certain credit assets and generally sells them to a specific purpose entity, which then issues securities to investors. The rights and interests of securitized financial assets are retained in the form of credit enhancement, subordinated bonds or other residual rights and interests (reserved interests). Retained interest is recorded in the balance sheet of the bank at fair value. The gains or losses of securitization depend on the book value of the transferred financial assets and are distributed between the terminated recognized financial assets and the retained interests at their relevant fair value on the date of transfer. The gains or losses of securitization are recorded in the profit and loss of the current period

In applying the securitized financial assets policy, the Bank has considered the risk and degree of reward transfer of assets transferred to another entity and the extent to which it exercises control over that entity:

(a) When the Bank has transferred substantially all the risks and rewards of the ownership of the financial asset, it will terminate the recognition of the financial asset;

(b) The Bank will continue to recognize the financial assets when it retains substantially all the risks and rewards of the ownership of the financial assets;

(c) If the bank neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, it will consider whether there is control over the financial asset. If the Bank does not retain control, it will terminate the recognition of the financial asset and recognize the rights and obligations arising from or retained in the transfer as assets or liabilities, respectively. If the bank reserves the right of control, the financial assets will be recognized on the basis of the continued involvement of financial assets.

27. General risk preparation

The bank has a special accounting policy on general reserves, which are used to compensate for unrecognized loss possibilities. The specific proportion or amount shall be determined according to the policy requirements of the competent government departments.

28. Significant accounting judgements and estimates

Based on historical experience and other factors, including reasonable expectations of future events, the Bank continuously evaluates important accounting estimates and key assumptions adopted.

Important accounting estimates and key assumptions that are likely to lead to significant adjustments in the book value of assets and liabilities for the next fiscal year are listed below:

#### Classification of financial assets

The bank needs to make a major judgment on the classification of financial assets. Different classification will affect the accounting methods and the financial situation of the Bank.

The Bank classifies non-derivative financial assets that are eligible for a fixed or deterministic amount of repayment and a fixed maturity date and have a clear intention and ability to hold to maturity as holding to maturity investments. This classification involves substantial judgement. In the course of judgment, the Bank will evaluate its willingness and ability to hold such bonds until maturity.

Except in specific cases (e.g. bonds sold at near maturity for insignificant amounts), if the bank fails to hold these bonds until maturity, all such bonds must be reclassified into available-for-sale financial assets and measured at fair value instead of amortized cost.

#### Impairment losses on loans

The impairment of loans and account receivables mainly refers to the provisions covering 150% of the provision coverage and 2.5% of the provision-to-loan ratio in the "Measures for the Management of Loan Loss Reserve for Commercial Banks" issued by the CBRC.

#### Impairment of available-for-sale financial assets and held to maturity investments

When determine whether there is any impairment in the value of available-for-sale financial assets and held to maturity investments, management judges based on actual situations.

If the fair value of available-for-sale financial assets falls substantially or continuously and falls below the cost, the Bank determines that the impairment has occurred.

In the process of judgement, the Bank needs to evaluate the extent and duration of the investment's fair value below cost, as well as the financial position and short-term business outlook of the invested party, including industry status, credit rating, default rate and counterparty risk.

#### Fair value of financial instruments

For financial instruments lacking active markets, the bank uses valuation techniques to determine their fair value, which include discounted cash flow models and other valuation models. The assumptions and input variables of valuation techniques include risk-free interest rate, target interest rate, exchange rate, and credit spread and liquidity premium. When using the discounted cash flow model, cash flow is based on the best management estimate, and the discount rate is the current interest rate of financial instruments with similar terms and conditions in the market on the balance sheet date.

When using other pricing models, the input parameters are based to the greatest extent on observable market data on the balance sheet date. When observable market data are unavailable, the Bank will make the best estimate of the significant market data included in the valuation method. The changes of these assumptions will affect the fair value of financial instruments.

#### Provisions

The Bank will determine whether current statutory obligations or presumptive obligations arise as a result of past events, and determine the likelihood of outflow of economic benefits resulting from the

fulfilment of relevant obligations to determine a reliable estimate of the amount of the obligation and the relevant disclosure in the financial statements on each balance sheet date,

#### Income tax

Extensive efforts of estimation need to be made by the Bank when it calculates income tax, and there are some uncertainties in the final tax treatment and calculation of some transactions. In particular, whether some of the projects can be approved at the forefront of taxation requires the approval of the competent authorities of the government. If the final result of these tax items is different from the original amount, the difference will affect the current income tax and deferred income tax as well as the liabilities payable, deferred income tax assets and deferred income tax liabilities.

### 29. Changes in significant accounting policies and accounting estimates

#### (1) Changes in significant accounting policies

There are no changes in significant accounting policies during the reporting period.

#### (2) Change in significant accounting estimates

There are no changes in significant accounting estimates during the reporting period.

### Note IV Taxes

#### 1. Major categories of taxes and tax rates

Tax	tax basis	Tax Rate (%)
VAT	Taxable income	3-17
Urban maintenance and construction tax	VAT	5、7
education surcharges	VAT	2、3
Corporate income tax	Taxable profit	25

The VAT, urban maintenance and construction tax, and education surcharges of the Bank are paid separately by the institutions at all levels according to the requirements of local tax bureau. The corporate income tax is paid collectively by the head office.

#### 2. Tax policies

(1) In accordance with "Regulations on the Administration of the Collection of Income Tax for Cross-region Business Operations" (〔2012〕 No. 57) and "Notice on the collection and management of enterprise income tax such as Industrial Commercial Bank of China Ltd" (Guoshuihan 〔2010〕 No.184) released by State of Administration of Taxation, the ADBC paid enterprise income tax in total by the head office.

(2) In accordance with "Notice on Relevant Issues on the Pre-tax Deduction of Loan Impairment Reserve before Corporate Income Tax for Agriculture Related Loans by Financial Enterprises and Loans by Small and Medium-sized Enterprises" (CaiShui 〔2015〕 No. 3), the policy in relation to loans by Financial Enterprises and loans by small and medium-sized enterprises is implemented from January 1, 2014 to December 31, 2018.



(3) In accordance with "Notice on Relevant Issues on the Pre-tax Deduction Loan Impairment Reserve before Corporate Income Tax for Financial Enterprises" (CaiShui No.9 [2015]), the pre-tax deduction limit for loan impairment reserve is 1% of the balance of the loan. The policy is implemented from January 1, 2014 to December 31, 2018.

(4) In accordance with "Notice on Several Policies on the Pilot Project of Replacing Business Tax with VAT" (Caishui [2016] No.39) issued by Ministry of Finance and the State Administration of Taxation, a levy rate of 3% is applicable for the interest income from agriculture related loans for simplicity. Therefore, the ADBC adopts the levy rate of 3% for the interest income from agriculture related loan as stated in Caishui [2016] No.39. For interest income from other loans, fee and commission income, investment income and etc, the VAT is calculated as 6% of the taxable income. 17%, 11%, and 5% are applicable for other operating revenue in accordance with regulations.

#### Note V Notes to significant elements of the consolidated financial statements

##### 1. Cash and deposits with central bank

Item	C/f	B/f
Cash and bank deposit	31,694,400,301.60	6,876,409,311.04
Statutory reserve with central bank	129,316,689,460.83	112,857,003,181.17
Surplus reserve with central bank	38,746,383,215.07	71,160,483,063.14
Foreign currency deposit reserve with the central bank	41,718,553.89	46,275,200.86
<b>Total</b>	<b>199,799,191,531.39</b>	<b>190,940,170,756.21</b>

(1) Statutory reserve with the central bank is the general reserve deposited with the People's Bank of China by the Bank in accordance with the relevant regulations, and such deposits cannot be used for daily operating activities of the Bank. The scope of the deposit reserve includes the deposit of non-profit institutions, extrabudgetary deposit, entities' deposit and other deposit. The mandatory reserve deposit rates of the Bank are as follows:

Item	C/f	B/f
CNY	8.50%	9.00%
Foreign currency	5.00%	5.00%

(2) Surplus reserve with the central bank is the surplus reserve deposited with the People's Bank of China by the Bank for fund settlement, financial institution transfer and etc.



2. Deposits with banks

Item	C/f	B/f
Deposits with domestic banks	190,670,041,612.97	299,936,155,273.83
Deposits with other domestic financial institutions	17,403,718.37	35,191,616.72
Deposits with overseas banks	296,809,486.69	835,161,876.72
Subtotal	190,984,254,818.03	300,806,508,767.27
less: Allowance for impairment losses	1,564,434.50	2,010,407.63
<b>Carrying amounts</b>	<b>190,982,690,383.53</b>	<b>300,804,498,359.64</b>

3. Placements with banks and other financial institutions

Item	C/f	B/f
Placements with domestic banks	55,973,420,000.00	43,163,070,000.00
Placements with other domestic financial institutions	28,000,000,000.00	20,050,000,000.00
Placements with overseas banks	--	--
Subtotal	83,973,420,000.00	63,213,070,000.00
less: Allowance for impairment losses	--	--
<b>Carrying amounts</b>	<b>83,973,420,000.00</b>	<b>63,213,070,000.00</b>

4. Financial assets at fair value through profit or loss

Item	C/f	B/f
Designated at fair value through profit or loss financial assets	1,203,866,690.74	622,507,467.55
Including: Bank wealth management products	1,203,866,690.74	622,507,467.55
<b>Total</b>	<b>1,203,866,690.74</b>	<b>622,507,467.55</b>

5. Derivative financial assets

Item	C/f(fair value)	B/f(fair value)
Derivative financial assets	2,840,907.67	--
<b>Total</b>	<b>2,840,907.67</b>	<b>--</b>

Note: the Bank signed forward contracts with third party payment institutions, and settled forward foreign exchange contract on behalf of customers. The fair value of the derivative financial assets amounted to

2,840,907.67 based on estimation at the year end.

6. Financial assets held under resale agreements

Item	C/f	B/f
Debt securities	211,903,186,000.00	177,315,513,000.00
Acceptances	--	--
Including: Banks' acceptance	--	--
Subtotal	211,903,186,000.00	177,315,513,000.00
less: Allowance for impairment losses	--	--
<b>Carrying amounts</b>	<b>211,903,186,000.00</b>	<b>177,315,513,000.00</b>

7. Interests receivable

Item	C/f	B/f
Interests receivable from loans and advances	10,507,341,161.16	7,928,189,632.79
Interests receivable from held-to-maturity investment	6,362,085,081.43	4,478,729,827.39
Others	1,961,515,490.53	1,537,938,790.41
<b>Carrying amounts</b>	<b>18,830,941,733.12</b>	<b>13,944,858,250.59</b>

8. Loans and advances

(1) Analysis of loans and advances to customers

Item	C/f	B/f
Loans and advances	4,601,542,553,096.94	4,053,324,333,902.11
Discounted bills	54,497,721,635.53	41,307,893,103.51
Subtotal	4,656,040,274,732.47	4,094,632,227,005.62
Less: allowance for impairment losses	148,879,755,772.96	113,711,453,781.22
<b>Carrying amounts</b>	<b>4,507,160,518,959.51</b>	<b>3,980,920,773,224.40</b>

( 2 ) Analysis of loans and advances to customers by geographical area

Item	C/f		B/f	
	Book value	% of total	Book value	% of total
Eastern China	1,342,770,893,765.67	28.84	1,234,232,455,890.39	30.14
Central China	1,164,896,468,500.38	25.02	957,930,782,781.12	23.39
Western China	1,276,446,391,734.15	27.41	1,051,533,768,339.76	25.68
Northeastern China	871,926,520,732.27	18.73	850,935,219,994.35	20.79
Subtotal	4,656,040,274,732.47	100.00	4,094,632,227,005.62	100.00
Less: Allowance for impairment losses	148,879,755,772.96	--	113,711,453,781.22	--
<b>Carrying amounts</b>	<b>4,507,160,518,959.51</b>	<b>--</b>	<b>3,980,920,773,224.40</b>	<b>--</b>

( 3 ) Analysis of loans and advances to customers by collateral type

Item	C/f	B/f
Unsecured loans	2,196,975,592,182.20	2,121,217,806,080.29
Guaranteed loans	1,069,893,009,833.90	748,124,468,592.95
Collateralised and other secured loans	1,389,171,672,716.37	1,225,289,952,332.38
Including: Loans secured by property and other immovable assets	609,295,723,308.49	752,090,125,613.68
Other pledged loans	779,875,949,407.88	473,199,826,718.70
Subtotal	4,656,040,274,732.47	4,094,632,227,005.62
Less: Allowance for impairment losses	148,879,755,772.96	113,711,453,781.22
<b>Carrying amounts</b>	<b>4,507,160,518,959.51</b>	<b>3,980,920,773,224.40</b>

( 4 ) Reconciliation of allowance for impairment losses on loans and advances

Item	Current year	Prior year
As at 1 January	113,711,453,781.22	93,838,164,118.01
Impairment losses for the year	41,309,979,032.22	24,915,233,216.02
Reversal	20,227,484.37	32,188,742.40
Write-off and transfer out	6,161,904,524.85	5,074,132,295.21
As at 31 December	148,879,755,772.96	113,711,453,781.22

( 5 ) Loan provision rate and provision coverage

Item	Current year	Prior year
Loan provision rate	3.20%	2.78%
Provision coverage	393.68%	316.03%

Loan provision rate equals to loan balance divided by allowance for impairment loss; Provision coverage equals to non-performing loan balance divided by allowance for impairment loss.

( 6 ) the Bank had continuing involvement in the following securitised assets and liabilities due to its holding of loans

Item	C/f	B/f
Asset:		
Other asset	300,495,872.25	366,592,500.00
<b>Subtotal</b>	<b>300,495,872.25</b>	<b>366,592,500.00</b>
Liability:		
Other liability	300,495,872.25	366,592,500.00
<b>Subtotal</b>	<b>300,495,872.25</b>	<b>366,592,500.00</b>

Note: Subprime asset-backed securities

On January 22, 2015, the Bank, as the trustor, transferred 102 pieces of securitized credit assets amounting to CNY 3.356 billion to the first phase of the 2015 Fayuan Credit Asset Securitization Trust Scheme established by CITIC Trust Co., Ltd. as the trustee. The Bank held tranches of the subprime securities of the trust scheme, which amounted to CNY 367 million. The subprime securities held by the Bank paid the principles of CNY 67 million during the year 2017.

In the business of credit asset securitization, the Bank neither transferred nor retained substantially all the risks and rewards attached to the ownership of the trust assets. The bank did not give up the control of the financial assets. According to the relevant provisions of Accounting Standards for Business Enterprises No. 23 - Transfer of Financial Assets, the transferred financial asset is continued to be recognized to the extent of the entity's continuing involvement, and relative liability is recognized accordingly.

In accordance with the trust contract signed by the Bank and the trustee, the Bank will entrust its legally owned credit assets to the trustee. The trustee will set up a trust as a special purpose vehicle to manage, use and dispose of the trust asset on behalf of the holder of asset-backed securities. Through the establishment of trust, the Bank achieves the risk isolation between credit assets and other self-owned assets of the bank, and the risk isolation between credit assets and the bankruptcy risk of the client.

By the end of 2017, the subprime securities of the trust scheme held by the Bank amounted to CNY 300 million and the Bank retained continuing involvement to the securitized credit assets. Therefore, other assets and other liabilities amounting to 300 million respectively are recognized to the extent of the Bank's continuing involvement.

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9. Held-to-maturity investments

Item	C/f		B/f	
	Gross amount	Allowance for impairment losses	Carrying amounts	Gross amount
Investment of China Agriculture Development Key Construction Fund Co., Ltd	435,197,141,715.77	9,525,818,000.00	425,671,323,715.77	454,967,789,187.50
Bonds	5,256,972,017.81	--	5,256,972,017.81	3,160,000,000.00
Asset-backed securities	--	--	--	25,320,000.00
Certificates of deposits	92,456,629,274.44	--	92,456,629,274.44	76,828,886,533.57
<b>Subtotal</b>	<b>532,910,743,008.02</b>	<b>9,525,818,000.00</b>	<b>523,384,925,008.02</b>	<b>534,981,995,721.07</b>
				<b>531,429,195,721.07</b>

10. Investments classified as receivables

Item	C/f		B/f	
	Gross amount	Allowance for impairment losses	Carrying amounts	Gross amount
Self-sustaining part of asset-backed securities	300,495,872.25	--	300,495,872.25	366,592,500.00
Debt securities	426,668,629,960.00	--	426,668,629,960.00	309,066,510,000.00
subtotal	426,969,125,832.25	--	426,969,125,832.25	309,433,102,500.00
Less: Allowance for impairment losses	--	--	--	--
<b>Carrying amounts</b>	<b>426,969,125,832.25</b>	<b>426,969,125,832.25</b>	<b>426,969,125,832.25</b>	<b>309,433,102,500.00</b>

Note: Details of Credit Asset Securitization in V.8.

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11. Long-term equity investments

Item	Bif	Currency year movement							Allowan -ce c/f
		Additional investment	Investment reduction	Investment gains and losses recognized under the equity method	Other comprehensive income adjustment	Other changes in equity	Declared cash dividends or profits	Allow- ance Recog -nized	C/f
Investment in associates:									
China Agricultural Industry Development Fund Co., Ltd.	1,025,365,123.25	--	--	-15,485,281.04	--	--	--	--	1,009,879,842.21
Modern Seed Industry Development Fund Co., Ltd.	552,549,818.55	--	--	1,064,141.39	-27,817,822.71	--	--	--	525,796,137.23
Beijing Xiannong Ccl Capital Ltd	12,504,737.76	--	--	1,579,083.29	--	--	3,200,000.00	--	10,883,821.05
<b>Total</b>	<b>1,590,419,679.56</b>	<b>--</b>	<b>--</b>	<b>-12,842,056.36</b>	<b>-27,817,822.71</b>	<b>--</b>	<b>3,200,000.00</b>	<b>--</b>	<b>1,546,559,800.49</b>

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12. Fixed assets

Item	Houses and buildings	Transportation equipment	Computers and ancillary equipment	Other machinery and equipment	Construction in progress	Total
Cost:						
1. Balance as at 31/12/2015	15,598,819,575.01	1,639,246,892.25	2,263,786,764.85	3,040,577,663.83	3,690,408,217.82	26,232,839,113.76
2. Increased in current year	1,945,453,220.58	18,112,318.49	84,297,494.48	456,079,425.12	2,007,223,363.11	4,511,165,821.78
3. Decreased in current year	462,121,180.68	20,299,124.20	150,848,171.14	120,419,776.06	3,023,469,241.92	3,777,157,494.00
4. Balance as at 31/12/2016	17,082,151,614.91	1,637,060,086.54	2,197,236,088.19	3,376,237,312.89	2,674,162,339.01	26,966,847,441.54
Accumulated Depreciation						
1. Balance as at 31/12/2015	5,044,602,065.90	1,128,309,508.02	1,714,023,499.10	1,566,499,332.03	—	9,453,434,405.05
2. Increased in current year	500,807,724.25	154,527,723.61	185,481,290.82	403,686,319.71	—	1,244,503,058.39
3. Decreased in current year	66,286,452.09	9,049,430.85	139,392,699.64	107,311,337.97	—	322,039,920.55
4. Balance as at 31/12/2016	5,479,123,338.06	1,273,787,800.78	1,760,112,090.28	1,862,874,313.77	—	10,375,897,542.89
Impairment allowance						
1. Balance as at 31/12/2015	10,754,707.47	—	—	—	4,087,568.37	14,842,275.84
2. Increased in current year	5,073.63	—	—	—	—	5,073.63
3. Decreased in current year	8,298,767.56	—	—	—	—	8,298,767.56
4. Balance as at 31/12/2016	2,461,013.54	—	—	—	4,087,568.37	6,548,581.91
Carrying amount						
1. Carrying amount as at 31/12/2017	11,600,567,263.31	363,272,285.76	437,123,997.91	1,513,362,999.12	2,670,074,770.64	16,584,401,316.74
2. Carrying amount as at 31/12/2016	10,543,462,801.64	510,937,384.23	549,763,265.75	1,474,078,331.80	3,686,320,649.45	16,764,562,432.87



13. Intangible assets

Item	Land rights	Software	Others	Total
Cost:				
1. Balance as at 31/12/2015	257,655,607.97	773,312,890.10	23,698,994.90	1,054,667,492.97
2. Increased in current year	30,693,077.62	74,334,815.80	7,798,331.10	112,826,224.52
3. Decreased in current year	1,019,183.32	682,615.00	12,400.00	1,714,198.32
4. Balance as at 31/12/2016	287,329,502.27	846,965,090.90	31,484,926.00	1,165,779,519.17
Accumulated amortization				
1. Balance as at 31/12/2015	34,991,308.08	554,993,845.19	3,167,520.90	593,152,674.17
2. Increased in current year	7,150,900.74	78,320,696.36	1,030,577.62	86,502,174.72
3. Decreased in current year	245,072.36	682,615.00	--	927,687.36
4. Balance as at 31/12/2016	41,897,136.46	632,631,926.55	4,198,098.52	678,727,161.53
Impairment allowance				
1. Balance as at 31/12/2015	486,744.00	--	--	486,744.00
2. Increased in current year	--	--	--	--
3. Decreased in current year	--	--	--	--
4. Balance as at 31/12/2016	486,744.00	--	--	486,744.00
Carrying amount				
1. Carrying amount as at 31/12/2017	244,945,621.81	214,333,164.35	27,286,827.48	486,565,613.64
2. Carrying amount as at 31/12/2016	222,177,555.89	218,319,044.91	20,531,474.00	461,028,074.80

14. Deferred tax assets

Undeferred deferred tax assets and deferred income tax liabilities

Item	C/f		B/f	
	Deductible temporary difference	Deferred tax assets/liabilities	Deductible temporary difference	Deferred tax assets/liabilities
<b>Deferred tax assets:</b>				
Allowance for Impairment losses	112,561,466,115.81	28,140,366,528.96	77,258,569,079.32	19,314,642,269.83
Accrued unpaid staff cost	5,213,832,264.56	1,303,458,066.14	5,213,832,264.56	1,303,458,066.14
<b>Subtotal</b>	<b>117,775,298,380.37</b>	<b>29,443,824,595.10</b>	<b>82,472,401,343.88</b>	<b>20,618,100,335.97</b>

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**Deferred tax liabilities:**

Interest income from government bonds	--	--	35,306,325.38	8,826,581.35
Changes in fair value of financial instruments	6,804,119.83	1,701,029.96	6,679,021.05	1,669,755.26
<b>Subtotal</b>	<b>6,804,119.83</b>	<b>1,701,029.96</b>	<b>41,985,346.43</b>	<b>10,496,336.61</b>

15. Other assets

Item	C/f	B/f
Other accounts receivable	2,634,925,419.26	2,072,670,085.14
Deferred charges	2,706,629,438.29	2,369,153,418.84
Debt assets	4,965,502,276.80	4,602,680,740.84
Disposal of fixed assets	5,039,196.02	5,715,029.71
Financial assets with continuing involvement	300,495,872.25	366,592,500.00
Others	344,309,650.00	337,327,788.89
Less: Allowance for impairment losses	1,730,347,451.20	1,555,428,938.30
<b>Total</b>	<b>9,226,554,401.42</b>	<b>8,198,710,625.12</b>

16. Borrowings from the central bank

Item	C/f	B/f
Borrowings from PBOC	302,000,000,000.00	302,000,000,000.00
Mortgage supplementary loan from PBOC	392,200,000,000.00	260,000,000,000.00
<b>Total</b>	<b>694,200,000,000.00</b>	<b>562,000,000,000.00</b>

17. Deposits from banks and other financial institutions

Item	C/f	B/f
Due to other domestic banks and financial institutions	14,397,990,471.70	25,325,514,621.28
<b>Total</b>	<b>14,397,990,471.70</b>	<b>25,325,514,621.28</b>

18. Placement from banks and other financial institutions

Item	C/f	B/f
Placement from domestic banks	--	21,920,226.30
Placement from foreign banks	--	--
<b>Total</b>		<b>21,920,226.30</b>

19. Financial liabilities at fair value through profit or loss

Item	C/f (fair value)	B/f (fair value)
Designated as financial liabilities at fair value through profit or loss	1,202,814,246.58	608,045,205.48
including: wealth management products	1,202,814,246.58	608,045,205.48
<b>Total</b>	<b>1,202,814,246.58</b>	<b>608,045,205.48</b>

20. Derivative financial liabilities

Item	C/f (fair value)	B/f (fair value)
Derivative financial liabilities	--	103,658.11
<b>Total</b>	<b>--</b>	<b>103,658.11</b>

21. Deposits received

Item	C/f	B/f
Demand deposits	1,343,777,100,825.45	1,311,317,850,317.49
Time deposits	93,634,896,372.09	96,551,245,158.73
Remittance and Remittance payable	150,138,830.65	2,230,408,676.51
Refundable deposits	15,400,213,777.76	19,085,776,340.02
<b>Total</b>	<b>1,452,962,349,805.95</b>	<b>1,429,185,280,492.75</b>

22. Employee benefits payable

Item	B/f	Current year increase	Current year decrease	C/f
Short-term employee benefits	5,326,851,728.09	14,432,289,364.31	12,205,611,143.00	7,553,529,949.40
Post-employment benefits	386,447,982.57	2,118,767,242.51	2,110,796,740.27	394,418,484.81
<b>Total</b>	<b>5,713,299,710.66</b>	<b>16,551,056,606.82</b>	<b>14,316,407,883.27</b>	<b>7,947,948,434.21</b>

(1) Short-term employee benefits

Item	B/f	Current year increase	Current year decrease	C/f
Wages, salaries and subsidies	5,199,832,946.64	11,687,999,992.54	9,494,112,886.75	7,393,720,052.43
Employee welfare	--	781,101,452.39	781,101,452.39	--
Social insurance:	2,135,680.84	470,391,052.90	471,500,862.34	1,025,871.40
Including: 1. Medical insurance	2,059,748.23	418,416,885.04	419,515,584.26	961,049.01
2. Employment injury and Maternity	26,737.13	37,392,216.99	37,403,327.21	15,626.91
3. Others	49,195.48	14,581,950.87	14,581,950.87	49,195.48
Housing provident fund	10,193,861.19	960,578,408.33	958,543,322.60	12,228,946.92
Labour union fee and employee	59,808,917.87	378,101,712.75	369,591,402.77	68,319,227.85
Other short-term welfare	54,880,321.55	154,116,745.40	130,761,216.15	78,235,850.80
<b>Total</b>	<b>5,326,851,728.09</b>	<b>14,432,289,364.31</b>	<b>12,205,611,143.00</b>	<b>7,553,529,949.40</b>

(2) Post-employment benefits

Item	B/f	Current year increase	Current year decrease	C/f
Basic pension	21,313,191.83	1,196,835,690.86	1,196,551,675.00	21,597,207.69
Unemployment insurance	764,518.24	22,699,396.56	22,719,538.69	744,376.11
Supplementary retirement benefit	345,581,791.06	--	1,420,152.55	344,161,638.51
Supplementary pensions	1,105,502.48	459,952,127.23	455,018,911.77	6,038,717.94
Supplementary medical benefits	17,682,978.96	439,280,027.86	435,086,462.26	21,876,544.56
<b>Total</b>	<b>386,447,982.57</b>	<b>2,118,767,242.51</b>	<b>2,110,796,740.27</b>	<b>394,418,484.81</b>

23. Taxes and fees payable

Item	B/f	C/f
Corporate income tax	5,225,503,014.79	1,447,019,802.89
Value-added Tax	1,567,543,011.71	1,345,601,585.04
Urban Construction and Maintenance Tax	103,218,522.37	91,977,155.69
Others	187,712,128.48	147,185,129.99
<b>Total</b>	<b>7,083,976,677.35</b>	<b>3,031,783,673.61</b>

24. Interests payable

Item	B/f	C/f
Interest payable on deposit	1,682,486,859.20	1,401,319,032.51
Interest payable on bonds	90,981,642,461.11	78,743,635,709.27
Others	--	178,558.38
<b>Total</b>	<b>92,664,129,320.31</b>	<b>80,145,133,300.16</b>

25. Bonds payable

Item	B/f	C/f
Financial bonds payable	3,813,134,606,622.10	3,389,011,140,807.91
<b>Total</b>	<b>3,813,134,606,622.10</b>	<b>3,389,011,140,807.91</b>

26. Other liabilities

Item	B/f	C/f
Promissory note	1,300.00	1,300.00
Other payables	1,606,425,278.56	1,913,947,108.76
Deferred income	76,509,644.14	73,385,975.07
financial liabilities with continuing involvement	300,495,872.25	366,592,500.00
Others	328,432,491.87	349,080,256.95
<b>Total</b>	<b>2,311,864,586.82</b>	<b>2,703,007,140.78</b>

Other payables:

Item	B/f	C/f
Foreign-exchange payment by installment	286,439,725.40	315,991,449.20
Interest payable subsidy	4,292,732.86	43,496,426.18
Interest subsidy payable to purchaser of grains on credit	63,916,590.75	65,017,888.86
Others	1,251,776,229.55	1,489,441,344.52
<b>Total</b>	<b>1,606,425,278.56</b>	<b>1,913,947,108.76</b>

27. Paid-in capital

Investor	B/f		C/f	
	Capital contribution	% of total	Capital contribution	% of total
Ministry of Finance of the People's Republic of China	57,000,000,000.00	100	57,000,000,000.00	100
<b>Total</b>	<b>57,000,000,000.00</b>	<b>100</b>	<b>57,000,000,000.00</b>	<b>100</b>

28. Capital reserve

Item	B/f	Current year increase	Current year decrease	C/f
Other capital reserves	12,397,525.36	--	--	12,397,525.36
<b>Total</b>	<b>12,397,525.36</b>	<b>--</b>	<b>--</b>	<b>12,397,525.36</b>

29. Other comprehensive income

Item	B/f	Total amount in current year			C/f
		Amount for the year before tax	Less: previously recognized other comprehensive income transferred into profit or loss	Less: Income tax expense	
<b>Other comprehensive income that will be reclassified into profit or loss in the future</b>					
Share of OCI classifiable to profit or loss in subsequent periods recognized by investees measured by the equity method	38,542,936.65	-27,817,822.71	--	--	10,725,113.94
<b>Total</b>	<b>38,542,936.65</b>	<b>-27,817,822.71</b>	<b>--</b>	<b>--</b>	<b>10,725,113.94</b>

30. Surplus reserve

Item	B/f	Current year increase	Current year decrease	C/f
Statutory surplus reserve	10,036,364,254.30	1,711,826,414.72	--	11,748,190,669.02
<b>Total</b>	<b>10,036,364,254.30</b>	<b>1,711,826,414.72</b>	<b>--</b>	<b>11,748,190,669.02</b>

31. General risk reserve

Item	B/f	Current year increase	Current year decrease	C/f
General risk reserve	24,000,000,000.00	--	--	24,000,000,000.00

32. Retained earnings

Item	Current year	Prior year	The rate of Appropriation
Pre-adjustment balance brought forward	27,413,480,537.82	12,827,038,496.64	--
Total adjustment to retained earnings b/f (+, -)	--	--	--
Retained earnings b/f after adjustment	27,413,480,537.82	12,827,038,496.64	--
Add: Net profit attributable to owner of the parent	17,118,264,147.22	16,207,157,823.54	--
Less: Allocation to statutory surplus reserve	1,711,826,414.72	1,620,715,782.36	10% of net profit
Allocation to discretionary surplus reserve	--	--	--
Transfer to paid-in capital	--	--	--
Balance carrying forward	42,819,918,270.32	27,413,480,537.82	--

33. Net interest income

Item	Current year	Prior year
<b>Interest income</b>	<b>214,252,995,293.87</b>	<b>187,224,306,038.94</b>
Deposits with banks	6,424,116,784.43	7,116,816,821.83
Deposits with central bank	2,513,372,730.73	2,304,547,417.41
Placements with banks and other financial institutions	2,375,780,452.13	1,695,540,053.19
Loans and advances	191,568,162,447.23	169,790,796,205.82
Financial assets held under resale agreements	9,985,574,271.98	5,071,099,573.22
Other interest income	1,385,988,607.37	1,245,505,967.47
<b>Interest expense</b>	<b>159,945,942,373.17</b>	<b>139,405,595,873.32</b>
Deposits from banks	552,504,953.38	1,459,754,827.89
Deposits from central bank	9,175,200,000.00	8,959,680,000.00
Customer deposits and Debt securities issued	150,218,134,471.51	128,980,317,044.08
Other interest expense	102,948.28	5,844,001.35
<b>Net interest income</b>	<b>54,307,052,920.70</b>	<b>47,818,710,165.62</b>



34. Net income from fees and commissions

Item	Current year	Prior year
<b>Fee and commission income:</b>	<b>401,677,209.13</b>	<b>976,926,301.25</b>
Settlement and clearing fee income	63,368,328.00	69,769,739.84
Agency service fee income	92,586,695.16	106,376,738.00
Other	245,722,185.97	800,779,823.41
<b>Fee and commission expense:</b>	<b>319,048,631.70</b>	<b>265,338,480.06</b>
Service fee expense	319,048,631.70	265,338,480.06
<b>Net fee and commission income</b>	<b>82,628,577.43</b>	<b>711,587,821.19</b>

35. Investment income/ (loss)

Item	Current year	Prior year
Income from financial assets measured by fair value with changes in fair value recognized in profit or loss	--	--
Income from disposal of financial assets measured by fair value with changes in fair value recognized in profit or loss	1,279,578.08	9,990,897.08
Income from holding of financial assets available for sale	6,442,004,911.16	4,147,935,463.53
Income from disposal of financial assets available for sale	2,984,741,247.97	1,451,602,953.41
Income from long-term equity investments measured by equity method	-12,842,056.36	10,156,047.59
Income from the holding Investments classified as receivables	12,801,820,194.42	7,038,839,249.06
<b>Total</b>	<b>22,217,003,875.27</b>	<b>12,658,524,610.67</b>

36. Gain/ (loss) from change of fair value

Source	Current year	Prior year
Derivative financial liabilities	2,944,565.78	2,807,109.89
Financial assets held for trading	23,599,241.29	11,917,116.64
Financial liabilities held for trading	-26,418,708.29	-8,045,205.48
<b>Total</b>	<b>125,098.78</b>	<b>6,679,021.05</b>

Note: The Bank settled forward foreign exchange contract on behalf of customers. Income from change of fair value in 2017 amounts to CNY 2,944,565.78.

37. Other operating income and Costs of other businesses

(1) Other operating income

Item	Current year	Prior year
Income from bond discount	11,965,000,000.00	9,840,000,000.00
Leasing income	40,706,640.44	38,862,525.07
Others	903,885,001.03	2,124,398.27
<b>Total</b>	<b>12,909,591,641.47</b>	<b>9,880,986,923.34</b>

(2) Costs of other businesses

Item	Current year	Prior year
Custody fee of pledged assets	16,074,700.81	5,023,750.05
Cost of deposit insurance premium	265,886,431.73	151,146,245.78
Others	50,327,851.58	2,203,758.55
<b>Total</b>	<b>332,288,984.12</b>	<b>158,373,754.38</b>

38. Taxes and surcharges

Item	Current year	Prior year
Urban maintenance and construction tax	393,116,664.28	347,497,944.12
Education surcharge	279,744,591.55	247,171,844.80
Others	282,561,245.34	1,797,409,587.33
<b>Total</b>	<b>955,422,501.17</b>	<b>2,392,079,376.25</b>

39. Operating and administrative expenses

Item	Current year	Prior year
Staff costs	16,551,056,606.82	14,399,741,580.90
Depreciation and amortization	1,410,433,320.78	1,348,947,611.20
Expenses of running electronic equipment	530,662,788.23	478,706,673.61
Security defense fee	354,447,653.42	314,672,697.49
Others	4,508,343,261.43	4,862,206,795.55
<b>Total</b>	<b>23,354,943,630.68</b>	<b>21,404,275,358.75</b>

40. Impairment losses on assets

Source	Current year	Prior year
Deposits with banks and other financial institutions	-445,973.13	2,010,407.63
Loans to customers	41,309,979,032.22	24,915,233,216.02
Debt assets	182,991,947.29	-245,597.50
Held-to-maturity investments	5,973,018,000.00	3,390,990,000.00
Fixed assets	5,073.63	55,340.83
Construction in progress	--	631,139.07
Intangible assets	--	--
Other receivables	20,047,057.83	27,836,800.59
Others	--	483,380.07
<b>Total</b>	<b>47,485,595,137.84</b>	<b>28,336,994,686.71</b>

41. Non-operating income

Item	Current year	Prior year
Government subsidies	48,441,740.14	706,272,264.06
Gain from disposal of fixed assets	83,829,059.54	40,187,054.96
Gain from disposal of Debt assets	12,017,803.58	65,444.09
Income from disposal of intangible assets	212,887.78	2,857,950.31
Others	58,761,467.12	73,604,454.05
<b>Total</b>	<b>203,262,958.16</b>	<b>822,987,167.47</b>

42. Non-operating expenses

Item	Current year	Prior year
Donations	29,509,534.49	24,144,800.00
Losses from disposal of fixed assets	12,777,828.54	20,455,508.02
Losses from disposal of debt assets	2,956,671.14	1,228,603.75
Others	305,233,250.11	255,772,932.98
<b>Total</b>	<b>350,477,284.28</b>	<b>301,601,844.75</b>

43. Income tax expenses

(1) Income tax expenses

Item	Current year	Prior year
Current income tax expense	9,017,446,242.42	10,103,563,959.70
Deferred tax	-8,834,519,565.78	-6,931,785,867.43
<b>Total</b>	<b>182,926,676.64</b>	<b>3,171,778,092.27</b>

(2) Reconciliation of account profit and income tax expenses:

Item	Current year	Prior year
Profit before tax	17,301,190,823.86	19,378,935,915.81
Income tax computed in accordance with the applicable tax rate ( Profit before tax *25% )	4,325,297,705.97	4,844,733,978.95
Adjustment to income tax expense from prior year	-760,094,683.59	--
Tax effect of net profit from investment in joint venture measured by equity method	3,210,514.09	-2,539,011.90
Tax effect of non-taxable income	-3,420,245,039.75	-1,809,103,744.53
Tax effect of items not deductible for tax purpose	34,758,179.92	138,686,869.75
Others	--	--
Income tax expenses	182,926,676.64	3,171,778,092.27

44. Notes to the consolidated statement of cash flows

(1) Other cash receipts relating to operating activities

Item	Current year	Prior year
Cash received from other operating income	944,591,641.47	40,986,923.34
Cash received from non-operating income	119,221,010.84	779,942,162.20
Cash received from operating balance	1,485,084,691.22	44,468,258,708.89
<b>Total</b>	<b>2,548,897,343.53</b>	<b>45,289,187,794.43</b>

(2) Other cash payments relating to operating activities

Item	Current year	Prior year
Cash payments for non-operating expenses	337,699,455.74	281,146,336.73
Cash payments for operating balance	38,018,996,105.61	30,198,379,651.48
Cash payments for operating expenses	5,743,093,003.47	5,522,086,076.65
<b>Total</b>	<b>44,099,788,564.82</b>	<b>36,001,612,064.86</b>

( 3 ) Other Cash received in relation to investing activities

Item	Current year	Prior year
Net cash receipts for disposal of fixed and intangible assets	168,285,443.76	114,554,092.17
<b>Total</b>	<b>168,285,443.76</b>	<b>114,554,092.17</b>

45. Supplementary information to the consolidated statement of cash flows

( 1 ) Supplementary information to the statement of cash flows

Item	Current year	Prior year
<b>1. Reconciliation of cash flows from operating activities to net profit:</b>		
Net profit	17,118,264,147.22	16,207,157,823.54
Add: Loss on asset impairment	47,485,595,137.84	28,336,994,686.71
Depreciation of fixed assets	1,244,503,058.39	1,207,882,756.22
Amortization of intangible assets	86,502,174.72	79,901,654.74
Amortization of Long-term deferred expenditure	79,428,087.67	61,163,200.24
Loss on non-current assets disposal (gain presented by "-" prefix)	-71,264,118.78	-22,589,497.25
Loss on fair value changes (gain presented by "-" prefix)	-125,098.78	-6,679,021.05
Investment loss (gain presented by "-" prefix)	-22,217,003,875.27	-12,658,524,610.67
Decrease of deferred tax assets (increase presented by "-" prefix)	-8,825,724,259.13	-6,933,455,622.69
Increase of deferred tax liabilities (increase presented by "-" prefix)	-8,795,306.65	1,669,755.26
Decrease of operating receivables (increase presented by "-" prefix)	-654,939,663,479.14	-928,969,534,692.78
Increase of operating payables (decrease presented by "-" prefix)	276,286,848,048.84	866,400,087,196.30
Others	--	--
Net cash flows generated from operating activities	-343,761,435,483.07	-36,295,926,371.43
<b>2. Movement of cash and cash equivalents:</b>		
Cash as at 31/12/2017	70,440,783,516.67	78,036,892,374.18
Less: Cash as at 31/12/2016	78,036,892,374.18	105,366,616,561.71
Add: Cash equivalents as at 31/12/2017	--	--
Less: Cash equivalents as at 31/12/2016	--	--
Net increase of cash and cash equivalents	-7,596,108,857.51	-27,329,724,187.53

( 2 ) Composition of cash and cash equivalents

Item	C/f	B/f
Cash	70,440,783,516.67	78,036,892,374.18
Including: Cash on hand	62,765,610.23	128,968,685.02
Demand bank deposit	31,631,634,691.37	6,747,440,626.02
Demand other monetary funds	--	--
Demand deposit at the Central Bank	38,746,383,215.07	71,160,483,063.14
Cash and cash equivalents as at 31/12/2016	70,440,783,516.67	78,036,892,374.18

46. Transfer of Financial Assets

Asset Securitization

In the business of asset securitization, the Bank entrusts some credit assets to the trust company and established special purpose trust. The trust company issues asset-backed securities (hereinafter, "ABS") to investors based on the cash flow generated from the credit assets. As the credit service institute, the Bank charges a certain amount of service fee, and holds some subprime tranches of ABS, therefore retaining some of the risks and rewards of the transferred credit assets. At the end of the period, the bank derecognized relevant credit assets, and recognized the financial assets and liabilities to the extent of its continuing involvement in the financial asset.

As at December 31, 2017, the bank has derecognized relevant credit assets. As at December 31, 2017, the share in the above-mentioned ABS held by the Bank amounted to CNY 0.300 billion (December 31, 2016: CNY 0.367 billion), the maximum loss exposure of the special purpose trust which is not included in the scope of consolidation is the tranches of asset backed securities issued by the specific purpose trust held by the Bank and the service charge fee of the credit service institution.

47. The structured entity invested by the Bank that is not included in the scope of consolidation

As at December 31, 2016, the structured entity invested by the Bank that is not included in the scope of consolidation mainly comprises asset-backed securities.

The table below demonstrates the book value, the maximum loss exposure and the size of the assets arising from investing structured entity that is not included in the scope of consolidation

C/f	Book value	Maximum loss exposure
Asset-backed securities	300,495,872.25	300,495,872.25
B/f	Book value	Maximum loss exposure
Asset-backed securities	366,592,500.00	366,592,500.00

48. Assets with restriction on ownership or usage

( 1 ) Pledged credit assets

As at December 31, 2017, the Bank has borrowed the PSL fund amounting to CNY 39.22 billion, which is pledged by the medium and long term loans for rural infrastructure construction which will be due after June 28, 2019, and the pledge procedures have been completed, The pledge involves a total number of 2,997 loans amounting to CNY 40.6309 billion.

On October 16, 2015, the Bank signed the Master Agreement for Pledged Supplementary Lending with the PBOC, which stipulating that the Bank will borrow the pledged supplementary Lending (hereinafter, "PSL") fund to issue specific loans. The PSL is guaranteed by the overall credit of the Bank as well as certain amount of collaterals approved by the PBOC.

( 2 ) Assets with pending ownership certification

Items	Quantity as at December 31, 2017	Quantity as at December 31, 2016
Buildings	1440	1494
Land use right	24	31
Total	1464	1525

Note: Due to historical and other reasons, as at 31 December 2017, the total of number of assets with pending ownership certification was 1,464, of which 57 items had zero original value, and the remaining 1407 items had a total original value of 2.1 billion; Buildings mainly include accessory buildings, accommodation and operating buildings.

49. Foreign currency monetary items

Item	Original amount as at 31/12/2017	Exchange rate	Translated amount as at 31/12/2017
bank deposits and balances with PBOC	--	--	41,718,553.89
Including: -USD	6,290,000.00	6.5342	41,100,118.00
-HKD	740,000.00	0.83591	618,435.89
Due from banks	--	--	344,931,628.12
Including: -USD	39,471,015.40	6.5342	257,911,508.83
-EUR	1,190,650.51	7.8023	9,290,036.55
-HKD	80,571,461.11	0.83591	67,335,518.29
-GBP	921,537.70	8.7792	8,090,503.01
-JPY	39,807,597.00	0.057883	2,304,061.44
Other accounts receivable	--	--	98,080,834.08
Including: -USD	15,010,381.39	6.5342	98,080,834.08
Other payables	--	--	286,950,847.58
Including: -USD	40,057,851.89	6.5342	261,746,015.82
-EUR	14,974.04	7.8023	116,834.76
-HKD	30,019,470.03	0.83591	25,087,997.00



Item	Original amount as at 31/12/2017	Exchange rate	Translated amount as at 31/12/2017
bank deposits and balances with PBOC	--	--	46,275,266.97
Including: -USD	6,645,000.00	6.9370	46,096,365.00
-HKD	200,000.00	0.89451	178,901.97
Due from banks	--	--	966,617,171.19
Including: -USD	114,146,136.33	6.9370	791,831,747.72
-EUR	3,132,320.41	7.3068	22,887,057.43
-HKD	125,849,376.34	0.89451	112,531,907.24
-GBP	1,545,472.55	8.5094	13,151,380.90
-JPY	439,932,751.00	0.059591	26,215,077.90
Other accounts receivable	--	--	567,105.51
Including: -USD	21,860.61	6.9370	151,647.05
-EUR	56,859.60	7.3068	415,458.46
Other payables	--	--	318,782,837.09
Including: -USD	37,329,610.96	6.9370	258,955,511.23
-EUR	2,056,859.64	7.3068	15,028,942.93
-HKD	50,100,000.03	0.89451	44,798,382.93

#### Note VI The equity in other main entities

##### 1. The equity in subsidiaries

Subsidiaries	Place of operation	Place of registration	Nature of business	Holding proportion %		Acquired method
				Directly	Indirectly	
China Agriculture Development Key Construction Fund Co., Ltd	Beijing	Beijing	Investment management and consulting	100.00		Incorporation

2. The equity in associates

( 1 ) Significant associates

Associates	Place of operation	Place of registration	Nature of business	Holding proportion %		The accounting treatment of investments in associates
				Directly	Indirectly	
Associates:						
China Agricultural Industry Development Fund Co., Ltd	Beijing	Beijing	Investment management and consulting	25.00	--	Equity method
Modern seed industry fund development Co., Ltd.	Beijing	Beijing	Investment management and consulting	33.33	--	Equity method
Beijing Xiannong Cci Capital Ltd	Beijing	Beijing	Investment management and consulting	40.00	--	Equity method

**(2) Key financial information of significant associate:**

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As at December 31, 2017 (All amounts in CNY unless otherwise stated)

Continued:

Item	China Agricultural Industry Development Fund Co., Ltd		Modern seed industry fund development Co., Ltd.		Beijing Xiannong Cci Capital Ltd	
	Current year	Prior year	Current year	Prior year	Current year	Prior year
Operating income	29,321,083.75	71,076,004.83	30,507,043.30	35,798,803.73	23,288,382.87	22,629,555.71
Net profit	-46,640,088.94	22,901,343.43	3,192,743.44	9,453,653.91	3,947,708.24	4,220,178.10
Other comprehensive income	--	--	-83,461,814.31	23,515,100.52	--	--
Total comprehensive income	-46,640,088.94	22,901,343.43	-80,269,070.87	32,968,754.43	3,947,708.24	4,220,178.10
Dividends received from associates	--	--	--	--	3,200,000.00	--

## **Note VII Risk management of financial instruments**

### **1. Target and policy of risk management**

The Bank mainly undertakes the agricultural policy-oriented financial business stipulated by the state in accordance with the industrial policy of the Chinese government, and acts as the agent for the financial support of agriculture, serving the agricultural and rural economic development. In accordance with the policy goal, the Bank achieves moderate profits while preserving capital instead of pursuing the maximization of profits. The operating activities of the Bank are faced with various financial risks. The Bank identifies, monitors, reports and deals with these financial risks and their combinations in the course of operations. Risk management is vital for the financial industry, and business operation will inevitably bring financial risk. The target of the Bank is to achieve proper balance between risks and rewards, and reduce the negative impact to the financial reports.

The Bank mainly raises funds by issuing financial securities, and the funds are applied to loans to obtain spreads. The Bank strives to reduce the cost of capital to increase profits by issuing different types of bonds in accordance with its own asset and liability management requirement and demand for use.

The risk management policy established by the Bank and related systems are reviewed regularly to reflect the latest changes in the market, product and the best practice of the industry.

The major risks faced by the Bank are credit risk, market risk, operation risk and liquidity risk, among which, market risk includes exchange risk, bank account interest risk and other price risks.

### **2. Credit risk**

Credit risk is the risk of financial losses caused by default of the other party of a contract. The credit risk of the Bank exists mainly in Loan, interbank loan, bond investment, bill acceptance, letter of credit, bank guarantee and other on and off balance sheet activities.

Before credit is granted to individual customers, credit assessments and approvals are conducted by the Bank, and the credit lines granted are reviewed regularly. The methods of credit risk management include obtaining pledges or collaterals and guarantee. For the off-balance sheet credit commitments, cash deposits are collected to reduce credit risk.

#### **① Loans**

In accordance with "Guidelines for Classification of Loan Risks" (YinJianFa [2007] No. 54) issued by CBRC, the Bank has established the credit risk classification system to measure and manage the quality of the Bank's credit assets. The bank's five-tier credit risk classification system and the "Guidelines for Classification of Loan Risks" require that the credit assets be classified into the performing, watch-list, substandard, doubtful and loss categories and the last three categories are non-performing loans.

The core definitions of the credit assets in the "Guidelines for Classification of Loan Risks" are:

Performing: the borrower is able to perform the contract, and there is no sufficient reason to suspect the timely and full payment of the principal and interest of a loan.

Watch-list: although the borrower currently has the ability to pay the principal and interest of a loan, there are some factors which may have unfavorable effect on the payment of the loan.

Substandard: the borrower lacks solvency obviously, and the principal and interest of the loan cannot be fully repaid in reliance on the normal income of the borrower. A loss may exist even if the security provided is executed.

Doubtful: the borrower is unable to repay the principal and interest of a loan and significant loss will happen even if the security provided is executed.

Loss: the principal and interest still cannot be recovered, or, only an extremely small part thereof can be recovered after all possible measures or all necessary legal actions have been carried out.

## ② Bonds and other bills

The Bank manages the credit risk exposure of bonds based on internal rating, and with reference to Standard & Poor's ratings and other similar external ratings. Investment in these bonds is to obtain good credit rating assets and at the same time, maintain sufficient liquidity to satisfy capital demands. The management of financial derivatives' credit risk is incorporated into the unified credit management of customers.

## ③ Interbank loan

The Bank conducts regular review and management of the credit risk of individual financial institutions. A credit line is set for a single bank or non-bank financial institution that has balances with the Bank.

## ④ Credit commitment

The main purpose of the Credit commitment is to ensure that customers can obtain required funds. The credit commitments such as letters of guarantee, acceptance bill and letters of credit are irrevocable commitments made by our bank, which means the Bank promises to pay the third party on behalf of the customer when the customer fail to fulfill their obligation to pay for the third party, our bank will act on behalf of customers to fulfill the obligations, the Bank bears the same credit risk as loans. In the event that the credit commitment amount requested by the customer exceeds its original credit limit, the Bank will collect a deposit to reduce the credit risk of providing the service. The amount of potential credit risk faced by the Bank is equal to the total amount of credit commitments.

### (1) Loan concentration ratio

Regional concentration ratio: See Note V.7.2 for the regional distribution of loans and advances.

### (2) Financial derivatives

The credit risk of financial derivatives depends on whether the counterparty can pay on time according to the terms of the contract, and the fair value if the amount of assets exchanged or the amount of debt repaid.

### (3) Risk related to off-balance sheet business

The management of off balance sheet business is incorporated into the unified credit management of customers. For off-balance sheet business such as bank acceptance bills, letters of credit and letters of guarantee, real trade background is required, and the corresponding proportion of margin is collected according to the customers' credit status and business risk level. The rest requires effective guarantee.

The financing of letters of guarantee and other high risk off-balance sheet businesses are strictly controlled by the Bank.

#### (4) Credit risk exposure

The credit risk exposure of the Bank involves on and off balance sheet items. Without considering the availability of collateral or other credit enhancement, information on maximum credit risk exposure reflects the worst condition of credit risk exposure on the balance sheet date, among which the amount of the financial assets that best represent the maximum credit risk exposure on the balance sheet date is the book value of the financial assets deducted by the following two items: ① Offset amount in accordance with "Accounting standards for Business Enterprises No. 37 -- presentation of financial instruments"; ② Impairment loss recognized for the financial assets .

As at the balance sheet date, the book value of the Bank's credit asset represents the maximum credit risk exposure. Without considering the availability of collateral or other credit enhancement, the maximum credit risk exposure of the off-balance sheet items is best represented as follows: (currency unit: CNY 10 thousand)

Off-Balance Items	C/f	B/f
Issuance of Letters of Credit	236,844.37	339,677.55
Issuance of Letters of Guarantee	40,853.18	40,003.73
Bank's acceptance bill	231,526.71	626,675.88
<b>Total</b>	<b>509,224.26</b>	<b>1,006,357.16</b>

The maximum credit risk exposure of financial assets measured at fair value as shown in the above table represents the current maximum credit risk exposure, not the maximum credit risk exposure after future fair value movement.

#### (5) Collateral or other credit enhancement

The credit risk is reduced through a series of credit enhancement measures. The bank normally requires the borrowers to pay cash deposits, provide pledge/collateral or guarantee in order to reduce the credit risk exposure to an acceptable level.

The pledges and collaterals accepted by the Bank mainly include rights and business assets such as charging rights, real estate, land use rights, equity securities, cash, deposits, machinery and equipment and so on.

As at the balance sheet date, the Bank's collateral are as follows: (currency unit: CNY 10 thousand)

Items	C/f	B/f
Collateralized loan credit risk exposure	138,870,084.28	122,528,995.23
Collateral value	547,427,475.77	488,947,876.31

Note: The value of collateral in the above table is limited to the credit risk exposure of each financial asset guaranteed.



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As at December 31, 2017 (All amounts in CNY unless otherwise stated)

(6) Credit quality information for financial assets

A. Credit quality information on financial assets with credit risks (currency unit: CNY)

Item	C/f				Total
	Financial assets that have not yet been overdue and have not yet been impaired	Financial assets that have been overdue but have not yet been impaired	Financial assets that have been impaired	Impairment provision	
Deposit in the Central Bank	168,104,791,229.79	—	—	—	168,104,791,229.79
Deposit and placement with banks and interbank loans	274,957,674,818.03	—	—	1,564,434.50	274,956,110,383.53
Financial assets valued at fair value through profit and loss	1,203,866,690.74	—	—	—	1,203,866,690.74
Financial derivatives	2,840,907.67	—	—	—	2,840,907.67
Financial assets held under resale agreements	211,903,186,000.00	—	—	—	211,903,186,000.00
Interests receivable	18,830,941,733.12	—	—	—	18,830,941,733.12
Loans and advances	4,610,952,271,107.59	7,270,417,389.46	37,817,586,235.42	148,879,755,772.96	4,507,160,518,959.51
Financial assets held for sale	—	—	—	—	—
Held to maturity investments	532,910,743,008.02	—	—	9,525,818,000.00	523,384,925,008.02
Other Assets	429,604,051,251.51	—	—	224,381,060.60	429,379,670,190.91
<b>Total</b>	<b>6,248,470,366,746.47</b>	<b>7,270,417,389.46</b>	<b>37,817,586,235.42</b>	<b>158,631,519,268.06</b>	<b>6,134,926,851,103.29</b>

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Item	Bif				
	Financial assets that have not yet been overdue and have not yet been impaired	Financial assets that have been overdue but have not yet been impaired	Financial assets that have been impaired	Impairment provision	Total
Deposit in the Central Bank	184,063,761,445.17	-	-	-	184,063,761,445.17
Deposit and placement with banks and interbank loans	364,019,578,767.27	-	-	2,010,407.63	364,017,568,359.64
Financial assets valued at fair value through profit and loss	622,507,467.55	-	-	-	622,507,467.55
Financial derivatives	-	-	-	-	-
Financial assets held under resale agreements	177,315,513,000.00	-	-	-	177,315,513,000.00
Interests receivable	13,944,858,250.59	-	-	-	13,944,858,250.59
Loans and advances	4,056,230,725,502.95	2,419,862,346.18	35,981,639,156.49	113,711,453,781.22	3,980,920,773,224.40
Financial assets held for sale	-	-	-	-	-
Held to maturity investments	534,981,995,721.07	-	-	3,552,800,000.00	531,429,195,721.07
Other Assets	311,505,772,585.14	-	-	208,475,280.11	311,297,297,305.03
<b>Total</b>	<b>5,642,684,712,739.74</b>	<b>2,419,862,346.18</b>	<b>35,981,639,156.49</b>	<b>117,474,739,468.96</b>	<b>5,563,611,474,773.45</b>

Note: Sufficient impairment allowance is provided for impaired loans. Loans that have been overdue but not yet been impaired are mainly due to customers' short term capital shortage. There is no objective evidence of impairment; therefore, such loans were not classified as impaired loans. Overdue financial assets refer to financial assets whose principal or interest is overdue for 1 day or more.

B. Analysis of the overdue but not yet been impaired financial assets (currency unit: CNY)

Item	C/f				Total
	Overdue within 1 month	Overdue between 1-2 month	Overdue between 2-3 month	Overdue over 3 month	
Loans	2,515,961,792.83	1,333,064,173.39	1,852,539,732.17	1,568,851,691.07	7,270,417,389.46
<b>Total</b>	<b>2,515,961,792.83</b>	<b>1,333,064,173.39</b>	<b>1,852,539,732.17</b>	<b>1,568,851,691.07</b>	<b>7,270,417,389.46</b>

Item	B/f				Total
	Overdue within 1 month	Overdue between 1-2 month	Overdue between 2-3 month	Overdue over 3 month	
Loans	883,470,559.55	472,781,731.36	711,110,055.27	352,500,000.00	2,419,862,346.18
<b>Total</b>	<b>883,470,559.55</b>	<b>472,781,731.36</b>	<b>711,110,055.27</b>	<b>352,500,000.00</b>	<b>2,419,862,346.18</b>

C. Financial assets with the terms of the contract renegotiated (currency unit: CNY)

The book value of overdue or impaired financial assets with the terms of the contract renegotiated:

Item	C/f	B/f
Loans and advances	45,088,003,624.88	38,401,501,502.67

3. Liquidity Risk

Liquidity risk refers to the risk of a shortage of funds when the Bank fulfills its obligations to settle cash or other financial assets. Where there is an imbalance in the total amount of assets and liabilities or an imbalance in the maturity structure, meanwhile the bank's liquidity reserve is insufficient, and the required funds cannot be financed in a timely manner at a reasonable cost, there is not enough cash to pay to the customer, and as a result, liquidity risk arises. Run risk may arise in serious situation. The unfavorable factors that may affect the liquidity of the Bank include: substantial increase in credit demand, substantial performance of loan commitments, substantial reduction in deposits, and difficulty in recovering loan maturities. In addition, the PBOC's adjustment of the deposit reserve ratio, sharp changes in domestic or foreign interest rates, and difficulties in financing the money market may also adversely affect the liquidity of the Bank.

According to the overall financial and debt situation, various proportions (including but not limited to liquidity ratio and liquidity coverage) are set to monitor and manage liquidity risk; the Bank establishes an emergency warning system preliminary for liquidity risk and timely Senior management reports on the latest developments in liquidity risk. The Bank has the ability to guarantee the demand for debt due and asset business growth.

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Analysis of the maturity of undiscounted remaining contractual cash flows of the financial assets and liabilities held by the Bank as at December 31, 2016  
(Unit: CNY 10 thousand):

Item	Due Immediately	Within 1 Month	1-3 Months	3 Months to 1 year	Above 1 year	Total
<b>Assets</b>						
Cash and balances at the central bank	7,044,078.35	—	—	—	12,935,840.80	19,979,919.15
Deposits with banks and other financial institutions	448,425.48	8,000,000.00	10,650,000.00	—	—	19,098,425.48
Placements with banks and other financial institutions	65,342.00	8,332,000.00	—	—	—	8,397,342.00
Financial assets at fair value through profit and loss	120,386.67	—	—	—	—	120,386.67
Derivative financial assets	284.09	—	—	—	—	284.09
Financial assets purchased under resale agreements	—	19,676,621.20	1,513,697.40	—	—	21,190,318.60
Interest receivable	1,883,094.17	—	—	—	—	1,883,094.17
Loans and advances	—	18,799,767.76	19,408,311.83	177,395,644.54	250,000,303.34	465,604,027.47
Available-for-sale financial assets	—	—	—	—	—	—
Held-to-maturity investments	—	4,882,730.46	4,362,932.47	—	44,045,411.37	53,291,074.30
Investments classified as receivables	30,049.58	—	—	1,328,925.00	41,337,938.00	42,696,912.58
<b>Total financial assets</b>	<b>9,591,660.34</b>	<b>59,691,119.42</b>	<b>35,934,941.70</b>	<b>178,724,569.54</b>	<b>348,319,493.51</b>	<b>632,261,784.51</b>
<b>Liabilities</b>						
Borrowing from the central bank	—	—	10,140,000.00	59,280,000.00	—	69,420,000.00
Deposits by banks and other financial institutions	26,343.62	158,465.25	293,867.72	912,779.59	48,342.87	1,439,799.05
Placements from other banks and financial institutions	—	—	—	—	—	—

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As at December 31, 2017 (All amounts in CNY unless otherwise stated)

Item	Due Immediately	Within 1 Month	1-3 Months	3 Months to 1 year	Above 1 year	Total
Derivative financial liabilities	-	-	-	-	-	-
Financial assets sold under repurchase agreements	-	-	-	-	-	-
Deposits received	120,817,123.23	18,196,323.70	1,373,141.43	3,426,013.29	1,483,633.33	145,296,234.98
Interest payable	9,266,412.93	-	-	-	-	9,266,412.93
Bonds payable	-	11,032,144.00	8,498,579.55	48,750,456.35	313,032,280.76	381,313,460.66
Financial liabilities at fair value through profit and loss	120,281.42	-	-	-	-	120,281.42
<b>Total financial liabilities and contingent liabilities</b>	<b>130,230,161.20</b>	<b>29,386,932.95</b>	<b>20,305,588.70</b>	<b>112,369,249.23</b>	<b>314,564,256.96</b>	<b>606,856,189.04</b>
<b>Net amount of on-balance sheet liquidity</b>	<b>-120,638,500.86</b>	<b>30,304,186.47</b>	<b>15,629,353.00</b>	<b>66,355,320.31</b>	<b>33,755,236.55</b>	<b>25,405,595.47</b>

Analysis of the maturity of undiscounted remaining contractual cash flows of the financial assets and liabilities held by the Bank as at December 31, 2015  
(Unit: CNY 10 thousand):

Item	Due Immediately	1 Month	1-3 Months	3 months to 1 year	Above 1 year	Total
<b>Assets</b>						
Cash and balances at the central bank	7,803,689.24	-	-	-	11,290,327.84	19,094,017.08
Deposits with banks and other financial institutions	340,650.88	17,980,000.00	11,760,000.00	-	-	30,080,650.88
Placements with banks and other financial institutions	270,000.00	5,975,000.00	55,496.00	20,811.00	-	6,321,307.00
Financial assets at fair value through profit and loss	62,250.75	-	-	-	-	62,250.75
Derivative financial assets	-	-	-	-	-	-

AGRICULTURAL DEVELOPMENT BANK OF CHINA

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As at December 31, 2017 (All amounts in CNY unless otherwise stated)

Item	Due Immediately	1 Month	1-3 Months	3months to 1 year	Above 1 year	Total
Financial assets purchased under resale agreements	-	17,482,426.30	249,125.00	-	-	17,731,551.30
Interest receivable	1,394,485.83	-	-	-	-	1,394,485.83
Loans and advances	-	9,686,051.11	5,493,394.67	174,726,240.16	219,557,536.76	409,463,222.70
Available-for-sale financial assets	-	-	-	-	-	-
Held-to-maturity investments	-	1,188,818.20	6,594,070.46	2,532.00	45,712,778.91	53,498,199.57
Investments classified as receivables	36,659.25	-	-	-	30,906,651.00	30,943,310.25
<b>Total financial assets</b>	<b>9,907,735.95</b>	<b>52,312,295.61</b>	<b>24,152,086.13</b>	<b>174,749,583.16</b>	<b>307,467,294.51</b>	<b>568,588,995.36</b>
<b>Liabilities</b>						
Borrowing from the central bank	-	2,460,000.00	5,300,000.00	48,440,000.00	-	56,200,000.00
Deposits by banks and other financial institutions	96,128.38	1,243,316.42	872,869.10	269,695.56	50,542.00	2,532,551.46
Placements from other banks and financial institutions	-	2,192.02	-	-	-	2,192.02
Derivative financial liabilities	60,804.52	-	-	-	-	60,804.52
Financial assets sold under repurchase agreements	10.37	-	-	-	-	10.37
Deposits received	-	-	-	-	-	-
Interest payable	117,403,779.49	16,598,921.72	2,147,726.23	5,213,450.73	1,554,649.88	142,918,528.05
Bonds payable	8,014,513.33	-	-	-	-	8,014,513.33
Financial liabilities at fair value through profit and loss	-	7,271,227.36	14,695,787.01	38,866,589.40	278,067,510.31	338,901,114.08
<b>Total financial liabilities and contingent liabilities</b>	<b>125,575,236.09</b>	<b>27,575,657.52</b>	<b>23,016,382.34</b>	<b>92,789,735.69</b>	<b>279,672,702.19</b>	<b>548,629,713.83</b>
<b>Net amount of on-balance sheet liquidity</b>	<b>-115,667,500.14</b>	<b>24,736,638.09</b>	<b>1,135,703.79</b>	<b>81,959,847.47</b>	<b>27,794,592.32</b>	<b>19,959,281.53</b>

Since the undiscounted contractual cash flow includes principle and interest, the amount of certain items in the above table may differ from the amounts in the financial statements. The estimated cash flow of these financial instruments by the Bank may differ from the analysis in the above table. For example: current customer deposits are classified as due immediately in the above table, but they are expected to maintain a stable or increasing balance.

Loan Commitment may not be used before its maturity.

Maximum guaranteed amount of the signed guarantee contract does not represent the amount to be paid immediately.

#### 4. Market risk

Market risk is the risk of loss on the Bank's on and off balance sheet business due to the changes in market prices (interest rates, exchange rates, commodity prices, stock prices, and etc.). Market risk exists in the proprietary trading and trading for customers by the Bank.

Foreign exchange rate risk is the risk of loss on the foreign currency denominated assets and liabilities due to the changes in foreign exchange rate and the Bank's foreign exchange exposure. The mismatch between the interest-earning assets and interest-bearing liabilities re-pricing dates is the main cause of foreign exchange rate risk.

##### (1) Interest rate risk

Interest rate risk is the possibility of loss caused by the uncertainty of market interest rate. It is mainly divided into three categories: gap risk, basis risk and option risk. The basis risk is the key one, which is widespread among bank industry at present. The Bank measures and analyses the effect of change in interest rate on current income and economic value by interest rate sensitive gap. However, with the continuous development of interest rate liberalization, interest rate risks will continue to increase and all assets and liabilities will be faced with interest rate risk due to fluctuations in market interest rates.



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The earlier of the re-pricing date and maturity date for the assets and liabilities as at December 31, 2017: (Unit: CNY 10 thousand)

Item	Overdue or non-interest bearing	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Above 5 years	Total
<b>Assets</b>								
Cash and balances at the central bank	10,448.42	7,037,801.78	-	-	-	-	12,931,668.95	19,979,919.15
Deposits with banks and other financial institutions	-	19,098,425.48	-	-	-	-	-	19,098,425.48
Placements with banks and other financial institutions	-	8,397,342.00	-	-	-	-	-	8,397,342.00
Financial assets at fair value through profit and loss	-	120,386.67	-	-	-	-	-	120,386.67
Derivative financial assets	-	284.09	-	-	-	-	-	284.09
Financial assets purchased under resale agreements	-	21,190,318.60	-	-	-	-	-	21,190,318.60
Interest receivable	1,883,094.17	-	-	-	-	-	-	1,883,094.17
Loans and advances	4,176,120.39	454,338,778.67	402,718.14	143,849.49	4,947.45	20,900.00	6,516,713.33	465,604,027.47
Available-for-sale financial assets	-	-	-	-	-	-	-	-
Held-to-maturity investments	-	9,245,662.93	-	-	-	-	44,045,411.37	53,291,074.30
Investments classified as receivables	-	1,358,974.58	4,104,229.00	4,341,188.00	7,481,585.00	5,660,571.00	19,750,365.00	42,686,912.58
<b>Total assets</b>	<b>6,069,662.98</b>	<b>520,787,974.80</b>	<b>4,506,947.14</b>	<b>4,485,037.49</b>	<b>7,486,532.45</b>	<b>5,681,471.00</b>	<b>83,244,158.65</b>	<b>632,261,784.51</b>
<b>Liabilities</b>								
Borrowing from the central bank	-	69,420,000.00	-	-	-	-	-	69,420,000.00
Deposits by banks and other financial institutions	-	1,439,799.05	-	-	-	-	-	1,439,799.05
Placements from other banks and financial institutions	-	-	-	-	-	-	-	-

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As at December 31, 2017 (All amounts in CNY unless otherwise stated)

Item	Overdue or non-interest bearing	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Above 5 years	Total
Financial liabilities at fair value through profit and loss	-	120,281.42	-	-	-	-	-	120,281.42
Derivative financial liabilities	-	-	-	-	-	-	-	-
Financial assets sold under repurchase agreements	-	-	-	-	-	-	-	-
Deposits received	-	144,087,283.08	768,280.32	399,168.59	25,329.99	16,173.00	-	145,296,234.98
Interest payable	9,266,412.93	-	-	-	-	-	-	9,266,412.93
Bonds payable	-	86,393,179.90	51,831,488.88	55,202,357.46	37,406,286.72	38,646,612.63	111,833,535.07	381,313,460.66
<b>Total liabilities</b>	<b>9,266,412.93</b>	<b>301,460,543.45</b>	<b>52,599,769.20</b>	<b>55,601,526.05</b>	<b>37,431,616.71</b>	<b>38,662,785.63</b>	<b>111,833,535.07</b>	<b>606,856,189.04</b>
<b>Interest rate risk exposure</b>	<b>-3,196,749.95</b>	<b>219,327,431.35</b>	<b>-48,092,822.06</b>	<b>-51,116,488.56</b>	<b>-29,945,084.26</b>	<b>-32,981,314.63</b>	<b>-28,589,376.42</b>	<b>25,405,595.47</b>

The earlier of the re-pricing date and maturity date for the assets and liabilities as at December 31, 2016: (Unit: CNY 10 thousand)

Account	Due or non-interest bearing	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Above 5 years	Total
<b>Assets</b>								
Cash and balances at the central bank	17,524.39	7,790,792.37	-	-	-	-	11,285,700.32	19,094,017.08
Deposits with banks and other financial institutions	-	30,080,650.88	-	-	-	-	-	30,080,650.88
Placements with banks and other financial institutions	-	6,321,307.00	-	-	-	-	-	6,321,307.00
Financial assets at fair value through profit and loss	-	62,250.75	-	-	-	-	-	62,250.75
Derivative financial assets	-	-	-	-	-	-	-	-
Financial assets purchased under resale agreements	-	17,731,551.30	-	-	-	-	-	17,731,551.30
Interest receivable	1,394,485.83	-	-	-	-	-	-	1,394,485.83

AGRICULTURAL DEVELOPMENT BANK OF CHINA

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As at December 31, 2017 (All amounts in CNY unless otherwise stated)

Account	Due or non-interest bearing	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Above 5 years	Total
Loans and advances	3,648,513.00	395,013,534.26	9,756,483.43	221,510.00	271,965.00	119,063.01	432,154.00	409,463,222.70
Available-for-sale financial assets	-	-	-	-	-	-	-	-
Held-to-maturity investments	-	7,785,420.65	-	-	-	-	45,712,778.92	53,498,199.57
Investments classified as receivables	-	36,659.25	1,328,925.00	4,104,229.00	2,755,752.00	7,481,585.00	15,236,160.00	30,943,310.25
<b>Total Assets</b>	<b>5,060,523.22</b>	<b>464,822,166.46</b>	<b>11,085,408.43</b>	<b>4,325,739.00</b>	<b>3,027,717.00</b>	<b>7,600,648.01</b>	<b>72,666,793.24</b>	<b>568,588,995.36</b>
<b>Liabilities</b>								
Borrowing from the central bank	-	56,200,000.00	-	-	-	-	-	56,200,000.00
Deposits by banks and other financial institutions	-	2,532,551.46	-	-	-	-	-	2,532,551.46
Placements from other banks and financial institutions	-	2,192.02	-	-	-	-	-	2,192.02
Financial liabilities at fair value through profit and loss	-	60,804.52	-	-	-	-	-	60,804.52
Derivative financial liabilities	-	10.37	-	-	-	-	-	10.37
Financial assets sold under repurchase agreements	-	-	-	-	-	-	-	-
Deposits received	-	141,679,565.52	555,533.12	664,274.42	15,730.00	3,424.99	-	142,918,528.05
Interest payable	8,014,513.33	-	-	-	-	-	-	8,014,513.33
Bonds payable	-	81,445,603.76	41,603,276.09	50,177,093.66	34,798,597.06	36,255,101.44	94,621,442.07	338,901,114.08
<b>Total liabilities</b>	<b>8,014,513.33</b>	<b>281,320,727.65</b>	<b>42,158,809.21</b>	<b>50,841,368.08</b>	<b>34,814,327.06</b>	<b>36,258,526.43</b>	<b>94,621,442.07</b>	<b>548,629,713.83</b>
<b>Interest rate risk exposure</b>	<b>-2,953,990.11</b>	<b>182,901,438.81</b>	<b>-31,073,400.78</b>	<b>-46,515,629.08</b>	<b>-31,786,610.06</b>	<b>-28,657,878.42</b>	<b>-21,954,648.83</b>	<b>19,959,281.53</b>

The sensitivity analysis is used by the Bank to measure the possible impact of interest rate changes on net interest income. The sensitivity analysis of net interest income is based on the above analysis of interest rate risk exposures for assets and liabilities, as well as the following three assumptions: (1) Except for demand deposits, all assets and liabilities that are repriced or matured within three months and three months to one year are assumed to be repriced or expired in the relevant period; (2) The demand deposit and central bank deposit reserve ratio remain unchanged; (3) The yield curve moves in parallel with interest rate changes; (4) There are no other changes in the asset and liability portfolio. Based on the above assumptions, the actual changes in the Bank's net profit due to the increase or decrease in interest rates may be different from the results of the sensitivity analysis.

(2) Exchange rate risk

The exchange rate risk of the Bank arises from the risk that the foreign exchange exposure will be subject to the fluctuation of market exchange rates, including foreign exchange exposure arising from the imbalance of currency structure between foreign currency assets and foreign currency liabilities, and off-balance sheet foreign exchange exposure from currency derivative transactions. The impact of exchange rate risk on the Bank's operations is as follows:

A. The bank may possess an open foreign exchange position in the operations that will lead to exchange rate risk.

B. the Bank's major foreign currency is the USD. In order to satisfy the demands of small amount foreign currency exchange other than the USD, the Bank may need to purchase some foreign currency in advance as reserves, which will lead to exchange rate risk.

C. Foreign exchange rate translation risk is faced by the Bank when assets and liabilities denominated in foreign currencies are translated into the functional currency CNY.

For business types involving exchange rate risk, the Bank manages strictly at each stage of development, launch and operation, and develops necessary risk control policies in terms of business authorization, exposure limits and process monitoring. The principle of controlling currency risk for the Bank is to match the assets and liabilities in each currency as much as possible, and to control the currency risk within the limits set by the Bank. The Bank also conducts partial derivative trading to manage the Bank's foreign exchange exposure.

Ending balances of assets and liabilities by currency (Unit: CNY 10 thousand):

Item	CNY	USD to CNY	HKD to CNY	Other currency to CNY	Total
<b>Assets</b>					
Cash and balances at the central bank	19,975,747.30	4,110.01	61.84	-	19,979,919.15
Deposits with banks and other financial institutions	19,063,775.88	25,791.15	6,733.55	1,968.46	19,098,269.04
Placements with banks and other financial institutions	8,332,000.00	65,342.00	-	-	8,397,342.00
Financial assets purchased under resale agreements	21,190,318.60	-	-	-	21,190,318.60
Loans and advances	450,664,765.99	51,285.91	-	-	450,716,051.90

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Item	CNY	USD to CNY	HKD to CNY	Other currency to CNY	Total
Financial assets at fair value through profit and loss	120,386.67	-	-	-	120,386.67
Interest receivable	1,882,876.62	217.55	-	-	1,883,094.17
Held-to-maturity financial assets	52,338,492.50	-	-	-	52,338,492.50
Investments classified as receivables	42,696,912.58	-	-	-	42,696,912.58
<b>Total Assets</b>	<b>616,265,276.14</b>	<b>146,746.62</b>	<b>6,795.39</b>	<b>1,968.46</b>	<b>616,420,786.61</b>
<b>Liabilities</b>					
Borrowing from the central bank	69,420,000.00	-	-	-	69,420,000.00
Deposits by banks and other financial institutions	1,439,799.05	-	-	-	1,439,799.05
Placements from other banks and financial institutions	-	-	-	-	-
Derivative financial liabilities	-	-	-	-	-
Financial assets sold under repurchase agreements	-	-	-	-	-
Deposits received	145,213,844.09	80,630.62	1,183.15	577.12	145,296,234.98
Bonds payable	381,313,460.66	-	-	-	381,313,460.66
Interest payable	9,266,412.93	-	-	-	9,266,412.93
<b>Total liabilities</b>	<b>606,653,516.73</b>	<b>80,630.62</b>	<b>1,183.15</b>	<b>577.12</b>	<b>606,735,907.62</b>
<b>On-balance sheet net position</b>	<b>9,611,759.41</b>	<b>66,116.00</b>	<b>5,612.24</b>	<b>1,391.34</b>	<b>9,684,878.99</b>

Beginning balances of assets and liabilities by currency(Unit: CNY 10 thousand):

Item	CNY	USD to CNY	HKD to CNY	Other currency to CNY	Total
Cash and balances at the central bank					
Deposits with banks and other financial institutions	19,089,389.56	4,609.64	17.88	-	19,094,017.08
Placements with banks and other financial institutions	29,983,788.12	79,183.17	11,253.19	6,225.36	30,080,449.84
Financial assets purchased under resale agreements	6,245,000.00	76,307.00	-	-	6,321,307.00
Loans and advances	17,731,551.30	-	-	-	17,731,551.30

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Item	CNY	USD to CNY	HKD to CNY	Other currency to CNY	Total
Financial assets at fair value through profit and loss	398,082,138.77	7,613.55	—	2,325.00	398,092,077.32
Interest receivable	62,250.75	—	—	—	62,250.75
Held-to-maturity financial assets	1,394,373.45	112.38	—	—	1,394,485.83
Investments classified as receivables	53,142,919.57	—	—	—	53,142,919.57
<b>Total Assets</b>	<b>30,943,310.25</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>30,943,310.25</b>
<b>Liabilities</b>	<b>556,674,721.77</b>	<b>167,825.74</b>	<b>11,271.07</b>	<b>8,550.36</b>	<b>556,862,368.94</b>
Borrowing from the central bank	—	—	—	—	—
Deposits by banks and other financial institutions	56,200,000.00	—	—	—	56,200,000.00
Placements from other banks and financial institutions	2,532,551.46	—	—	—	2,532,551.46
Derivative financial liabilities	—	—	—	2,192.02	2,192.02
Financial assets sold under repurchase agreements	10.37	—	—	—	10.37
Deposits received	—	—	—	—	—
Bonds payable	142,811,763.59	105,669.70	234.70	860.06	142,918,528.05
Interest payable	338,901,114.08	—	—	—	338,901,114.08
<b>Total Liabilities</b>	<b>8,014,495.47</b>	<b>—</b>	<b>—</b>	<b>17.86</b>	<b>8,014,513.33</b>
Cash and balances at the central bank	<b>548,459,934.97</b>	<b>105,669.70</b>	<b>234.70</b>	<b>3,069.94</b>	<b>548,568,909.31</b>
<b>On-balance sheet net position</b>	<b>8,214,786.80</b>	<b>62,156.04</b>	<b>11,036.37</b>	<b>5,480.42</b>	<b>8,293,459.63</b>

## 5. Operation risk

Operation risk is the risk of loss caused by imperfect or problematic internal control, personnel and system, or external events. Major operation risks faced by the Bank include internal fraud, external fraud, customers, products and operating activities, as well as execution, delivery and process management.

In accordance with the operation risk regulation requirements, the Bank promotes self-assessment of operation risk management, conducts in-depth monitoring and inspection of key risks, accelerates the operation of key risk indicator monitoring system and data management system on loss of risk, enhances outsourcing risk management, promotes business continuity management, and ensures safe and stable operations of different business activities.

The Bank strengthens the management of incompatible positions by focusing on inspecting and continuously improving the construction and management of incompatible positions, and enhancing the

rigid constraints of segregation of duties.

Moreover, the Bank enhances the reporting management of significant risk and emergencies by standardizing the monitoring, information collection and reporting of significant risk and emergencies to ensure the smooth flow of information reporting channels and improve the ability to deal with problems.

#### **Note VIII Related parties and related party transaction**

##### **1. Subsidiaries**

See Note VI.1 for details of subsidiaries.

##### **2. Associates**

See Note VI.2 for details of subsidiaries.

##### **3. Related party transactions**

Item	Related parties	C/f		B/f	
		Gross amount	Allowance for impairment losses	Gross amount	Allowance for impairment losses
Other assets	Modern seed industry fund	500,000,000.00	--	--	--
-Other accounts receivable	development Co., Ltd.				

Note: The Bank intends to increase the capital of the Modern seed industry fund development Co., Ltd. by 500 million yuan, which was allocated on December 19, 2017. The details of this event are being negotiated.

#### **Note IX Commitments and contingencies**

##### **1. Significant commitments**

###### **(1) Credit commitment**

The Bank has a commitment to the loan amount at any point in time. According to the opinions of the Bank's management, the Bank does not bear the risk of unused credit lines as the loan amount already signed can be revoked.

The bank provides letters of credit and financial guarantee services, to guarantee for customers in fulfilling contractual obligation with the third party.

Bank acceptance bills refer to the redemption commitments made by the Bank to the bills issued by customers. The bank expects that most of the acceptance bills will be settled at the same time with the client's repayment.

The maximum potential loss amount will be recognized if the counterparty of bank acceptance bill, letter of credit and letter of guarantee defaults. (Currency unit: CNY)



Item	C/f	B/f
Bank acceptance bill	2,315,267,091.00	6,266,758,840.00
Acceptance bill under letter of credit	--	--
Letter of credit issued	2,368,443,681.69	3,396,775,538.81
Guarantee issued	408,531,769.00	400,037,309.00
—financing guarantee	408,494,460.00	400,000,000.00
—non financing guarantee	37,309.00	37,309.00

(2) Capital commitment

Capital commitments that have been contracted but not recognized in the financial statements.	C/f	B/f
Total amount of approved fixed asset investment	2,902,310,822.39	3,252,259,914.88
Total amount of approved and executed fixed asset investment	333,006,223.58	495,912,190.03

(3) Operating lease commitments

As at the balance sheet date, the irrevocable operating lease agreement signed by the Bank is as follows:

Minimum lease payments for irrevocable operating leases	C/f	B/f
Within 1 year	18,856,229.94	16,596,510.59
1 to 5 years	19,507,619.58	19,675,847.09
Above 5 years	2,188,718.51	2,309,327.19
<b>Total</b>	<b>40,552,568.03</b>	<b>38,581,684.87</b>

(4) Other commitments

As at December 31, 2017, there are no other commitments that are required to be disclosed by the Bank.

2. Contingent liabilities and assets

(1) Since April 2016, private grain purchase and sale enterprises in Baoding, Hebei have been suspected of defrauding of the Bank's loan. In June 2016, the public security organs conducted a case investigation on the involved enterprises with the crime of fraudulent loans. At present, the Bank has recovered most of the loan principal, and the uncollected part has land use rights and real estate as collateral, and asset disposal procedures are in progress..

(2) As at December 31, 2016, there are no other contingent events that are required to be disclosed by the Bank.

## Note X Post balance sheet date events

### 1. Significant post balance sheet date events

(1) The Bank plans to increase capital holdings for Modern seed industry fund development Co., Ltd. ( hereafter "Modern Seed" ) and Beijing Xiannong Cci Capital Ltd ( hereafter "Beijing Xiannong" ) . After the capital increment, the Bank can control these two companies. They will change to the Bank's subsidiaries from associates. On December 19, 2017, the Bank appropriated 500 million yuan to the Modern Seed for capital increasing. By now, the incremental investment has not been paid to the Beijing Xian Nong and the details have been being negotiated.

(2) As of April 30, 2018, the Bank has issued 77 policy-related financial bonds, amounting to 446.99 billion yuan.

(3) As at April 30, 2018, the incremental amount of the investments in government bonds by the Bank is CNY 12.581 billion.

### 2. Description of other post balance sheet date events

As at May 15, 2018, there is no other post balance sheet date event that is required to be disclosed by the Bank.

## Note XI Notes to significant elements of the parent financial statements

### 1. Cash and deposits with central bank

Item	C/f	B/f
Cash and bank deposit	157,956,883.57	227,661,706.31
Statutory reserve with central bank	129,316,689,460.83	112,857,003,181.17
Surplus reserve with central bank	38,746,383,215.07	71,160,483,063.14
Foreign currency deposit reserve with the central bank	41,718,553.89	46,275,200.86
<b>Total</b>	<b>168,262,748,113.36</b>	<b>184,291,423,151.48</b>

( 1 ) Statutory reserve with the central bank is the general reserve deposited with the People's Bank of China by the Bank in accordance with the relevant regulations, and such deposits cannot be used for daily operating activities of the Bank. The scope of the deposit reserve includes the deposit of non-profit institutions, extrabudgetary deposit, entities' deposit and other deposit. The mandatory reserve deposit rates of the Bank are as follows:

Item	C/f	B/f
CNY	8.50%	8.50%
Foreign currency	5.00%	5.00%

( 2 ) Surplus reserve with the central bank is the surplus reserve deposited with the People's Bank of China by the Bank for fund settlement, financial institution transfer and etc.

2. Deposits with banks

Item	C/f	B/f
Deposits with domestic banks	190,670,041,612.97	299,936,155,273.83
Deposits with other domestic financial institutions	17,403,718.37	35,191,616.72
Deposits with overseas banks	296,809,486.69	835,161,876.72
Subtotal	190,984,254,818.03	300,806,508,767.27
less: Allowance for impairment losses	1,564,434.50	2,010,407.63
<b>Carrying amounts</b>	<b>190,982,690,383.53</b>	<b>300,804,498,359.64</b>

3. Placements with banks and other financial institutions

Item	C/f	B/f
Placements with domestic banks	55,973,420,000.00	43,163,070,000.00
Placements with other domestic financial institutions	28,000,000,000.00	20,050,000,000.00
Placements with overseas banks		--
Subtotal	83,973,420,000.00	63,213,070,000.00
less: Allowance for impairment losses	-	--
<b>Carrying amounts</b>	<b>83,973,420,000.00</b>	<b>63,213,070,000.00</b>

4. Financial assets at fair value through profit or loss

Item	C/f	B/f
Designated at fair value through profit or loss financial assets	1,203,866,690.74	622,507,467.55
Including: Bank wealth management products	1,203,866,690.74	622,507,467.55
<b>Total</b>	<b>1,203,866,690.74</b>	<b>622,507,467.55</b>

5. Derivative financial assets

Item	C/f (fair value)	B/f (fair value)
Derivative financial assets	2,840,907.67	--
<b>Total</b>	<b>2,840,907.67</b>	<b>--</b>

Note: the Bank signed forward contracts with third party payment institutions, and settled forward foreign exchange contract on behalf of customers. The fair value of the derivative financial assets amounted to 2,840,907.67 based on estimation at the year end.

6. Financial assets held under resale agreements

Item	C/f	B/f
Debt securities	211,903,186,000.00	177,315,513,000.00
Acceptances	--	--
Subtotal	211,903,186,000.00	177,315,513,000.00
less: Allowance for impairment losses	--	--
<b>Carrying amounts</b>	<b>211,903,186,000.00</b>	<b>177,315,513,000.00</b>

7. Interests receivable

Item	C/f	B/f
Interests receivable from loans and advances	10,507,341,161.16	7,928,189,632.79
Interests receivable on bonds	6,359,995,848.71	4,476,585,295.71
Others	1,961,515,490.53	1,537,938,790.41
<b>Carrying amounts</b>	<b>18,828,852,500.40</b>	<b>13,942,713,718.91</b>

8. Loans and advances

(1) Analysis of loans and advances to category

Item	C/f	B/f
Loans and advances	4,601,542,553,096.94	4,053,324,333,902.11
Discounted bills	54,497,721,635.53	41,307,893,103.51
Subtotal	4,656,040,274,732.47	4,094,632,227,005.62
Less: allowance for impairment losses	148,879,755,772.96	113,711,453,781.22
<b>Carrying amounts</b>	<b>4,507,160,518,959.51</b>	<b>3,980,920,773,224.40</b>

(2) Analysis of loans and advances to customers by geographical area

Item	C/f		B/f	
	Book value	% of total	Book value	% of total
Eastern China	1,342,770,893,765.67	28.84	1,234,232,455,890.39	30.14
Central China	1,164,896,468,500.38	25.02	957,930,782,781.12	23.39
Western China	1,276,446,391,734.15	27.41	1,051,533,768,339.76	25.68
Northeastern China	871,926,520,732.27	18.73	850,935,219,994.35	20.79
Subtotal	4,656,040,274,732.47	100.00	4,094,632,227,005.62	100.00
Less: Allowance for impairment losses	148,879,755,772.96	--	113,711,453,781.22	--
<b>Carrying amounts</b>	<b>4,507,160,518,959.51</b>	<b>--</b>	<b>3,980,920,773,224.40</b>	<b>--</b>

( 3 ) Analysis of loans and advances to customers by collateral type

Item	C/f	B/f
Unsecured loans	2,196,975,592,182.20	2,121,217,806,080.29
Guaranteed loans	1,069,893,009,833.90	748,124,468,592.95
Collateralised and other secured loans	1,389,171,672,716.37	1,225,289,952,332.38
Including: Loans secured by property and other immovable assets	609,295,723,308.49	752,090,125,613.68
Other pledged loans	779,875,949,407.88	473,199,826,718.70
Subtotal	4,656,040,274,732.47	4,094,632,227,005.62
Less: Allowance for impairment losses	148,879,755,772.96	113,711,453,781.22
<b>Carrying amounts</b>	<b>4,507,160,518,959.51</b>	<b>3,980,920,773,224.40</b>

( 4 ) Reconciliation of allowance for impairment losses on loans and advances

Item	Current year	Prior year
As at 1 January	113,711,453,781.22	93,838,164,118.01
Impairment losses for the year	41,309,979,032.22	24,915,233,216.02
Reversal	20,227,484.37	32,188,742.40
Write-off and transfer out	6,161,904,524.85	5,074,132,295.21
As at 31 December	148,879,755,772.96	113,711,453,781.22

( 5 ) Loan provision rate and provision coverage

Item	Current year	Prior year
Loan provision rate	3.20%	2.78%
Provision coverage	393.68%	316.03%

Loan provision rate equals to loan balance divided by allowance for impairment loss; Provision coverage equals to non-performing loan balance divided by allowance for impairment loss.

( 6 ) the Bank had continuing involvement in the following securitised assets and liabilities due to its holding of loans

Item	C/f	B/f
Asset:		
Other asset	300,495,872.25	366,592,500.00
<b>Subtotal</b>	<b>300,495,872.25</b>	<b>366,592,500.00</b>
Liability:		
Other liability	300,495,872.25	366,592,500.00
<b>Subtotal</b>	<b>300,495,872.25</b>	<b>366,592,500.00</b>

Note: Details of Credit Asset Securitization in V.8.

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9. Held-to-maturity investments

Item	C/f		B/f	
	Gross amount	Allowance for impairment losses	Carrying amounts	Gross amount
Bonds	5,256,972,017.81	--	5,256,972,017.81	3,160,000,000.00
Asset-backed securities	--	--	--	25,320,000.00
Certificates of deposits	92,456,629,274.44	--	92,456,629,274.44	76,828,886,533.57
<b>Subtotal</b>	<b>97,713,601,292.25</b>	<b>--</b>	<b>97,713,601,292.25</b>	<b>80,014,206,533.57</b>

10. Investments classified as receivables

Item	C/f	B/f
Self-sustaining part of asset-backed securities	300,495,872.25	366,592,500.00
debt securities	426,668,629,960.00	309,066,510,000.00
subtotal	426,969,125,832.25	309,433,102,500.00
Less: Allowance for impairment losses	--	--
<b>Carrying amounts</b>	<b>426,969,125,832.25</b>	<b>309,433,102,500.00</b>

Note: Details of Credit Asset Securitization in V.8.

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11. Long-term equity investments

Item	Currency year movement								Allow- ance c/f		
	B/f	Additio- nal invest- ment	Invest- ment reduction	Investment gains and losses recognized under the equity method	Other comprehensive income adjustment	Other changes in equity	Declared cash dividends or profits	Allow- ance Recog- nized		Others	C/f
① Investment in associates:											
China Agricultural Industry Development Co., Ltd.	1,025,365,123.25	-	-	-15,485,281.04	-	-	-	-	-	-	1,009,879,842.21
Modern Seed Industry Development Co., Ltd.	552,549,818.55	-	-	1,064,141.39	-27,817,822.71	-	-	-	-	-	525,796,137.23
Beijing Xiannong Cci Capital Ltd	12,504,737.76	-	-	1,579,083.29	-	-	3,200,000.00	-	-	-	10,883,821.05
Subtotal	1,590,419,679.56	-	-	-12,842,056.36	-27,817,822.71	-	3,200,000.00	-	-	-	1,546,559,800.49
②Subsidiaries:											
China Agriculture Development Key Construction Co., Ltd	458,000,000,000.00	-	-	-	-	-	-	-	-	-	458,000,000,000.00
Subtotal	458,000,000,000.00	-	-	-	-	-	-	-	-	-	458,000,000,000.00
Total	459,590,419,679.56	-	-	-12,842,056.36	-27,817,822.71	-	3,200,000.00	-	-	-	459,546,559,800.49



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12. Fixed assets

Item	Houses and buildings	Transportation equipment	Computers and ancillary equipment	Other machinery and equipment	Construction in progress	Total
Cost:						
1. Balance as at 31/12/2016	15,598,819,575.01	1,639,246,892.25	2,263,786,764.85	3,040,577,663.83	3,690,408,217.82	26,232,839,113.76
2. Increased in current year	1,945,453,220.58	18,112,318.49	84,297,494.48	456,079,425.12	2,007,223,363.11	4,511,165,821.78
3. Decreased in current year	462,121,180.68	20,299,124.20	150,848,171.14	120,419,776.06	3,023,469,241.92	3,777,157,494.00
4. Balance as at 31/12/2017	17,082,151,614.91	1,637,060,086.54	2,197,236,088.19	3,376,237,312.89	2,674,162,339.01	26,966,847,441.54
Accumulated Depreciation						
1. Balance as at 31/12/2016	5,044,602,065.90	1,128,309,508.02	1,714,023,499.10	1,566,499,332.03	--	9,453,434,405.05
2. Increased in current year	500,807,724.25	154,527,723.61	185,481,290.82	403,686,319.71	--	1,244,503,058.39
3. Decreased in current year	66,286,452.09	9,049,430.85	139,392,699.64	107,311,337.97	--	322,039,920.55
4. Balance as at 31/12/2017	5,479,123,338.06	1,273,787,800.78	1,760,112,090.28	1,862,874,313.77	--	10,375,897,542.89
Impairment allowance						
1. Balance as at 31/12/2016	10,754,707.47	--	--	--	4,087,568.37	14,842,275.84
2. Increased in current year	5,073.63	--	--	--	--	5,073.63
3. Decreased in current year	8,298,767.56	--	--	--	--	8,298,767.56
4. Balance as at 31/12/2017	2,461,013.54	--	--	--	4,087,568.37	6,548,581.91
Carrying amount						
1. Carrying amount as at 31/12/2017	11,600,567,263.31	363,272,285.76	437,123,997.91	1,513,362,999.12	2,670,074,770.64	16,584,401,316.74
2. Carrying amount as at 31/12/2016	10,543,462,801.64	510,937,384.23	549,763,265.75	1,474,078,331.80	3,686,320,649.45	16,764,562,432.87

13. Deposits from banks and other financial institutions

Item	C/f	B/f
Due to other domestic banks and financial institutions	14,397,990,471.70	25,325,514,621.28
<b>Total</b>	<b>14,397,990,471.70</b>	<b>25,325,514,621.28</b>

14. Placement from banks and other financial institutions

Item	C/f	B/f
Placement from domestic banks	--	21,920,226.30
Placement from foreign banks	--	--
<b>Total</b>	<b>--</b>	<b>21,920,226.30</b>

15. Financial liabilities at fair value through profit or loss

Item	C/f (fair value)	B/f (fair value)
Designated as financial liabilities at fair value through profit or loss	1,202,814,246.58	608,045,205.48
including: wealth management products	1,202,814,246.58	608,045,205.48
<b>Total</b>	<b>1,202,814,246.58</b>	<b>608,045,205.48</b>

16. Derivative financial liabilities

Item	C/f (fair value)	B/f (fair value)
Derivative financial liabilities	--	103,658.11
<b>Total</b>	<b>--</b>	<b>103,658.11</b>

17. Deposits received

Item	C/f	B/f
Demand deposits	1,343,777,100,825.45	1,311,317,850,317.49
Time deposits	93,634,896,372.09	96,551,245,158.73
Remittance and Remittance payable	150,138,830.65	2,230,408,676.51
Refundable deposits	15,400,213,777.76	19,085,776,340.02
<b>Total</b>	<b>1,452,962,349,805.95</b>	<b>1,429,185,280,492.75</b>

18. Employee benefits payable

Item	B/f	Current year increase	Current year decrease	C/f
Short-term employee benefits	5,326,851,728.09	14,432,289,364.31	12,205,611,143.00	7,553,529,949.40
Post-employment benefits	386,447,982.57	2,118,767,242.51	2,110,796,740.27	394,418,484.81
<b>Total</b>	<b>5,713,299,710.66</b>	<b>16,551,056,606.82</b>	<b>14,316,407,883.27</b>	<b>7,947,948,434.21</b>

(1) Short-term employee benefits

Item	B/f	Current year increase	Current year decrease	C/f
Wages, salaries and subsidies	5,199,832,946.64	11,687,999,992.54	9,494,112,886.75	7,393,720,052.43
Employee welfare	--	781,101,452.39	781,101,452.39	--
Social insurance:	2,135,680.84	470,391,052.90	471,500,862.34	1,025,871.40
Including: 1. Medical insurance	2,059,748.23	418,416,885.04	419,515,584.26	961,049.01
2. Employment injury and Maternity insurance	26,737.13	37,392,216.99	37,403,327.21	15,626.91
3. Others	49,195.48	14,581,950.87	14,581,950.87	49,195.48
Housing provident fund	10,193,861.19	960,578,408.33	958,543,322.60	12,228,946.92
Labour union fee and employee education fee	59,808,917.87	378,101,712.75	369,591,402.77	68,319,227.85
Other short-term welfare	54,880,321.55	154,116,745.40	130,761,216.15	78,235,850.80
<b>Total</b>	<b>5,326,851,728.09</b>	<b>14,432,289,364.31</b>	<b>12,205,611,143.00</b>	<b>7,553,529,949.40</b>

(2) Post-employment benefits

Item	B/f	Current year increase	Current year decrease	C/f
Basic pension	21,313,191.83	1,196,835,690.86	1,196,551,675.00	21,597,207.69
Unemployment insurance	764,518.24	22,699,396.56	22,719,538.69	744,376.11
Supplementary retirement benefit	345,581,791.06	--	1,420,152.55	344,161,638.51
Supplementary pensions	1,105,502.48	459,952,127.23	455,018,911.77	6,038,717.94
Supplementary medical benefits	17,682,978.96	439,280,027.86	435,086,462.26	21,876,544.56
<b>Total</b>	<b>386,447,982.57</b>	<b>2,118,767,242.51</b>	<b>2,110,796,740.27</b>	<b>394,418,484.81</b>

19. Taxes and fees payable

Item	B/f	C/f
Corporate income tax	3,732,141,934.22	599,220,094.12
Value-added Tax	1,482,267,268.63	1,277,951,153.23
Urban Construction and Maintenance Tax	98,954,735.22	88,594,634.10
Others	183,448,341.33	114,802,533.40
<b>Total</b>	<b>5,496,812,279.40</b>	<b>2,080,568,414.85</b>

20. Interests payable

Item	B/f	C/f
Interest payable on deposit	1,682,486,859.20	1,401,319,032.51
Interest payable on bonds	90,981,642,461.11	78,743,635,709.27
Others	--	178,558.38
<b>Total</b>	<b>92,664,129,320.31</b>	<b>80,145,133,300.16</b>

21. Bonds payable

Item	B/f	C/f
Financial bonds payable	3,813,134,606,622.10	3,389,011,140,807.91
<b>Total</b>	<b>3,813,134,606,622.10</b>	<b>3,389,011,140,807.91</b>

22. Other liabilities

Item	B/f	C/f
Promissory note	1,300.00	1,300.00
Other payables	1,606,425,278.56	1,913,947,108.76
Deferred income	76,509,644.14	73,385,975.07
financial liabilities with continuing involvement	300,495,872.25	366,592,500.00
Others	328,432,491.87	349,080,256.95
<b>Total</b>	<b>2,311,864,586.82</b>	<b>2,703,007,140.78</b>

Other payables:

Item	B/f	C/f
Foreign-exchange payment by installment	286,439,725.40	315,991,449.20
Interest payable subsidy	4,292,732.86	43,496,426.18
Interest subsidy payable to purchaser of grains on credit	63,916,590.75	65,017,888.86
Others	1,251,776,229.55	1,489,441,344.52
<b>Total</b>	<b>1,606,425,278.56</b>	<b>1,913,947,108.76</b>

23. Net interest income

Item	Current year	Prior year
<b>Interest income</b>	<b>214,093,418,693.75</b>	<b>187,165,622,191.85</b>
Deposits with banks	6,264,540,184.31	7,058,132,974.74
Deposits with central bank	2,513,372,730.73	2,304,547,417.41
Placements with banks and other financial institutions	2,375,780,452.13	1,695,540,053.19
Loans and advances	191,568,162,447.23	169,790,796,205.82
Financial assets held under resale agreements	9,985,574,271.98	5,071,099,573.22
Other interest income	1,385,988,607.37	1,245,505,967.47
<b>Interest expense</b>	<b>159,945,942,373.17</b>	<b>139,405,595,873.32</b>
Deposits from banks	552,504,953.38	1,459,754,827.89
Deposits from central bank	9,175,200,000.00	8,959,680,000.00
Customer deposits and Debt securities issued	150,218,134,471.51	128,980,317,044.08
Other interest expense	102,948.28	5,844,001.35
<b>Net interest income</b>	<b>54,147,476,320.58</b>	<b>47,760,026,318.53</b>

24. Net income from fees and commissions

Item	Current year	Prior year
<b>Fee and commission income:</b>	<b>401,677,209.13</b>	<b>976,926,301.25</b>
Settlement and clearing fee income	63,368,328.00	69,769,739.84
Agency service fee income	92,586,695.16	106,376,738.00
Other	245,722,185.97	800,779,823.41
<b>Fee and commission expense:</b>	<b>319,048,631.70</b>	<b>265,338,480.06</b>
Service fee expense	319,048,631.70	265,338,480.06
<b>Net fee and commission income</b>	<b>82,628,577.43</b>	<b>711,587,821.19</b>

25. Other operating income and Costs of other businesses

(1) Other operating income

Item	Current year	Prior year
Income from bond discount	11,965,000,000.00	9,840,000,000.00
Leasing income	40,706,640.44	38,862,525.07
Others	903,885,001.03	2,124,398.27
<b>Total</b>	<b>12,909,591,641.47</b>	<b>9,880,986,923.34</b>

(2) Costs of other businesses

Item	Current year	Prior year
Custody fee of pledged assets	16,074,700.81	5,023,750.05
Cost of deposit insurance premium	265,886,431.73	151,146,245.78
Others	50,327,851.58	2,203,758.55
<b>Total</b>	<b>332,288,984.12</b>	<b>158,373,754.38</b>

26. Taxes and surcharges

Item	Current year	Prior year
Urban maintenance and construction tax	375,565,913.95	337,261,417.41
Education surcharge	269,214,141.36	241,030,057.92
Others	275,540,945.23	1,765,869,585.71
<b>Total</b>	<b>920,321,000.54</b>	<b>2,344,161,061.04</b>

27. Operating and administrative expenses

Item	Current year	Prior year
Staff costs	16,551,056,606.82	14,399,741,580.90
Depreciation and amortization	1,410,433,320.78	1,348,947,611.20
Expenses of running electronic equipment	530,662,788.23	478,706,673.61
Security defense fee	354,447,653.42	314,672,697.49
Others	4,508,343,261.43	4,728,706,705.55
<b>Total</b>	<b>23,354,943,630.68</b>	<b>21,270,775,268.75</b>

28. Impairment losses on assets

Source	Current year	Prior year
Deposits with banks and other financial institutions	-445,973.13	2,010,407.63
Loans to customers	41,309,979,032.22	24,915,233,216.02
Debt assets	182,991,947.29	-245,597.50
Fixed assets	5,073.63	55,340.83
Construction in progress	--	631,139.07
Intangible assets	--	--
Other receivables	20,047,057.83	27,836,800.59
Others	--	483,380.07
<b>Total</b>	<b>41,512,577,137.84</b>	<b>24,946,004,686.71</b>

AGRICULTURAL DEVELOPMENT BANK OF CHINA

May 15, 2018



**AGRICULTURAL DEVELOPMENT BANK OF CHINA**

**FINANCIAL STATEMENTS AND  
AUDITOR'S REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2018**

[English translation for reference only. Should there be any inconsistency between the Chinese and English version, the Chinese version shall prevail.]

此复印件  
金杜  
律师

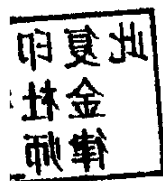
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金杜律师事务所  
律师 王 磊

2019.05.13

AGRICULTURAL DEVELOPMENT BANK OF CHINA

FINANCIAL STATEMENTS AND AUDITOR'S REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2018

[English translation for reference only]



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[English Translation for Reference Only]

## **Auditor's Report**

PwC ZT Shen Zi (2019) No. 28066  
(Page 1 of 4)

To Agricultural Development Bank of China,

### **Opinion**

#### *What we have audited*

We have audited the accompanying financial statements of Agricultural Development Bank of China (hereinafter “the Bank”), which comprise:

- the consolidated and bank balance sheet as at 31 December 2018;
- the consolidated and bank income statement for the year then ended;
- the consolidated and bank cash flow statement for the year then ended;
- the consolidated and bank statement of changes in equity for the year then ended; and
- notes to the financial statements.

#### *Our opinion*

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of consolidated level and the Bank as at 31 December 2018, and their financial performance and cash flows for the year then ended in accordance with the requirements of Accounting Standards for Business Enterprises (“CASs”).

### **Basis for Opinion**

We conducted our audit in accordance with China Standards on Auditing (“CSAs”). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Bank in accordance with the Code of Ethics for Professional Accountants of the Chinese Institute of Certified Public Accountants (“CICPA Code”), and we have fulfilled our other ethical responsibilities in accordance with the CICPA Code.

## **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management of the Bank is responsible for the preparation and fair presentation of these financial statements in accordance with the CASs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing these financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether these financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with CSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with CSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

**Auditor's Responsibilities for the Audit of the Financial Statements(CONT'D)**

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in these financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Bank to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers Zhong Tian LLP

Shanghai, the People's Republic of China  
30 April 2019

**AGRICULTURAL DEVELOPMENT BANK OF CHINA**

**CONSOLIDATED AND BANK BALANCE SHEETS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

(All amounts in RMB Yuan unless otherwise stated)  
[English translation for reference only]

<b>Assets</b>	<b>Note VIII</b>	<b>The Group</b>	
		<b>31 December 2018</b>	<b>31 December 2017</b>
Cash and deposits with the Central Bank	1	188,231,651,374.37	184,590,809,006.66
Deposits with banks and non-bank financial institutions	2	429,611,862,435.14	190,982,690,383.53
Placements with banks and non-bank financial institutions	3	225,621,580,000.00	83,973,420,000.00
Financial assets at fair value through profit or loss	4	326,891,577,859.01	367,943,431,256.06
Derivative financial assets		-	2,840,907.67
Financial assets held under resale agreements	5	89,077,859,000.00	211,903,186,000.00
Interest receivable	6	20,572,196,018.32	18,830,941,733.12
Loans and advances to customers	7	4,969,370,397,294.04	4,566,092,278,109.96
Held-to-maturity investment	8	110,818,784,665.68	97,713,601,292.25
Investment classified as receivables	9	428,288,551,878.92	426,969,125,832.25
Long-term equity investment	10	1,755,737,889.98	1,546,559,800.49
Fixed assets	11	16,349,308,907.48	16,589,440,512.76
Intangible assets	12	537,297,047.07	486,565,613.64
Deferred tax assets	13	39,314,873,713.65	29,442,123,565.14
Other assets	14	6,335,565,222.56	9,221,515,205.40
<b>Total Assets</b>		<b>6,852,777,243,306.22</b>	<b>6,206,288,529,218.93</b>



**AGRICULTURAL DEVELOPMENT BANK OF CHINA**

**CONSOLIDATED AND BANK BALANCE SHEETS (CONT'D)  
FOR THE YEAR ENDED 31 DECEMBER 2018**

(All amounts in RMB Yuan unless otherwise stated)  
(English translation for reference only)

<b>Liabilities</b>	<b>Note VIII</b>	<b>The Group</b>	
		<b>31 December 2018</b>	<b>31 December 2017</b>
Borrowings from the Central Bank	16	678,400,000,000.00	694,200,000,000.00
Deposits from banks and non-bank financial institutions	17	285,243,024,783.17	14,397,990,471.70
Financial liabilities at fair value through profit or loss	18	-	1,202,814,246.58
Derivative financial liabilities		275,800,289.42	-
Due to customers	19	1,388,615,934,401.76	1,437,753,967,281.22
Employee benefits payable	20	9,244,508,017.22	7,947,948,434.21
Tax payable	21	10,060,181,644.61	7,083,976,677.35
Interest payable	22	114,423,183,023.25	92,664,129,320.31
Provisions	23	9,019,925,959.28	-
Debt securities issued	24	4,201,489,087,784.32	3,813,134,606,622.10
Other liabilities	25	2,338,819,221.28	2,311,864,586.82
<b>Total Liabilities</b>		<b>6,699,110,465,124.31</b>	<b>6,070,697,297,640.29</b>
<b>Equity</b>			
Share capital	26	57,000,000,000.00	57,000,000,000.00
Capital reserve	27	12,397,525.36	12,397,525.36
Other comprehensive income	28	(31,221,186.06)	10,725,113.94
Surplus reserve	29	13,559,939,959.35	11,748,190,669.02
General risk reserve	30	24,000,000,000.00	24,000,000,000.00
Retained earnings	31	59,125,661,883.26	42,819,918,270.32
<b>Total Equity</b>		<b>153,666,778,181.91</b>	<b>135,591,231,578.64</b>
<b>Total Liabilities and Equity</b>		<b>6,852,777,243,306.22</b>	<b>6,206,288,529,218.93</b>

**AGRICULTURAL DEVELOPMENT BANK OF CHINA**

**CONSOLIDATED AND BANK BALANCE SHEETS (CONT'D)  
FOR THE YEAR ENDED 31 DECEMBER 2018**

(All amounts in RMB Yuan unless otherwise stated)  
[English translation for reference only]

<b>Assets</b>	<b>Note VIII</b>	<b>The Bank</b>	
		<b>31 December 2018</b>	<b>31 December 2017</b>
Cash and deposits with the Central Bank	1	158,988,575,086.70	168,262,748,113.36
Deposits with banks and non-bank financial institutions	2	429,611,862,435.14	190,982,690,383.53
Placements with banks and non-bank financial institutions	3	225,621,580,000.00	83,973,420,000.00
Financial assets at fair value through profit or loss	4	-	1,203,866,690.74
Derivative financial assets		-	2,840,907.67
Financial assets held under resale agreements	5	89,077,859,000.00	211,903,186,000.00
Interest receivable	6	20,197,834,373.33	18,828,852,500.40
Loans and advances to customers	7	4,916,484,836,176.70	4,507,160,518,959.51
Held-to-maturity investment	8	110,818,784,665.68	97,713,601,292.25
Investment classified as receivables	9	428,288,551,878.92	426,969,125,832.25
Long-term equity investment	10	459,755,737,889.98	459,546,559,800.49
Fixed assets	11	16,349,308,907.48	16,589,440,512.76
Intangible assets	12	537,297,047.07	486,565,613.64
Deferred tax assets	13	35,374,009,213.65	27,060,669,065.14
Other assets	14	6,335,565,222.56	9,221,515,205.40
<b>Total Assets</b>		<b>6,897,441,801,897.21</b>	<b>6,219,905,600,877.14</b>

**AGRICULTURAL DEVELOPMENT BANK OF CHINA**

**CONSOLIDATED AND BANK BALANCE SHEETS (CONT'D)  
FOR THE YEAR ENDED 31 DECEMBER 2018**

(All amounts in RMB Yuan unless otherwise stated)  
[English translation for reference only]

<b>Liabilities</b>	<b>Note VIII</b>	<b>The Bank</b>	
		<b>31 December 2018</b>	<b>31 December 2017</b>
Borrowings from the Central Bank	16	678,400,000,000.00	694,200,000,000.00
Deposits from banks and non-bank financial institutions	17	285,243,024,783.17	14,397,990,471.70
Financial liabilities at fair value through profit or loss	18	-	1,202,814,246.58
Derivative financial liabilities		275,800,289.42	-
Due to customers	19	1,434,935,838,305.58	1,452,962,349,805.95
Employee benefits payable	20	9,244,508,017.22	7,947,948,434.21
Tax payable	21	8,410,571,555.94	5,496,812,279.40
Interest payable	22	114,423,183,023.25	92,664,129,320.31
Provisions	23	9,019,925,959.28	-
Debt securities issued	24	4,201,489,087,784.32	3,813,134,606,622.10
Other liabilities	25	2,338,819,221.28	2,311,864,586.82
<b>Total Liabilities</b>		<b>6,743,780,758,939.46</b>	<b>6,084,318,515,767.07</b>
<b>Equity</b>			
Share capital	26	57,000,000,000.00	57,000,000,000.00
Capital reserve	27	12,397,525.36	12,397,525.36
Other comprehensive income	28	(31,221,186.06)	10,725,113.94
Surplus reserve	29	13,559,366,436.93	11,747,776,022.16
General risk reserve	30	24,000,000,000.00	24,000,000,000.00
Retained earnings	31	59,120,500,181.52	42,816,186,448.61
<b>Total Equity</b>		<b>153,661,042,957.75</b>	<b>135,587,085,110.07</b>
<b>Total Liabilities and Equity</b>		<b>6,897,441,801,897.21</b>	<b>6,219,905,600,877.14</b>

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

AGRICULTURAL DEVELOPMENT BANK OF CHINA

CONSOLIDATED AND BANK INCOME STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018

(All amounts in RMB Yuan unless otherwise stated)  
[English translation for reference only]

	Note VIII	The Group	
		2018	2017
<b>Operating Income</b>		90,722,173,742.37	85,268,775,429.16
Net interest income	32	71,847,822,301.33	67,937,164,314.05
Interest income		254,675,396,222.23	215,918,106,686.99
Interest expenses		(182,827,573,920.90)	(147,980,942,372.94)
Net fee and commission income	33	154,656,235.66	82,628,577.43
Fee and commission income		319,616,969.81	401,677,209.13
Fee and commission expenses		(164,960,734.15)	(319,048,631.70)
Investment income	34	23,888,311,007.48	21,309,827,818.74
Including: Share of profit in associates and joint ventures		2,724,389.49	(12,842,056.36)
Changes in fair value gains and losses	35	(5,470,414,347.73)	(5,146,035,936.77)
Foreign exchange gains and losses		102,867,209.47	60,253,290.14
Other operating income		47,300,503.44	63,818,241.57
Assets disposal income		78,105,763.39	80,345,724.00
Other income		73,525,069.33	880,773,400.00
<b>Operating Expenses</b>		(70,900,469,691.88)	(67,740,024,554.92)
Taxes and surcharges	36	(1,070,767,561.58)	(955,422,501.17)
Operating and administrative expenses	37	(24,258,026,745.71)	(23,354,943,630.68)
Impairment losses on assets	38	(45,310,849,347.96)	(43,097,369,438.95)
Other operating expenses	39	(260,826,036.63)	(332,288,984.12)
<b>Operating Profit</b>		19,821,704,050.49	17,528,750,874.24
Add: Non-operating income		121,354,342.36	107,203,207.00
Less: Non-operating expenses		(414,205,299.70)	(334,763,257.38)
<b>Profit before Income Tax</b>		19,528,853,093.15	17,301,190,823.86
Less: Income tax expense	40	(1,411,360,189.88)	(182,926,676.64)
<b>Net Profit</b>		18,117,492,903.27	17,118,264,147.22
<b>Other Comprehensive Income, Net of Tax</b>	28	(41,946,300.00)	(27,817,822.71)
Other comprehensive income that may be reclassified to profit or loss in subsequent periods			
—Share of other comprehensive income in investee under equity method that may be reclassified to profit or loss		(41,946,300.00)	(27,817,822.71)
<b>Total Comprehensive Income</b>		18,075,546,603.27	17,090,446,324.51

**AGRICULTURAL DEVELOPMENT BANK OF CHINA**

**CONSOLIDATED AND BANK INCOME STATEMENTS (CONT'D)  
FOR THE YEAR ENDED 31 DECEMBER 2018**

(All amounts in RMB Yuan unless otherwise stated)  
[English translation for reference only]

	Note VIII	The Bank	
		2018	2017
<b>Operating Income</b>		89,821,499,131.51	84,405,109,759.52
Net interest income	32	70,182,801,699.77	66,870,411,657.40
Interest income		253,010,375,620.67	214,851,354,030.34
Interest expenses		(182,827,573,920.90)	(147,980,942,372.94)
Net fee and commission income	33	154,656,235.66	82,628,577.43
Fee and commission income		319,616,969.81	401,677,209.13
Fee and commission expenses		(164,960,734.15)	(319,048,631.70)
Investment income	34	19,280,673,791.70	16,366,753,770.20
Including: Share of profit in associates and joint ventures		2,724,389.49	(12,842,056.36)
Changes in fair value gains and losses	35	(98,431,141.25)	125,098.78
Foreign exchange gains and losses		102,867,209.47	60,253,290.14
Other operating income		47,300,503.44	63,818,241.57
Assets disposal income		78,105,763.39	80,345,724.00
Other income		73,525,069.33	880,773,400.00
<b>Operating Expenses</b>		(70,001,913,421.81)	(66,878,066,089.84)
Taxes and surcharges	36	(1,037,868,085.03)	(920,321,000.54)
Operation and administrative expenses	37	(24,258,026,745.71)	(23,354,943,630.68)
Impairment losses on assets	38	(44,445,192,554.44)	(42,270,512,474.50)
Other operating expenses	39	(260,826,036.63)	(332,288,984.12)
<b>Operating Profit</b>		19,819,585,709.70	17,527,043,669.68
Add: Non-operating income		121,354,342.36	107,203,207.00
Less: Non-operating expenses		(414,205,299.70)	(334,763,257.38)
<b>Profit before Income Tax</b>		19,526,734,752.36	17,299,483,619.30
Less: Income tax expense	40	(1,410,830,604.68)	(182,499,875.50)
<b>Net profit</b>		18,115,904,147.68	17,116,983,743.80
<b>Other Comprehensive Income, Net of Tax</b>	28	(41,946,300.00)	(27,817,822.71)
Other comprehensive income that may be reclassified to profit or loss in subsequent periods			
—Share of other comprehensive income in investee under equity method that may be reclassified to profit or loss		(41,946,300.00)	(27,817,822.71)
<b>Total Comprehensive Income</b>		18,073,957,847.68	17,089,165,921.09

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

**AGRICULTURAL DEVELOPMENT BANK OF CHINA**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2018**

(All amounts in RMB Yuan unless otherwise stated)

[English translation for reference only]

	Note VIII	Share capital	Capital reserve	Other comprehensive income	Surplus reserve	General risk reserve	Retained earnings	Total equity
Balance at 1 January 2018		57,000,000,000.00	12,397,525.36	10,725,113.94	11,748,190,669.02	24,000,000,000.00	42,819,918,270.32	135,591,231,578.64
Movements during the year								
(1) Net profit		-	-	-	-	-	18,117,492,903.27	18,117,492,903.27
(2) Other comprehensive income	28	-	-	(41,946,300.00)	-	-	-	(41,946,300.00)
Subtotal of (1) and (2)		-	-	(41,946,300.00)	-	-	18,117,492,903.27	18,075,546,603.27
(3) Profit distribution								
1. Appropriation to surplus reserve	31	-	-	-	1,811,749,290.33	-	(1,811,749,290.33)	-
Balance at 31 December 2018		57,000,000,000.00	12,397,525.36	(31,221,186.06)	13,559,939,959.35	24,000,000,000.00	59,125,661,883.26	153,666,778,181.91
Balance at 1 January 2017		57,000,000,000.00	12,397,525.36	38,542,936.65	10,036,364,254.30	24,000,000,000.00	27,413,480,537.82	118,500,785,254.13
Movements during the year								
(1) Net profit		-	-	-	-	-	17,118,264,147.22	17,118,264,147.22
(2) Other comprehensive income	28	-	-	(27,817,822.71)	-	-	-	(27,817,822.71)
Subtotal of (1) and (2)		-	-	(27,817,822.71)	-	-	17,118,264,147.22	17,090,446,324.51
(3) Profit distribution								
1. Appropriation to surplus reserve	31	-	-	-	1,711,826,414.72	-	(1,711,826,414.72)	-
Balance at 31 December 2017		57,000,000,000.00	12,397,525.36	10,725,113.94	11,748,190,669.02	24,000,000,000.00	42,819,918,270.32	135,591,231,578.64

# AGRICULTURAL DEVELOPMENT BANK OF CHINA

## BANK STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

(All amounts in RMB Yuan unless otherwise stated)

[English translation for reference only]

	Note VIII	Share capital	Capital reserve	Other comprehensive income	Surplus reserve	General risk reserve	Retained earnings	Total equity
Balance at 1 January 2018		57,000,000,000.00	12,397,525.36	10,725,113.94	11,747,776,022.16	24,000,000,000.00	42,816,186,448.61	135,587,085,110.07
Movements during the year								
(1) Net profit		-	-	-	-	-	18,115,904,147.68	18,115,904,147.68
(2) Other comprehensive income	28	-	-	(41,946,300.00)	-	-	-	(41,946,300.00)
Subtotal of (1) and (2)		-	-	(41,946,300.00)	-	-	18,115,904,147.68	18,073,957,847.68
(3) Profit distribution								
1. Appropriation to surplus reserve	31	-	-	-	1,811,590,414.77	-	(1,811,590,414.77)	-
Balance at 31 December 2018		57,000,000,000.00	12,397,525.36	(31,221,186.06)	13,559,366,436.93	24,000,000,000.00	59,120,500,181.52	153,661,042,957.75
Balance at 1 January 2017		57,000,000,000.00	12,397,525.36	38,542,936.65	10,036,077,647.78	24,000,000,000.00	27,410,901,079.19	118,497,919,188.98
Movements during the year								
(1) Net profit		-	-	-	-	-	17,116,983,743.80	17,116,983,743.80
(2) Other comprehensive income	28	-	-	(27,817,822.71)	-	-	-	(27,817,822.71)
Subtotal of (1) and (2)		-	-	(27,817,822.71)	-	-	17,116,983,743.80	17,089,165,921.09
(3) Profit distribution								
1. Appropriation to surplus reserve	31	-	-	-	1,711,698,374.38	-	(1,711,698,374.38)	-
Balance at 31 December 2017		57,000,000,000.00	12,397,525.36	10,725,113.94	11,747,776,022.16	24,000,000,000.00	42,816,186,448.61	135,587,085,110.07

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



**AGRICULTURAL DEVELOPMENT BANK OF CHINA**

**CONSOLIDATED AND BANK CASH FLOW STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

(All amounts in RMB Yuan unless otherwise stated)  
[English translation for reference only]

		<b>The Group</b>	
	<b>Note VIII</b>	<b>2018</b>	<b>2017</b>
<b>1. Cash Flows from Operating Activities:</b>			
Net increase in deposits from customers and from banks and non-bank financial institutions		221,707,001,432.12	15,024,813,273.05
Net increase in borrowings from the Central Bank		-	132,200,000,000.00
Net decrease in deposits with the Central Bank, banks and non-bank financial institutions		-	93,312,319,321.26
Net decrease in financial assets held under resale agreements		122,825,327,000.00	-
Cash received from interest, fee and commission		253,253,758,906.84	217,698,449,172.10
Cash received from other operating activities		886,409,413.25	2,548,897,343.53
<b>Subtotal of Cash Inflow from Operating Activities</b>		<b>598,672,496,752.21</b>	<b>460,784,479,109.94</b>
Net increase in loans and advances to customers		(435,554,737,057.15)	(565,399,513,213.58)
Net decrease in borrowings from the Central Bank		(15,800,000,000.00)	-
Net increase in deposits with the Central Bank, banks and non-bank financial institutions		(408,254,519,808.56)	-
Net decrease in placements with other financial institutions		(119,700,000,000.00)	(20,828,769,701.69)
Net increase in financial assets held under resale agreements		-	(34,587,673,000.00)
Cash paid for interest, fee and commission		(37,967,200,506.85)	(26,877,502,561.77)
Cash paid to and for employees		(16,098,738,726.29)	(14,428,220,645.68)
Payments of all types of taxes		(16,376,688,053.86)	(11,571,787,543.32)
Cash paid relating to other operating activities		(747,735,561.54)	(9,572,368,854.96)
<b>Subtotal of Cash Outflow from Operating Activities</b>		<b>(1,050,499,619,714.25)</b>	<b>(683,265,835,521.00)</b>
<b>Net Cash Flows from Operating Activities</b>	<b>41</b>	<b>(451,827,122,962.04)</b>	<b>(222,481,356,411.06)</b>
<b>2. Cash Flows From Investing Activities:</b>			
Proceeds from sale and redemption of investment		505,697,639,007.56	504,934,432,967.38
Proceeds from investment income		23,888,311,007.48	20,711,296,034.81
Proceeds from other investing activities		1,551,760,301.64	168,285,443.76
<b>Subtotal of Cash Inflow from Investing Activities</b>		<b>531,137,710,316.68</b>	<b>525,814,014,445.95</b>
Purchase of investments		(484,876,750,394.40)	(503,978,442,849.77)
Purchase of fixed assets, intangible assets and other long-term assets		(3,599,976,776.79)	(1,272,744,397.69)
<b>Subtotal of Cash Outflow from Investing Activities</b>		<b>(488,476,727,171.19)</b>	<b>(505,251,187,247.46)</b>
<b>Net Cash Flows from Investing Activities</b>		<b>42,660,983,145.49</b>	<b>20,562,827,198.49</b>

**AGRICULTURAL DEVELOPMENT BANK OF CHINA**

**CONSOLIDATED AND BANK CASH FLOW STATEMENTS (CONT'D)  
FOR THE YEAR ENDED 31 DECEMBER 2018**

(All amounts in RMB Yuan unless otherwise stated)

[English translation for reference only]

	Note VIII	The Group	
		2018	2017
<b>3. Cash Flows from Financing Activities:</b>			
Proceeds from debt securities issued		1,136,511,602,009.05	1,201,614,149,792.08
<b>Subtotal of Cash Inflow from Financing Activities</b>		<u>1,136,511,602,009.05</u>	<u>1,201,614,149,792.08</u>
Repayments of debts		(748,983,906,533.96)	(781,865,761,031.46)
Cash payments for interest		(122,439,494,758.13)	(104,727,248,556.74)
<b>Subtotal of Cash Outflow from Financing Activities</b>		<u>(871,423,401,292.09)</u>	<u>(886,593,009,588.20)</u>
<b>Net Cash Flows from Financing Activities</b>		<u>265,088,200,716.96</u>	<u>315,021,140,203.88</u>
<b>4. Effect of Foreign Exchange Rate Changes on Cash and Cash Equivalents</b>		<u>41,569,839.75</u>	<u>60,253,290.14</u>
<b>5. Net (Decrease)/Increase in Cash and Cash Equivalents</b>	41	(144,036,369,259.84)	113,162,864,281.45
Add: Opening balance of cash and cash equivalents		<u>330,190,075,791.94</u>	<u>217,027,211,510.49</u>
<b>6. Closing Balance of Cash and Cash Equivalents</b>	41	<u>186,153,706,532.10</u>	<u>330,190,075,791.94</u>

AGRICULTURAL DEVELOPMENT BANK OF CHINA

CONSOLIDATED AND BANK CASH FLOW STATEMENTS (CONT'D)  
FOR THE YEAR ENDED 31 DECEMBER 2018

(All amounts in RMB Yuan unless otherwise stated)  
[English translation for reference only]

	Note VIII	The Bank 2018	2017
<b>1. Cash Flows from Operating Activities:</b>			
Net increase in deposits from customers and from banks and non-bank financial institutions		252,818,522,811.21	15,024,813,273.05
Net decrease in deposits with the Central bank, banks and non-bank financial institutions		-	93,312,319,321.26
Net increase in borrowings from the Central Bank		-	132,200,000,000.00
Net decrease in financial assets held under resale agreements		122,825,327,000.00	-
Cash received from interest, fee and commission		251,961,010,717.55	217,538,872,571.98
Cash received from other operating activities		886,409,413.25	2,548,897,343.53
<b>Subtotal of Cash Inflow from Operating Activities</b>		<b>628,491,269,942.01</b>	<b>460,624,902,509.82</b>
Net increase in loans and advances to customers		(441,600,935,090.26)	(565,399,513,213.58)
Net increase in deposits with the Central Bank, banks and other financial institutions		(408,254,519,808.56)	-
Net decrease in borrowings from the Central Bank		(15,800,000,000.00)	-
Net decrease in placements with other financial institutions		(119,700,000,000.00)	(20,828,769,701.69)
Net increase in financial assets held under resale agreements		-	(34,587,673,000.00)
Cash paid for interest, fee and commission		(37,967,200,506.85)	(26,877,502,561.77)
Cash paid to and for employees		(16,098,738,726.29)	(14,428,220,645.68)
Payments of all types of taxes		(14,517,854,877.46)	(10,327,938,874.43)
Cash paid relating to other operating activities		(210,518,573.39)	(9,572,368,854.96)
<b>Subtotal of Cash Outflow from Operating Activities</b>		<b>(1,054,149,767,582.81)</b>	<b>(682,021,986,852.11)</b>
<b>Net Cash Flows from Operating Activities</b>	41	<b>(425,658,497,640.80)</b>	<b>(221,397,084,342.29)</b>
<b>2. Cash Flows from Investing Activities:</b>			
Proceeds from sale and redemption of investment		465,849,652,301.25	482,814,210,495.65
Proceeds from investment income		19,280,673,791.70	14,509,975,624.47
Proceeds from other investing activities		1,551,760,301.64	168,285,443.76
<b>Subtotal of Cash Inflow from Investing Activities</b>		<b>486,682,086,394.59</b>	<b>497,492,471,563.88</b>
Purchase of investments		(479,504,767,187.92)	(501,628,867,849.77)
Purchase of fixed assets, intangible assets and other long-term assets		(3,599,976,776.79)	(1,272,744,397.69)
<b>Subtotal of Cash Outflow from Investing Activities</b>		<b>(483,104,743,964.71)</b>	<b>(502,901,612,247.46)</b>
<b>Net Cash Flows from Investing Activities</b>		<b>3,577,342,429.88</b>	<b>(5,409,140,683.58)</b>

**AGRICULTURAL DEVELOPMENT BANK OF CHINA**

**CONSOLIDATED AND BANK CASH FLOW STATEMENTS (CONT'D)  
FOR THE YEAR ENDED 31 DECEMBER 2018**

(All amounts in RMB Yuan unless otherwise stated)  
[English translation for reference only]

	Note VIII	The Bank	
		2018	2017
<b>3. Cash Flows from Financing Activities:</b>			
Proceeds from debt securities issued		<u>1,136,511,602,009.05</u>	<u>1,201,614,149,792.08</u>
<b>Subtotal of Cash Inflow from Financing Activities</b>		<u>1,136,511,602,009.05</u>	<u>1,201,614,149,792.08</u>
Repayments of debts		(748,983,906,533.96)	(781,865,761,031.46)
Cash payments for interest		<u>(122,439,494,758.13)</u>	<u>(104,727,248,556.74)</u>
<b>Subtotal of Cash Outflow from Financing Activities</b>		<u>(871,423,401,292.09)</u>	<u>(886,593,009,588.20)</u>
<b>Net Cash Flows from Financing Activities</b>		<u>265,088,200,716.96</u>	<u>315,021,140,203.88</u>
<b>4. Effect of Foreign Exchange Rate Changes on Cash and Cash Equivalents</b>		<u>41,569,839.75</u>	<u>60,253,290.14</u>
<b>5. Net (Decrease)/Increase in Cash and Cash Equivalents</b>	41	(156,951,384,654.21)	88,275,168,468.15
Add: Opening balance of cash and cash equivalents		<u>313,862,014,898.64</u>	<u>225,586,846,430.49</u>
<b>6. Closing Balance of Cash and Cash Equivalents</b>	41	<u>156,910,630,244.43</u>	<u>313,862,014,898.64</u>

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

## AGRICULTURAL DEVELOPMENT BANK OF CHINA

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

(All amounts in RMB Yuan unless otherwise stated)  
[English translation for reference only]

#### I General information

Agricultural Development Bank of China (hereinafter, the "Bank") is the only agricultural policy-oriented bank under the direct authority of the State Council of the People's Republic of China (hereinafter, the "State Council") in accordance with the Notice on the Establishment of Agricultural Development Bank of China (*Guo Fa* [1994] No. 25) issued by the State Council on 19 April 1994. The Bank was incorporated in November 2014 and is wholly owned by Ministry of Finance of the PRC (hereinafter, the "Ministry of Finance"). The Bank carries out business activities within the operating scope in accordance with Measures for Supervision and Management of Agricultural Development Bank of China (*Decree of CBRC* [2017] No.4). The Head Office of the Bank is the first level legal person and the chairman is the legal representative.

The Bank carries the financial institution license (No. A0002H111000001) issued by China Banking Regulatory Commission (the CBRC, which was renamed China Banking and Insurance Regulatory Commission in 2018, hereinafter referred to as "CBIRC"). The Bank's unified social credit code is 91100000100017045K, and it carries the business license to operate as a corporate entity issued by the Beijing Administration for Industry and Commerce. The registered address of the Bank is No. Jia 2, Yuetanbei Street, Xicheng District, Beijing. As at 31 December 2018, the Bank had a total of 32 Tier-1 branches, 338 Tier-2 branches, and 1,828 Tier-3 and lower-level branches.

The main responsibility of the Bank is to, in accordance with national laws, regulations and policies, undertake agricultural policy-based financial services as prescribed by the state and provide financial support for agricultural funds based on national credit in order to serve agriculture and rural economic development, with funds mainly raised through bond issuance. The Bank does not operate the business of deposits and loans for individuals and investment business.

The principal operating activities of the Bank and its subsidiary ("the Group") include: providing special reserve loans arranged by the People's Bank of China and subsidised by the government for grain, cotton, oil, pork, sugar, factory silk, and chemical fertilisers, as well as local fertiliser, sugar, and meat reserve; providing loans for purchase and resale of grain, cotton, and oil; providing loans for grain contractual purchase; providing loans for cotton and linen processing enterprises; allocation of government financial support fund by opening special grain risk reserve account for government and allocating funds; issuing financial bonds; deposits business for enterprises and institutions within business scope; settlement for the enterprises and institutions; foreign fund raising; international settlement business under the import and export trade of customers within the business scope, and foreign exchange deposits, foreign exchange remittances, inter-bank foreign exchange lending and borrowing compatible with international settlement business, agent of foreign exchange trading and other services; providing loans for large grain processing enterprises; providing loan for grain and cotton oil industrialization leading enterprise; providing loans for other grain enterprises; providing loans in relation with grain and oil seed; providing loans for cotton enterprises for pre-purchase, cotton deep processing, cotton breeding, acquisition and processing, cotton export and import as needed for national macro-control and reserve purpose; technical equipment transformation loan for cotton enterprises; collection and payment for enterprises; local currency transactions in the national interbank market; postal savings agreement deposits; loan businesses for agricultural small business, rural infrastructure construction, agriculture comprehensive development, and agricultural production materials; other business approved by the State Council and the CBRC; insurance concurrent agency (only for branches with insurance concurrent agency licenses, the validity period is subject to the license). (Businesses subject to approval in accordance with law can be carried out after being approved by relevant authorities).

The financial statements were approved by management on 30 April 2019.

#### II Basis of preparation of the financial statements

The financial statements were prepared in accordance with the Accounting Standards for Business Enterprises - Basic Standard, each specific accounting standards and relevant regulations issued by the Ministry of Finance on 15 February 2006 and in subsequent periods (hereinafter collectively referred to as "the Accounting Standard for Business Enterprises" or "CAS"), and other relevant rules and documents issued by the Ministry of Finance that are applicable to the Bank.

The Bank operates in accordance with the requirements of capital management in the Regulations on Supervision and Management of the Agricultural Development Bank of China. The financial statements are prepared on a going concern basis.

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**III Statement of compliance with the Accounting Standards for Business Enterprises**

The financial statements has been prepared in accordance with the requirements of the CAS and gives a true and fair view of the financial positions of the Group as at 31 December 2018, and of the financial performance and cash flows for the year then ended 2018.

**IV Significant accounting policies**

**1 Accounting year**

The Group's accounting year starts on 1 January and ends on 31 December.

**2 Recording currency**

The recording currency of the Group is Renminbi ("RMB"). The financial statements are presented in RMB.

**3 Accounting basis and measurement principle**

The Group adopts the accrual basis for accounting. The financial statements have been prepared on the historical cost basis except for certain financial instruments measured at fair value. If assets are impaired, in accordance with relevant requirements, the Group recognises allowances for the impairment losses.

**4 Foreign currency transactions**

On initial recognition, foreign currency transactions are translated into recording currency using the exchange rates prevailing at the dates of the transactions. At the balance sheet date, monetary items denominated in foreign currencies are translated into recording currency using the spot exchange rates at the balance sheet date. Exchange difference arising from translations, as the spot exchange rate on the balance sheet date is different from the one on initial recognition or the prior balance date, are recognised in profit or loss for the current period, while differences arising from changes in the book value other than the amortised cost of available-for-sale financial assets attribute to monetary items, are recognised in other comprehensive income at fair value.

Non-monetary items denominated in foreign currencies that are measured at historical cost are translated into recording currency using the spot exchange rates of the transaction dates. Non-monetary items denominated in foreign currencies that are measured at fair value are translated using the spot exchange rates when the fair value are determined. Translation differences on non-monetary financial assets classified as available-for-sale are included in other comprehensive income. Translation differences on financial assets and financial liabilities measured at fair value through profit or loss are included in the profit or loss.

**5 Cash and cash equivalents**

Cash and cash equivalents comprise cash in hand, deposits that can be readily drawn on demand, and highly-liquid monetary assets with an original maturity of no more than three months that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.



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**IV Significant accounting policies (Cont'd)**

**6 Financial instruments**

A financial asset or a financial liability is recognised when the Group becomes a party to the contractual provisions of the financial instrument.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market between market participants at the measurement date under current market conditions. The fair value of financial instrument quoted in an active market is determined at the quoted market price. The fair value of a financial instrument that is not traded in an active market is determined by using a valuation technique. Valuation techniques include the use of recent transaction prices in orderly transactions, discounted cash flow analysis, option pricing models and other techniques commonly used by market participants.

The fair value measurements are categorised into 3 levels based on the degree of observability of the inputs and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

Level 2 inputs are inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for the asset or liability.

**(1) Classification, recognition and measurement of financial assets**

All purchases or sales of financial assets in regular ways are recognised and derecognised using trade date accounting. The Group's financial assets are classified as financial assets at fair value through profit or loss, held-to-maturity investment, loans and advances to customers, investment classified as receivables and available-for-sale financial assets. The classification of financial assets depends on the Group's intention and ability to hold the financial assets.

Financial assets are initially measured at fair value. Related transaction costs that are attributable to the acquisition of the financial assets are included in the initially recognised amounts, except for the financial assets at fair value through profit or loss, the related transaction costs of which are recognised directly in profit or loss for the current period.

**Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated as at fair value through profit or loss.

Financial assets held for trading refer to financial assets satisfying one of the following conditions: (i) the financial assets are bought with the intention to sell in the near future; (ii) belongs to a part of identifiable financial instruments group under the centralised management, and there is objective evidence that the Group will manage the financial instruments using short-term profit method recently; (iii) belongs to derivative financial instruments, excluding the derivative financial instruments that are designated with effective hedging, and those belong to financial guarantee contract, as well as the derivative financial instruments that are linked to equity instrument investments that are not quoted in an active market and whose fair value cannot be reliably measured, and has to be settled by delivery of such equity instruments.

A financial asset may be designated as at fair value through profit or loss upon initial recognition only when one of the following conditions is satisfied: (i) Such designation eliminates or significantly reduces in consistency gains or losses in respect to recognition or measurement due to different measure basis of financial instruments; or (ii) The Group's documents of risk management or investment strategy stipulates a group of financial assets or a group of financial assets and financial liabilities that a financial asset belongs to is managed and evaluated on a fair value basis, and is reported to key management personnel on that basis; or (iii) qualified hybrid instruments including embedded derivative financial instruments. The Group designates equity investment with redemption rights as financial assets at fair value through profit or loss.



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**VI Significant accounting policies (Cont'd)**

**6 Financial instruments (Cont'd)**

**(1) Classification, recognition and measurement of financial assets (Cont'd)**

Financial assets at fair value through profit or loss (Cont'd)

Financial assets at fair value through profit or loss are subsequently measured at fair value. Any gains or losses arising from changes in the fair value and any dividend and interest income earned on, and gains or losses on disposal of the financial assets are recognised in profit or loss for the current period.

Held-to-maturity investment

A held-to-maturity investment is a non-derivative financial asset with fixed maturity date and fixed or determinable payments that the Group has clearly intention and ability to hold to maturity.

Loans and receivables

A loan or receivable is a non-derivative financial asset which is not quoted in an active market and of which the recoverable amount is either fixed or determinable. Financial assets classified as loans and receivables by the Group include deposits with the Central Bank, deposits with banks and non-bank financial institutions, placements with banks and non-bank financial institutions, financial assets held under resale agreements, loans and advances to customers, investment classified as receivables, etc.

Loans and receivables shall be subsequently measured at amortised cost based on the effective interest method. The profit or loss arising from derecognition, impairment or amortisation are recognised into profit or loss for the current period.

Available-for-sale financial assets

Available-for-sale financial assets refer to non-derivative financial assets designated at initial recognition as available for sale, or financial assets other than: (i) financial assets at fair value through profit or loss; (ii) held-to-maturity investment; and (iii) loans and receivables.

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**IV Significant accounting policies(Cont'd)**

**6 Financial instruments (Cont'd)**

**(2) Impairment of financial assets**

The Group examines the carrying amounts of financial assets except for those at fair value through profit or loss at each balance sheet date. If there is objective evidence that a financial asset is impaired, the Group recognises an allowance for the impairment loss.

Objective evidence for impairment of financial assets may include the following observable events:

- (i) Significant financial difficulty of the issuer or borrower;
- (ii) The breach of contract, such as a default or delinquency in interest or principal payment;
- (iii) The Group, for economic or legal reasons, granting a concession to the borrower who has financial difficulty;
- (iv) It becomes probable that the borrower will enter bankruptcy or other financial restructuring;
- (v) Financial assets are no longer able to trade in an active market due to severe financial difficulty experienced by the issuers;
- (vi) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
  - adverse changes in the payment status of borrowers in the group; and
  - changes in the economic conditions of the geographical areas of the borrowers that may cause defaults on this group of financial assets;
- (vii) Any significant change with an adverse effect that has taken place in the technological, market, economic or legal environment in which the issuer operates and that indicates the cost of investments in equity instruments may not be recovered;
- (viii) Significant or non-temporary decline in the fair value of investment in equity instruments;
- (ix) Other objective evidence indicating impairment of financial assets.

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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#### IV Significant accounting policies (Cont'd)

##### 6 Financial instruments (Cont'd)

##### (2) Impairment of financial assets (Cont'd)

##### Impairment of loans and advances to customers, investment classified as receivables and held-to-maturity investment

The Group conducts impairment assessment on individually significant loans and advances to customers, investment classified as receivables, and held-to-maturity investment on an individual basis. If there is objective evidence that financial assets measured at amortised cost are impaired, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset shall be reduced through use of an allowance account, and the amount of the loss shall be recognised in profit or loss. If the financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The estimation and calculation of the present value of the estimated future cash flows of a collateralised financial asset consider the value of the collateral, less the cost of obtaining and selling the collateral, regardless of whether the collateral will be realized.

The Group conducts impairment assessment on individually not significant loans and advances to customers, investment classified as receivables, and held-to-maturity investment on a collective basis. For the purposes of a collective assessment for impairment, financial assets are grouped on the basis of similar and relevant credit risk characteristics. These characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognised, such as an improvement in the debtor's credit rating, the previously recognised impairment loss is reversed and the carrying amount of the financial assets after impairment loss reversed shall not exceed the amortized list of the financial assets without provision for impairment loss on the reversing date.

When a financial asset is uncollectible, it is written off against the related allowance on impairment losses after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of impairment losses in the income statement.

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**IV Significant accounting policies (Cont'd)**

**6 Financial instruments (Cont'd)**

**(3) Derecognition of financial assets**

A financial asset is derecognised when any of the below criteria is met: (i) the contractual rights to receive the cash flows from the financial asset expire; (ii) the financial asset has been transferred and the Group transfers substantially all the risks and rewards of ownership of the financial asset to the transferee; or (iii) the financial asset has been transferred and the Group has not retained control of the financial asset, although the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset.

If the Group neither transfers nor reserves all risks and rewards of ownership of the financial asset and retains the control over the financial asset, related financial assets and liabilities are recognised to the extent that the transferred financial asset is continuously involved.

When a financial asset transferred meets the derecognition condition, the difference between the carrying amount of the financial asset transferred and the consideration received from the transfer, together with the cumulative gains or losses previously recognised in other comprehensive income, is recognised in profit or loss.

**(4) Classification, recognition and measurement of financial liabilities and equity instruments**

The Group initially recognises a financial instrument or a portion of a financial instrument as financial liabilities or equity instrument in accordance with the contractual terms and the economic nature reflected by the terms, in combination with the definitions of financial liabilities and equity instruments, rather than determined by its legal form solely.

Financial liabilities are classified into two categories at initial recognition: financial liabilities at fair value through profit or loss and other financial liabilities.

The financial liabilities are initially recognised at fair value. In the case of financial liabilities at fair value through profit or loss, the related transaction costs are recognised directly in profit or loss for the current period. For other financial liabilities, the related transaction costs are included in their initially recognised amounts.

**Financial liabilities at fair value through profit or loss**

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated as at fair value through profit or loss.

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**IV Significant accounting policies (Cont'd)**

**6 Financial instruments (Cont'd)**

**(4) Classification, recognition and measurement of financial liabilities and equity instruments (Cont'd)**

Financial liabilities at fair value through profit or loss (Cont'd)

Financial liabilities classified as held for trading include those financial liabilities that meet one of the following conditions: 1) they are acquired principally for the purpose of selling in the near term; 2) they are part of a portfolio of identified financial instruments that are managed together and for which there is objective evidence of a recent pattern of short term profit-taking. Derivatives are also classified as financial liabilities held for trading, unless they are designated as effective hedging.

The criteria for financial liabilities designated as at fair value through profit or loss upon initial recognition is the same with that for financial assets.

Financial liabilities at fair value through profit or loss are subsequently measured at fair value. The gains or losses arising from changes in fair value, together with dividends and interest expenses relating to such financial liabilities shall be recognised in profit or loss for the current period.

Other financial liabilities

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with gains or losses arising from derecognition or amortisation recognised in profit or loss.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are initially recognised based on the actual consideration received less transaction expenses directly attributable to equity transactions. The Group does not recognise the changes in fair value of equity instruments.

The Group recognises the distribution from equity instrument's holders as profit distribution.

**(5) Derecognition of financial liabilities**

The Group derecognises the discharged part of the financial liabilities when the present obligation is wholly or partly discharged. If the Group (the obligor) and a creditor enter into an agreement to replace the existing financial liability with a new financial liability, where the contractual terms for the new financial liability are substantially different from those for the existing financial liability, the Group derecognises the existing financial liability and recognises a new financial liability.

When the Group derecognises a financial liability or a part of it, it recognises the difference between the carrying amount of the derecognised part and the consideration paid (including any non-cash assets transferred or new financial liabilities assumed) in profit or loss.

**(6) Offsetting of financial assets and financial liabilities**

When the Group has a legally enforceable right that is currently enforceable to set off the recognised financial assets and financial liabilities, and when the Group intends either to settle on a net basis or to realise the financial assets and settle the financial liabilities simultaneously, the amount after offsetting of financial assets and financial liabilities are presented in the balance sheet. Otherwise, financial assets and financial liabilities are presented separately in the balance sheet and will not offset each other.

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#### IV Significant accounting policies (Cont'd)

##### 6 Financial instruments (Cont'd)

###### (7) Derivative financial instruments

Derivatives financial instruments are initially measured at fair value at the date the derivative contract is entered into and subsequently at fair value. Changes in fair value of these derivatives are recognised in profit or loss for the current period.

##### 7 Financial assets held under resale agreements and sold under repurchase agreements

Financial assets held under resale agreements are transactions to provide funds in which the Group acquires financial assets to be resold at a predetermined price at a future date under the resale agreements. Financial assets sold under repurchase agreements are transactions in exchange for cash in which the Group sells financial assets to be repurchased at a predetermined price at a future date under the repurchase agreements.

Financial assets held under resale agreements and sold under repurchase agreements are recognised on the balance sheet at the amounts actually paid or received at the time when the transactions occur. The underlying assets in financial assets held under resale agreements are not recognized, while the underlying assets sold under repurchase agreements continue to be recognised on the balance sheet.

The spreads of financial assets held under resale agreements and purchased under resale agreements amortised over the periods of the respective transactions using the effective interest method, and are recognised as interest income and interest expenses respectively.

##### 8 Long-term equity investment

###### (1) Basis for determining existence of control, jointly control or significant influence over investees

Control means having power over an investee, enjoying variable returns through involvement in relevant activities of the investee, and being able to impact the amount of such variable returns by using the power over the investee. Joint control is the contractually agreed sharing of control over an arrangement, and the activities related to such arrangement can be decided only with the unanimous consent of the Group and parties sharing control. Significant influence is the power to participate in making the decisions on financial and operating policies of the investee, but is not control or joint control over making those policies. Other potential voting right elements, such as convertible company bonds and warrants held by investors and other holders that can be excised in the current period, should be considered when deciding whether an investor controls, jointly control or has significant influence over an investee.

###### (2) Determination of investment costs

Long-term equity investments are initially measured at costs. For long-term equity investments acquired in a business combination not under common control, the cost of such investments is determined by the combination cost. For long-term equity investments acquired not through a business combination: for those acquired by payment in cash, the initial investment cost is the purchase price actually paid; for those acquired by issuing equity securities, the initial investment cost is the fair value of the equity securities issued.

###### (3) Subsequent measurement

###### Long-term equity investment accounted for using the cost method

Investments in subsidiaries are calculated by using the cost method. Subsidiaries are the investees over which the Group is able to exercise control.



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**IV Significant accounting policies (Cont'd)**

**8 Long-term equity investment (Cont'd)**

**(3) Subsequent measurement (Cont'd)**

Long-term equity investments accounted for using the cost method (Cont'd)

Long-term equity investments accounted for using the cost method are measured at initial investment cost. The adjustment is applied to the cost of long-term equity investment when additional investments are made or derecognition of such investments occurred. Any cash dividends or distributions received is treated as investment income for the current period.

Long-term equity investment accounted for using the equity method

Investments in associates are accounted for using the equity method. An associate is the investee over which the Group has significant influence on its financial and operating policy decisions.

For long-term equity investments accounted for using the equity method, where the initial investment cost exceeds the Group's share of the fair value of the investee's identifiable net assets at the acquisition date, the long-term equity investment is measured at the initial investment cost; where the initial investment cost is less than the Group's share of the fair value of the investee's identifiable net assets at the acquisition date, the difference is included in profit or loss and the cost of the long-term equity investment is adjusted upwards accordingly.

Under the equity method, investment profit or loss and other comprehensive income represent the Group's share of the net profits or losses or other comprehensive income entitled or shared by the investee separately for the current period, meanwhile adjusting the carrying amount of the long-term equity investment; the carrying amount of the long-term equity investment is reduced by the amount of profit declared or cash dividend entitled or shared by the investee. Any movements of equity are adjusted to the carrying amount of long-term equity investment and capital reserve with the exception of net profit or loss, other comprehensive income and retained earnings shared by investees. The Group recognises its share of the investee's net profits or losses based on the fair values of the investee's individual identifiable assets at the acquisition date, after making appropriate adjustments thereto in conformity with the accounting policies and accounting periods of the Group. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates, determining the investment profit or loss accordingly, except for the unrealised losses that included in the impairment of asset transferred.

The Group's share of net losses of the investee is recognised to the extent that the carrying amount of the long-term equity investments, together with any long-term interests, that in substance form part of the investor's net investment in the investee, is reduced to zero. If the Group has to assume additional losses for the investee and the criteria with respect to recognition of provisions are satisfied, the Group continues recognising the investment losses and the provisions at the amount it expects to undertake. Where the investee records profits in subsequent periods, the Group resumes recognising its share of profits after setting off profits against the unrecognised share of losses.

**9 Fixed assets**

Fixed assets are tangible assets that are held for rendering of services, leasing or operational management, and have useful lives of more than one accounting year, mainly including buildings, transportation vehicles, computers and ancillary equipment, other machinery equipment and construction in progress.

Fixed assets are initially measured at cost. Fixed assets are stated at cost net of any accumulated depreciation and impairment losses. Subsequent expenditures incurred for the property and equipment are included in the cost of the property and equipment if it is probable that the economic benefits associated with the asset will flow to the Group and can be reliably measured, and the carrying amount of the replaced part is derecognised. All the other subsequent expenditures are recognised in profit or loss for the period in which they are incurred.



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#### IV Significant accounting policies (Cont'd)

##### 9 Fixed assets (Cont'd)

Fixed assets are depreciated using the straight-line method over their estimated useful lives since the month subsequent to the one in which it is ready for intended use. The estimated useful lives, the estimated net residual values expressed as a percentage of cost and the annual depreciation rates of various fixed assets are as follows:

	Estimated useful lives	Estimated net residual value	Annual depreciation rate
Buildings	20-30 years	5%	3.17% - 4.75%
Transportation vehicles	5-6 years	5%	15.83%-19.00%
Electronic computers and ancillary equipment	5 years	5%	19.00%
Other machinery and equipment	5-11 years	5%	8.64%-19.00%

Construction in progress is measured at its actual costs, including various construction expenditures during the construction period and other relevant costs. Construction in progress is transferred to a property and equipment when it is ready for its intended use with no depreciation made.

The Group reviews the estimated useful life and estimated net residual value of a fixed asset and the depreciation method applied at least annually at the end of each year, and accounts for any changes as changes in accounting estimates. The amount of proceeds from disposals on sale, transfer, retirement or damage of a fixed asset net of its carrying amount and related taxes and expenses is recognised in profit or loss for the current period.

##### 10 Intangible assets

An intangible asset is measured initially at cost. For an intangible asset with a finite useful life, when it is available for use, its cost less accumulated impairment losses is amortised over its estimated useful life using the straight-line method. The Group's intangible assets include land use rights, computer software and other intangible assets.

The useful lives and amortisation method of the intangible assets with finite useful lives are reviewed by the Group at least at the end of each year, adjusted as appropriate and accounted for as a change in accounting estimate.

##### 11 Operating leases

When the Group is the lessor in an operating lease, the assets subject to the operating lease continue to be recognised as the Group's assets and the rental income under the operating lease is recognised on a straight-line basis over the period of the lease in profit or loss.

When the Group is the lessee in an operating lease, lease expenses are recognised on a straight-line basis over the period of the lease in profit or loss.

Significant initial direct costs are capitalised when incurred and recognised in profit or loss over the lease term on the same basis as lease income. Other smaller initial direct costs are recognised in profit or loss in the period in which they are incurred.

##### 12 Repossessed assets

When the Group seizes assets to compensate for the losses of loans and advances and interest receivable, the repossessed assets are initially recognised at fair value, plus any taxes paid for the seizure of the assets, litigation fees and other expenses incurred for collecting the repossessed assets. If there is indication that the realizable net value of a repossessed asset is less than its carrying amount, the Group decreases the carrying amount to the realizable net value.

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#### **IV Significant accounting policies (Cont'd)**

##### **13 Impairment of non-financial assets**

The Group assesses at each balance sheet date whether there is any indication that long-term equity investments, fixed assets and intangible assets with finite useful lives may be impaired. If there is any indication that an asset may be impaired, the Group evaluates the recoverable amount of the assets. Recoverable amount for asset impairment is estimated on the individual asset basis. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the asset group to which the asset belongs. If the recoverable amount of the asset is lower than its carrying amount, the impairment losses are accrued in line with the difference and recognised in profit or loss.

Once the above asset impairment loss is recognised, it will not be reversed in the subsequent periods.

##### **14 Employee benefit**

Employee benefits refer to various forms of wages and compensation provided by the Group in exchange for service rendered by employee or for termination of employment relationship, which include short-term employee benefits, post-employee benefits and early retirement benefits.

###### **(1) Short-term employee benefits**

Short-term employee benefits include employee wages or salaries, bonuses, staff welfare, premiums or contributions to medical insurance, work injury insurance and maternity insurance programs, housing provident funds, union and employee education expenses. The Group recognises employee benefits as liabilities in the accounting period in which the service is rendered by the employees, with a corresponding charge to the profit or loss for the current period.

###### **(2) Post-employment benefits**

Post-employment benefits include basic pensions, unemployment insurance, supplementary pensions, supplementary medical insurance and supplementary retirement benefits.

Upon approval of the Ministry of Finance and filing at the Ministry of Human Resources and Social Security, employees of the Group become eligible participants in the basic pensions, supplementary pensions, and supplementary medical insurance set up by the Bank.

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#### **IV Significant accounting policies (Cont'd)**

##### **15 Financial guarantees and loan commitments**

Financial guarantee contracts entered into by the Group include letters of credit, letters of guarantee and acceptances. If the guaranteed party defaults on a debt instrument, loan or violates the original or revised terms of other obligations, the financial guarantee contract provides a specified amount of compensation for the loss incurred to the holder of the contract.

Loan commitments represent the irrevocable commitments entered into by the Group, and they are the unused portions of loans contracted for by the Bank.

##### **16 Provisions and contingent liabilities**

A provision is recognised on the balance sheet if, as the result of a past event, the Group has a present legal or constructive obligation that can be reliably estimated and it is probable that an outflow of economic benefits will be required to settle the obligation. A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors pertaining to a contingency such as the risks, uncertainties and time value of money are taken into account as a whole in reaching the best estimate. Where the effect of the time value of money is material, the best estimate is determined by discounting the related future cash outflows.

A potential obligation arising from a past transaction or event whose existence can only be confirmed by the occurrence or non-occurrence of future uncertain events; or a present obligation that arises from past transactions or events where it is not probable that an outflow of economic benefits is required to settle the obligation or the amount of the obligation cannot be measured reliably, is disclosed as a contingent liability unless the probability of outflow of economic benefit is remote.

##### **17 Interest income and expenses**

The amount of interest income and expenses is calculated at amortised cost of relevant financial assets and financial liabilities using the effective interest rate, and recognised in profit or loss for the current period.

When a financial asset is impaired, interest rate used for the calculation of interest income is that used to discount future cash flows when measuring the impairment loss.

The interest income generated during the period in which the Group holds held-to-maturity investment and investment classified as receivables is calculated and recognised in the account of investment income.

##### **18 Fee and commission income**

Fee and commission income is recognised on an accrual basis when the service is rendered.

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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#### IV Significant accounting policies (Cont'd)

##### 19 Income tax

Income tax expenses comprise current income tax and deferred income tax.

###### (1) Current income tax

At the balance sheet date, current income tax liabilities (or assets) for the current and prior periods are measured at the amount expected to be paid (or recovered) under tax laws.

###### (2) Deferred income tax

The Group measures deferred tax assets and liabilities using the balance sheet liability method in accordance with the differences between the carrying amount of certain assets or liabilities and their tax base, or temporary differences between the carrying amounts of those items that are not recognised as assets or liabilities and their tax base that can be determined according to tax laws.

In general, deferred income taxes are recognised for all temporary differences. Deferred tax assets for deductible temporary differences are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

At the balance sheet date, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled as required in the tax law. Current and deferred tax expenses or income are recognised in profit or loss for the period, except when they arise from transactions or events that are directly recognised in other comprehensive income or in shareholders' equity, in which case they are recognised in other comprehensive income or in shareholders' equity.

At the balance sheet date, the Group reviews the carrying amount of the deferred tax assets. If the amount of taxable income is insufficient to deduct the interests of the deferred tax assets in the future, the carrying amounts of deferred tax assets are written down. Such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

###### (3) Offsetting of deferred tax assets and liabilities

Deferred tax assets are offset against deferred tax liabilities if the Group has the legally enforceable right to offset current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity. Otherwise, the balances of deferred tax assets and deferred tax liabilities, and movements therein, are presented separately from each other and are not offset.

## **AGRICULTURAL DEVELOPMENT BANK OF CHINA**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

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#### **IV Significant accounting policies (Cont'd)**

##### **20 Business combinations**

A business combination not involving entities under common control is a business combination in which all of the combining entities are not ultimately controlled by the same party or parties both before and after the combination.

The combination costs refer to the fair values of the assets paid, the liabilities incurred or assumed and the equity securities issued by the acquirer in exchange for the control over the acquiree. The intermediary expenses incurred by the acquirer in respect of auditing, legal services, valuation and consultancy services, etc. and other associated administrative expenses attributable to the business combination are recognised in profit and loss when they are incurred.

The acquirer's identifiable assets, liabilities and contingent liabilities, acquired by the acquirer in a business combination, that meet the recognition criteria are measured at fair value at the acquisition date. Where the cost of combination exceeds the acquirer's interest in the fair value of the acquirer's identifiable net assets, the difference is treated as an asset and recognised as goodwill, which is measured at cost on initial recognition.

##### **21 Fiduciary activities**

The Group usually acts as a manager and entrustee to hold and manage assets for customers in the fiduciary activities. The assets involved in the fiduciary activities are not owned by the Group and are therefore not included in the Group's balance sheet.

##### **22 Preparation of consolidated financial statements**

The consolidation scope of consolidated financial statements is determined on the basis of control, including the Bank, all of its subsidiary and structured entities controlled by the Bank. Where variations in relevant facts and circumstances cause a change of the relevant elements involved in the definition of control, a reassessment will be made.

A subsidiary is consolidated from the date on which the Group obtains control and are de-consolidated from the date that such control ceases. For a subsidiary acquired by the Group, its operating results and cash flows have been included in the consolidated income statements and consolidated cash flow statements since the acquisition date. All subsidiaries controlled by the investment entities under the control of the Group also are consolidated.

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.

In preparing the consolidated financial statements, where the accounting policies and the accounting periods of the Bank and subsidiary are inconsistent, the financial statements of the subsidiary are adjusted in accordance with the accounting policies and the accounting period of the Bank.

All intra-group balances, transactions and unrealised gains on transactions are eliminated in the consolidated financial statements, and the corresponding unrealised losses which are attributable to asset impairment losses in intra-group transactions are not eliminated.

## AGRICULTURAL DEVELOPMENT BANK OF CHINA

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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#### **IV Significant accounting policies (Cont'd)**

##### **23 Related parties**

The only shareholder of the Group is the Ministry of Finance. Enterprises under joint control by the state without other related party relationship are not related parties of the Group. The related parties of the Group mainly include the following:

- (a) The Ministry of Finance;
- (b) The subsidiary of the Bank;
- (c) Associates of the Group;
- (d) Key management personnel of the Group and their immediate family members (key management personnel represent persons authorized and responsible for planning, directing and controlling the corporate activities of the Group).

##### **V Key assumptions and uncertainties in the significant judgments and accounting estimates in the application of accounting policies**

In the application of the accounting policies in Note IV, the Group is required to make judgments, estimates and assumptions about the carrying amounts of items in the financial statements that cannot be measured accurately, due to the uncertainties inherent in its operating activities. These judgments, estimates and assumptions are based on historical experience of the management as well as other factors that are considered to be relevant. Actual results may differ from these estimates.

The judgments, estimates, and assumptions are reviewed periodically on a going concern basis. Revisions to accounting estimates are recognised in the period in which estimates are revised if the revisions affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

At the balance sheet date, the Group needs to make judgments, estimates and assumptions about the amounts of line items in the financial statements, and key areas where there may be a significant risk resulting in significant adjustments in the carrying amounts of assets and liabilities over the next 12 months include:

##### **1 Impairment of loans, investment classified as receivables and held-to-maturity investments**

Individually significant loans, investment classified as receivables and held-to-maturity investments are assessed individually for impairment by the Group. If there is objective evidence that an impairment loss has been incurred, the impairment is recognised and recorded in impairment losses. Objective evidence of impairment includes deterioration in the financial condition of specific borrowers (or specific pools of borrowers) affecting their ability to meet their loan payment obligations, overdue status, financial position of guarantors, updates on the underlying projects, latest valuation results of the collateral, the proposed repayment arrangements by the borrowers or with assistance from relevant institutions, and concessions by the Group that would not otherwise be granted to borrowers for economic or legal reasons relating to their financial difficulties, as well as deterioration in regional economic conditions that are correlated to increasing loan defaults. These judgments are made both during management's regular assessments of loan quality and when other circumstances indicate the possibility that objective evidence of impairment may exist.

Loans, investment classified as receivables and held-to-maturity investments not individually assessed as impaired and individually not significant loans, investment classified as receivables and held-to-maturity investments are assessed for impairment losses on a collective basis. Collective impairment assessment highly relies on judgements. Risk characteristics of the asset portfolios, changes and uncertainties of the macro-economic environment where the Bank operates, and the management of the financial assets on a portfolio basis, are taken into consideration when evaluating the method for impairment estimates.



## **AGRICULTURAL DEVELOPMENT BANK OF CHINA**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

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#### **V Key assumptions and uncertainties in the significant judgments and accounting estimates in the application of accounting policies (Cont'd)**

##### **2 Fair value of financial instruments**

If there is an active market for financial instruments, the fair value of financial instruments is based on the prices within the bid-ask spread that is most representative of fair value in the circumstances, and without any deduction for transaction costs that may occur on sales or disposals. A quoted price is from an active market where price information is readily and regularly available from an exchange, dealer, industry group or pricing service agency and that price information represents actual and regularly occurring orderly transactions.

The fair value of financial instruments that are not quoted in active markets is determined by using valuation techniques. The Group mainly uses the discounted cash flow method. As far as possible, the Group uses only observable market data in its valuation models for determining the fair value of financial instruments; however, there are areas, such as assumptions relating to the credit risk of the Group and its counterparties, weighted average cost of capital, perpetual growth rates, liquidity discounts and comparable company multiples, that require the management to make estimates. Changes in assumptions about these factors could affect the estimated fair values of financial instruments.

##### **3 Taxes**

During the ordinary course of business, there are certain transactions and activities whose ultimate tax effects involve uncertainties. Significant judgment is required from the Group with respect to its tax positions. If the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will affect the amounts of income tax, value-added tax and other taxes in the period in which such a determination is made.



## **AGRICULTURAL DEVELOPMENT BANK OF CHINA**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

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#### **VI Taxation**

##### **1 Enterprise income tax**

Pursuant to the Enterprise Income Tax Law of the People's Republic of China, the applicable enterprise income tax rate is 25% for domestic operations of the Group. Pre-tax deduction items of enterprise income tax are governed by the relevant regulations of the PRC.

The branches of the Bank file tax declarations in accordance with local tax policies, and the taxes are collectively paid by the Head Office when it completes the annual tax settlement. The subsidiary of the Bank files tax declarations and pays taxes as a standalone entity.

##### **2 Value-added tax**

Pursuant to the Circular on Policies relating to Pilot Programs for Transition from Business Tax to Value-added Tax (*Cai Shui* [2016] No. 39) (hereinafter referred to as Circular No. 39) promulgated by the Ministry of Finance and the State Administration of Taxation, the Bank is eligible for electing to adopt the simplified tax method for calculating and paying value-added taxes at 3% for its interest income from agricultural loans and loans to rural areas and farming households. The Bank calculates and pays value-added tax at 3% for its interest income from agriculture-related loans as listed in Circular No. 39, calculates and pays taxes at 6% for taxable income from its principal business operations, including interest income from other loans, fee and commission income, and investment income and applies tax rates of 17%, 11% and 5% where appropriate to other business lines as stipulated under relevant policies.

##### **3 City maintenance and construction tax**

The Group calculates and pays city maintenance and construction tax at 5% and 7% respectively of the amount of its due turnover tax.

##### **4 Educational surcharge**

The Group calculates and pays educational surcharge at 2% and 3% respectively of the amount of its due turnover tax.

#### **VII Holding subsidiaries and the scope of consolidation**

For information on the subsidiary within the scope of consolidation, see Note VIII 10 (1).

# AGRICULTURAL DEVELOPMENT BANK OF CHINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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### VIII Notes to key items in the financial statements

#### 1 Cash and deposits with the Central Bank

	The Group	
	31 December 2018	31 December 2017
Cash in hand	29,358,707,978.73	16,486,017,776.87
Statutory deposit reserve (1)	120,738,610,165.40	129,316,689,460.83
Surplus deposit reserve(2)	38,111,556,136.23	38,746,383,215.07
Foreign exchange deposit reserve	22,777,094.01	41,718,553.89
Total	188,231,651,374.37	184,590,809,006.66

	The Bank	
	31 December 2018	31 December 2017
Cash in hand	115,631,691.06	157,956,883.57
Statutory deposit reserve(1)	120,738,610,165.40	129,316,689,460.83
Surplus deposit reserve (2)	38,111,556,136.23	38,746,383,215.07
Foreign exchange deposit reserve	22,777,094.01	41,718,553.89
Total	158,988,575,086.70	168,262,748,113.36

- (1) The Bank makes deposits to the required reserves maintained by the People's Bank of China as per relevant regulations, and these deposits cannot be used for daily operations of the Bank. The required statutory deposits include institutional deposits, extra-fiscal budget deposits, corporate entity deposit and other deposits. The required reserve ratios are as follows:

Item	The Group and the Bank	
	31 December 2018	31 December 2017
CNY	8.50%	8.50%
Foreign currencies	5.00%	5.00%

- (2) Excess reserve deposits placed with the Central Bank represents the balances with the People's Bank of China that exceed the required reserve deposits, and are mainly used to facilitate settlements and position adjustments among banks.

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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### VIII Notes to key items in the financial statements (Cont'd)

#### 2 Deposits with banks and non-bank financial institutions

	The Group and the Bank	
	31 December 2018	31 December 2017
Deposits with domestic banks	428,993,693,775.53	190,670,041,612.97
Deposits with offshore banks	615,865,041.91	296,809,486.69
Deposits with domestic non-bank financial institutions	3,844,181.57	17,403,718.37
Subtotal	429,613,402,999.01	190,984,254,818.03
Less: Allowances for impairment losses	(1,540,563.87)	(1,564,434.50)
Net balances	429,611,862,435.14	190,982,690,383.53

#### 3 Placements with banks and non-bank financial institutions

	The Group and the Bank	
	31 December 2018	31 December 2017
Placements with domestic banks	179,071,580,000.00	55,973,420,000.00
Placements with domestic non-bank financial institutions	46,550,000,000.00	28,000,000,000.00
Total	225,621,580,000.00	83,973,420,000.00

#### 4 Financial assets at fair value through profit or loss

	The Group	
	31 December 2018	31 December 2017
Financial assets designated as at fair value through profit or loss		
-Equity investments	326,891,577,859.01	366,739,564,565.32
-Assets management plans	-	1,203,866,690.74
Total	326,891,577,859.01	367,943,431,256.06

	The Bank	
	31 December 2018	31 December 2017
Financial assets designated as at fair value through profit or loss		
-Assets management plans	-	1,203,866,690.74

**AGRICULTURAL DEVELOPMENT BANK OF CHINA**

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**VIII Notes to key items in the financial statements (Cont'd)**

**5 Financial assets held under resale agreements**

By types of underlying assets:

	<b>The Group and the Bank</b>	
	<b>31 December 2018</b>	<b>31 December 2017</b>
Debt securities	89,077,859,000.00	211,903,186,000.00

By types of counterparties:

	<b>The Group and the Bank</b>	
	<b>31 December 2018</b>	<b>31 December 2017</b>
Banks	50,999,528,000.00	92,158,405,000.00
Fund and wealth management products	24,385,186,000.00	93,767,134,000.00
Security companies	10,693,250,000.00	19,477,887,000.00
Insurance companies	2,999,895,000.00	6,499,760,000.00
Total	89,077,859,000.00	211,903,186,000.00

**6 Interest receivable**

	<b>The Group</b>	
	<b>31 December 2018</b>	<b>31 December 2017</b>
Loans and advances to customers	9,657,761,494.43	10,507,341,161.16
Held-to-maturity investment	6,684,680,754.79	6,359,995,848.71
Deposits with banks and non-bank financial institutions	2,104,399,951.53	611,058,435.75
Investment classified as receivables	1,748,052,240.42	1,350,457,054.78
Others	377,301,577.15	2,089,232.72
Total	20,572,196,018.32	18,830,941,733.12

	<b>The Bank</b>	
	<b>31 December 2018</b>	<b>31 December 2017</b>
Loans and advances to customers	9,657,761,494.43	10,507,341,161.16
Held-to-maturity investment	6,684,680,754.79	6,359,995,848.71
Deposits with banks and non-bank financial institutions	2,104,399,951.53	611,058,435.75
Investment classified as receivables	1,748,052,240.42	1,350,457,054.78
Others	2,939,932.16	-
Total	20,197,834,373.33	18,828,852,500.40

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**VIII Notes to key items in the financial statements (Cont'd)**

**7 Loans and advances to customers**

(1) Loans and advances to customers are as follows:

	<b>The Group</b>	
	<b>31 December 2018</b>	<b>31 December 2017</b>
Loans and advances to customers		
Loans and advances	5,039,584,935,824.65	4,661,787,773,776.94
Discounted bills	105,161,243,145.53	54,497,721,635.53
Total loans and advances to customers	5,144,746,178,970.18	4,716,285,495,412.47
Less: Allowance for impairment losses	(175,375,781,676.14)	(150,193,217,302.51)
Net balances	4,969,370,397,294.04	4,566,092,278,109.96

	<b>The Bank</b>	
	<b>31 December 2018</b>	<b>31 December 2017</b>
Loans and advances to customers		
Loans and advances	4,984,520,256,384.24	4,601,542,553,096.94
Discounted bills	105,161,243,145.53	54,497,721,635.53
Total loans and advances to customers	5,089,681,499,529.77	4,656,040,274,732.47
Less: Allowance for impairment losses	(173,196,663,353.07)	(148,879,755,772.96)
Net balances	4,916,484,836,176.70	4,507,160,518,959.51

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**VIII Notes to key items in the financial statements (Cont'd)**

**7 Loans and advances to customers (Cont'd)**

**(2) Provision for impairment of loans and advances to customers**

	<b>The Group</b>	
	<b>31 December 2018</b>	<b>31 December 2017</b>
Balance at the beginning of the year	150,193,217,302.51	114,198,058,346.32
Accruals	33,841,349,281.41	42,894,771,333.33
Write-offs	(8,040,025,363.58)	(6,161,904,524.85)
Recovery after write-offs	80,315,070.62	20,227,484.37
Transfer out due to rise in discounted value	(699,074,614.82)	(757,935,336.66)
Balance at the end of the year	<u>175,375,781,676.14</u>	<u>150,193,217,302.51</u>
	<b>The Bank</b>	
	<b>31 December 2018</b>	<b>31 December 2017</b>
Balance at the beginning of the year	148,879,755,772.96	113,711,453,781.22
Accruals	32,975,692,487.89	42,067,914,368.88
Write-offs	(8,040,025,363.58)	(6,161,904,524.85)
Recovery after write-offs	80,315,070.62	20,227,484.37
Transfer-out due to rise in discounted value	(699,074,614.82)	(757,935,336.66)
Balance at the end of the year	<u>173,196,663,353.07</u>	<u>148,879,755,772.96</u>

**AGRICULTURAL DEVELOPMENT BANK OF CHINA**

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**VIII Notes to key items in the financial statements (Cont'd)**

**8 Held-to-maturity investment**

	<b>The Group and the Bank</b>	
	<b>31 December 2018</b>	<b>31 December 2017</b>
Interbank deposits	106,021,949,712.93	92,456,629,274.44
Financial institution bonds	4,796,834,952.75	5,256,972,017.81
<b>Total</b>	<b>110,818,784,665.68</b>	<b>97,713,601,292.25</b>

**9 Investment classified as receivables**

	<b>The Group and the Bank</b>	
	<b>31 December 2018</b>	<b>31 December 2017</b>
Local government bonds	428,288,551,878.92	426,668,629,960.00
Other	-	300,495,872.25
<b>Total</b>	<b>428,288,551,878.92</b>	<b>426,969,125,832.25</b>

**10 Long-term equity investment**

The information of long-term equity investment is as follows:

		<b>The Bank</b>	
		<b>31 December 2018</b>	<b>31 December 2017</b>
Investment in subsidiary	(1)	458,000,000,000.00	458,000,000,000.00
Investment in associates	(2)	1,505,737,889.98	1,546,559,800.49
Others		250,000,000.00	-
<b>Total</b>		<b>459,755,737,889.98</b>	<b>459,546,559,800.49</b>



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**VIII Notes to key items in the financial statements (Cont'd)**

**10 Long-term equity investment (Cont'd)**

The basic information of the Bank's long-term equity investment is as follows:

- (1) The basic information of its subsidiary is as follows:

<b>Name of investee</b>	<b>Place of registration</b>	<b>Nature of business</b>	<b>Registered capital (RMB Million)</b>	<b>Shareholding and voting rights (%) in investees held by the Group</b>
China Agricultural Development Key Construction Fund Co., Ltd.	China	Financial industry	50,000	100%

- (2) The basic information of principal associates are as follows:

<b>Name of investee</b>	<b>Place of registration</b>	<b>Nature of business</b>	<b>Registered capital (RMB Million)</b>	<b>Shareholding and voting rights (%) in investees held by the Group</b>
China Agriculture Industry Development Fund	China	Leasing and business service	4,000	25%
Modern Seed Development Fund	China	Financial industry	1,500	33.33%
Beijing Xiannong Investment Management Co., Ltd.	China	Leasing and business service	20	40.00%

- (3) Movement of Long-term equity investment

	<b>The Group</b>	
	<b>2018</b>	<b>2017</b>
Balance at the beginning of the year	1,546,559,800.49	1,590,419,679.56
Increase in the current year	250,000,000.00	-
Invest income from associates	2,724,389.49	(12,842,056.36)
Share of other comprehensive income in associates	(41,946,300.00)	(27,817,822.71)
Dividend	(1,600,000.00)	(3,200,000.00)
Balance at the end of the year	<u>1,755,737,889.98</u>	<u>1,546,559,800.49</u>
	<b>The Bank</b>	
	<b>2018</b>	<b>2017</b>
Balance at the beginning of the year	459,546,559,800.49	459,590,419,679.56
Increase in the current year	250,000,000.00	-
Invest income from associates	2,724,389.49	(12,842,056.36)
Share of other comprehensive income in associates	(41,946,300.00)	(27,817,822.71)
Dividend	(1,600,000.00)	(3,200,000.00)
Balance at the end of the year	<u>459,755,737,889.98</u>	<u>459,546,559,800.49</u>

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VIII Notes to key items in the financial statements (Cont'd)

11 Fixed assets

The Group and the Bank	Buildings	Transportation vehicles	Computers and ancillary equipment	Others	Construction in progress	Total
<b>Cost</b>						
1 January 2018	17,088,052,245.60	1,637,060,086.54	2,197,072,934.93	3,375,539,031.48	2,674,162,339.01	26,971,886,637.56
Additions	390,048,182.41	141,553,002.33	103,570,279.06	558,460,628.41	1,345,581,297.63	2,539,213,389.84
Transfer in/(out)	151,704,396.23	-	-	-	(151,704,396.23)	-
Decreases	(87,388,237.69)	(767,540,536.49)	(160,949,248.58)	(390,387,098.71)	(976,980,303.80)	(2,383,245,425.27)
31 December 2018	17,542,416,586.55	1,011,072,552.38	2,139,693,965.41	3,543,612,561.18	2,891,058,936.61	27,127,854,602.13
<b>Accumulated depreciation</b>						
1 January 2018	(5,479,123,338.06)	(1,273,787,800.78)	(1,760,112,090.28)	(1,862,874,313.77)	-	(10,375,897,542.89)
Accruals	(557,437,115.67)	(120,633,810.58)	(150,224,691.36)	(443,963,122.96)	-	(1,272,258,740.57)
Decreases	28,578,844.79	586,170,563.24	149,330,007.51	111,515,128.97	-	875,594,544.51
31 December 2018	(6,007,981,608.94)	(808,251,048.12)	(1,761,006,774.13)	(2,195,322,307.76)	-	(10,772,561,738.95)
<b>Provision for impairment loss</b>						
1 January 2018	(2,461,013.54)	-	-	-	(4,087,568.37)	(6,548,581.91)
Accruals	-	-	-	-	-	-
Decreases	564,626.21	-	-	-	-	564,626.21
31 December 2018	(1,896,387.33)	-	-	-	(4,087,568.37)	(5,983,955.70)
<b>Net carrying value</b>						
1 January 2018	11,606,467,894.00	363,272,285.76	436,960,844.65	1,512,664,717.71	2,670,074,770.64	16,589,440,512.76
31 December 2018	11,532,538,590.28	202,821,504.26	378,687,191.28	1,348,290,253.42	2,886,971,368.24	16,349,308,907.48

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VIII Notes to key items in the financial statements (Cont'd)

11 Fixed assets (Cont'd)

The Group and the Bank	Buildings	Transportation vehicles	Computers and ancillary equipment	Others	Construction in progress	Total
<b>Cost</b>						
1 January 2017	15,598,819,575.01	1,639,246,892.25	2,263,786,764.85	3,043,929,871.43	3,690,408,217.82	26,236,191,321.36
Additions	1,686,649,819.79	18,112,318.49	141,839,617.26	529,725,933.48	2,007,223,363.11	4,383,551,052.13
Transfer in/(out)	264,704,031.48	-	-	-	(264,704,031.48)	-
Decreases	(462,121,180.68)	(20,299,124.20)	(208,553,447.18)	(198,116,773.43)	(2,758,765,210.44)	(3,647,855,735.93)
31 December 2017	17,088,052,245.60	1,637,060,086.54	2,197,072,934.93	3,375,539,031.48	2,674,162,339.01	26,971,886,637.56
<b>Accumulated depreciation</b>						
1 January 2017	(5,044,602,065.90)	(1,128,309,508.02)	(1,714,023,499.10)	(1,566,499,332.03)	-	(9,453,434,405.05)
Accruals	(500,807,724.25)	(154,527,723.61)	(185,481,290.82)	(403,686,319.71)	-	(1,244,503,058.39)
Decreases	66,286,452.09	9,049,430.85	139,392,699.64	107,311,337.97	-	322,039,920.55
31 December 2017	(5,479,123,338.06)	(1,273,787,800.78)	(1,760,112,090.28)	(1,862,874,313.77)	-	(10,375,897,542.89)
<b>Provision for impairment loss</b>						
1 January 2017	(10,754,707.47)	-	-	-	(4,087,568.37)	(14,842,275.84)
Accruals	(5,073.63)	-	-	-	-	(5,073.63)
Decreases	8,298,767.56	-	-	-	-	8,298,767.56
31 December 2017	(2,461,013.54)	-	-	-	(4,087,568.37)	(6,548,581.91)
<b>Net carrying value</b>						
1 January 2017	10,543,462,801.64	510,937,384.23	549,763,265.75	1,477,430,539.40	3,686,320,649.45	16,767,914,640.47
31 December 2017	11,606,467,894.00	363,272,285.76	436,960,844.65	1,512,664,717.71	2,670,074,770.64	16,589,440,512.76

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**VIII Notes to key items in the financial statements (Cont'd)**

**12 Intangible assets**

<b>The Group and the Bank</b>	<b>Land use rights</b>	<b>Software</b>	<b>Others</b>	<b>Total</b>
<b>Cost</b>				
1 January 2018	287,329,502.27	846,965,090.90	31,484,926.00	1,165,779,519.17
Additions	52,292,568.56	80,779,581.80	4,341,723.24	137,413,873.60
Decreases	(350,000.00)	(208,307.52)	-	(558,307.52)
31 December 2018	<u>339,272,070.83</u>	<u>927,536,365.18</u>	<u>35,826,649.24</u>	<u>1,302,635,085.25</u>
<b>Accumulated amortisation</b>				
1 January 2018	(41,897,136.46)	(632,631,926.55)	(4,198,098.52)	(678,727,161.53)
Accruals	(12,968,703.09)	(72,149,321.55)	(1,287,359.63)	(86,405,384.27)
Decreases	77,620.83	203,630.79	-	281,251.62
31 December 2018	<u>(54,788,218.72)</u>	<u>(704,577,617.31)</u>	<u>(5,485,458.15)</u>	<u>(764,851,294.18)</u>
<b>Provision for impairment loss</b>				
1 January 2018	(486,744.00)	-	-	(486,744.00)
Accruals	-	-	-	-
Decreases	-	-	-	-
31 December 2018	<u>(486,744.00)</u>	<u>-</u>	<u>-</u>	<u>(486,744.00)</u>
<b>Net carrying value</b>				
01 January 2018	244,945,621.81	214,333,164.35	27,286,827.48	486,565,613.64
31 December 2018	<u>283,997,108.11</u>	<u>222,958,747.87</u>	<u>30,341,191.09</u>	<u>537,297,047.07</u>

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**VIII Notes to key items in the financial statements (Cont'd)**

**12 Intangible assets (Cont'd)**

<b>The Group and the Bank</b>	<b>Land use rights</b>	<b>Software</b>	<b>Others</b>	<b>Total</b>
<b>Cost</b>				
1 January 2017	257,655,607.97	773,312,890.10	23,698,994.90	1,054,667,492.97
Additions	30,693,077.62	74,334,815.80	7,798,331.10	112,826,224.52
Decreases	(1,019,183.32)	(682,615.00)	(12,400.00)	(1,714,198.32)
31 December 2017	<u>287,329,502.27</u>	<u>846,965,090.90</u>	<u>31,484,926.00</u>	<u>1,165,779,519.17</u>
<b>Accumulated amortisation</b>				
1 January 2017	(34,991,308.08)	(554,993,845.19)	(3,167,520.90)	(593,152,674.17)
Accruals	(7,150,900.74)	(78,320,696.36)	(1,030,577.62)	(86,502,174.72)
Decreases	245,072.36	682,615.00	-	927,687.36
31 December 2017	<u>(41,897,136.46)</u>	<u>(632,631,926.55)</u>	<u>(4,198,098.52)</u>	<u>(678,727,161.53)</u>
<b>Provision for impairment loss</b>				
1 January 2017	(486,744.00)	-	-	(486,744.00)
Accruals	-	-	-	-
Decreases	-	-	-	-
31 December 2017	<u>(486,744.00)</u>	<u>-</u>	<u>-</u>	<u>(486,744.00)</u>
<b>Net carrying value</b>				
1 January 2017	222,177,555.89	218,319,044.91	20,531,474.00	461,028,074.80
31 December 2017	<u>244,945,621.81</u>	<u>214,333,164.35</u>	<u>27,286,827.48</u>	<u>486,565,613.64</u>

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**VIII Notes to key items in the financial statements (Cont'd)**

**13 Deferred tax assets and liabilities**

	<b>The Group</b>	
	<b>31 December 2018</b>	<b>31 December 2017</b>
Deferred tax assets	39,481,483,383.35	29,659,098,463.88
Deferred tax liabilities	(166,609,669.70)	(216,974,898.74)
Net balances	<u>39,314,873,713.65</u>	<u>29,442,123,565.14</u>

Deferred tax assets and liabilities which correspond to temporary differences are listed as follows:

<b>The Group</b>	<b>Deductible/(Taxable) temporary differences</b>	<b>Deferred tax assets/(liabilities)</b>
<b>31 December 2018</b>		
<b>Deferred tax assets</b>		
Provision for asset impairment	148,891,112,623.11	37,222,778,155.77
Wages and welfare accrued but not paid	7,527,090,034.63	1,881,772,508.66
Other	1,507,730,875.66	376,932,718.92
Total	<u>157,925,933,533.40</u>	<u>39,481,483,383.35</u>
<b>Deferred tax liabilities</b>		
Accrual for interest income	(659,634,558.98)	(164,908,639.74)
Fair value adjustments	(6,804,119.83)	(1,701,029.96)
Total	<u>(666,438,678.81)</u>	<u>(166,609,669.70)</u>
<b>31 December 2017</b>		
<b>Deferred tax assets</b>		
Provision for asset impairment	113,422,561,590.96	28,355,640,397.74
Wages and welfare accrued but not paid	5,213,832,264.56	1,303,458,066.14
Total	<u>118,636,393,855.52</u>	<u>29,659,098,463.88</u>
<b>Deferred tax liabilities</b>		
Accrual for interest income	(861,095,475.15)	(215,273,868.78)
Fair value adjustments	(6,804,119.83)	(1,701,029.96)
Total	<u>(867,899,594.98)</u>	<u>(216,974,898.74)</u>

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**VIII Notes to key items in the financial statements (Cont'd)**

**13 Deferred tax assets and liabilities (Cont'd)**

	<b>The Bank</b>	
	<b>31 December 2018</b>	<b>31 December 2017</b>
Deferred tax assets	35,540,618,883.35	27,277,643,963.89
Deferred tax liabilities	(166,609,669.70)	(216,974,898.75)
Net balances	<u>35,374,009,213.65</u>	<u>27,060,669,065.14</u>

Deferred tax assets and liabilities which correspond to temporary differences are listed as follows:

**The Bank**

	<b>Deductible/(Taxable) temporary differences</b>	<b>Deferred tax assets/(liabilities)</b>
<b>31 December 2018</b>		
<b>Deferred tax assets</b>		
Provision for asset impairment	133,127,654,623.11	33,281,913,655.77
Wages and welfare accrued but not paid	7,527,090,034.63	1,881,772,508.66
Other	1,507,730,875.66	376,932,718.92
Total	<u>142,162,475,533.40</u>	<u>35,540,618,883.35</u>
<b>Deferred tax liabilities</b>		
Accrual for interest income	(659,634,558.98)	(164,908,639.74)
Fair value adjustments	(6,804,119.83)	(1,701,029.96)
Total	<u>(666,438,678.81)</u>	<u>(166,609,669.70)</u>
<b>31 December 2017</b>		
<b>Deferred tax assets</b>		
Provision for asset impairment	103,896,743,590.96	25,974,185,897.75
Wages and welfare accrued but not paid	5,213,832,264.56	1,303,458,066.14
Total	<u>109,110,575,855.52</u>	<u>27,277,643,963.89</u>
<b>Deferred tax liabilities</b>		
Accrual for interest income	(861,095,475.15)	(215,273,868.79)
Fair value adjustments	(6,804,119.83)	(1,701,029.96)
Total	<u>(867,899,594.98)</u>	<u>(216,974,898.75)</u>



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**VIII Notes to key items in the financial statements (Cont'd)****14 Other assets**

	<b>The Group and the Bank</b>	
	<b>31 December 2018</b>	<b>31 December 2017</b>
Reposessed assets	4,925,393,003.86	4,965,502,276.80
Other receivables	2,320,103,492.63	2,634,925,419.26
Long-term prepaid expenses	2,873,616,327.49	2,706,629,438.29
Others	374,956,540.31	644,805,522.25
Total	10,494,069,364.29	10,951,862,656.60
Less: Provision for impairment of other assets	(4,158,504,141.73)	(1,730,347,451.20)
Net balances	6,335,565,222.56	9,221,515,205.40

The impairment provision for the Group's other assets primarily include impairment provision of reposessed assets and other account receivables.

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VIII

Notes to key items in the financial statements (Cont'd)

15

Provision for asset impairment

The Group

2018	Balance at the beginning of the year	Charge for the year/(write-back)	Write-offs	Recovery after write-offs	Transfer out	Transfer out due to discounted value increase	Balance at the end of the year
Loans and advances to customers	150,193,217,302.51	33,841,349,281.41	(8,040,025,363.58)	80,315,070.62	-	(699,074,614.82)	175,375,781,676.14
Deposits with banks and non-bank financial institutions	1,564,434.50	(23,870.63)	-	-	-	-	1,540,563.87
Fixed assets	6,548,581.91	-	-	-	(564,626.21)	-	5,983,955.70
Intangible assets	486,744.00	-	-	-	-	-	486,744.00
Other assets	1,730,347,451.20	2,449,597,977.90	-	69,900.00	(21,511,187.37)	-	4,158,504,141.73
Total	151,932,164,514.12	36,290,923,388.68	(8,040,025,363.58)	80,384,970.62	(22,075,813.58)	(699,074,614.82)	179,542,297,081.44
2017	Balance at the beginning of the year	Charge for the year/(write-back)	Write-offs	Recovery after write-offs	Transfer out	Transfer out due to discounted value increase	Balance at the end of the year
Loans and advances to customers	114,198,058,346.32	42,894,771,333.33	(6,161,904,524.85)	20,227,484.37	-	(757,935,336.66)	150,193,217,302.51
Deposits with banks and non-bank financial institutions	2,010,407.63	(445,973.13)	-	-	-	-	1,564,434.50
Fixed assets	14,842,275.84	5,073.63	-	-	(8,298,767.56)	-	6,548,581.91
Intangible assets	486,744.00	-	-	-	-	-	486,744.00
Other assets	1,555,428,938.30	203,039,005.12	-	-	(28,120,492.22)	-	1,730,347,451.20
Total	115,770,826,712.09	43,097,369,438.95	(6,161,904,524.85)	20,227,484.37	(36,419,259.78)	(757,935,336.66)	151,932,164,514.12

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VIII

Notes to key items in the financial statements (Cont'd)

15

Provision for asset impairment (Cont'd)

The Bank

2018	Balance at the beginning of the year	Charge for the year/(write-back)	Write-offs	Recovery after write-offs	Transfer out	Transfer out due to discounted value increase	Balance at the end of the year
Loans and advances to customers	148,879,755,772.96	32,975,692,487.89	(8,040,025,363.58)	80,315,070.62	-	(699,074,614.82)	173,196,663,353.07
Deposits with banks and non-bank financial institutions	1,564,434.50	(23,870.63)	-	-	-	-	1,540,563.87
Fixed assets	6,548,581.91	-	-	-	(564,626.21)	-	5,983,955.70
Intangible assets	486,744.00	-	-	-	-	-	486,744.00
Other assets	1,730,347,451.20	2,449,597,977.90	-	69,900.00	(21,511,187.37)	-	4,158,504,141.73
Total	150,618,702,984.57	35,425,266,595.16	(8,040,025,363.58)	80,384,970.62	(22,075,813.58)	(699,074,614.82)	177,363,178,758.37
2017	Balance at the beginning of the year	Charge for the year/(write-back)	Write-offs	Recovery after write-offs	Transfer out	Transfer out due to discounted value increase	Balance at the end of the year
Loans and advances to customers	113,711,453,781.22	42,067,914,368.88	(6,161,904,524.85)	20,227,484.37	-	(757,935,336.66)	148,879,755,772.96
Deposits with banks and non-bank financial institutions	2,010,407.63	(445,973.13)	-	-	-	-	1,564,434.50
Fixed assets	14,842,275.84	5,073.63	-	-	(8,298,767.56)	-	6,548,581.91
Intangible assets	486,744.00	-	-	-	-	-	486,744.00
Other assets	1,555,428,938.30	203,039,005.12	-	-	(28,120,492.22)	-	1,730,347,451.20
Total	115,284,222,146.99	42,270,512,474.50	(6,161,904,524.85)	20,227,484.37	(36,419,259.78)	(757,935,336.66)	150,618,702,984.57

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**VIII Notes to key items in the financial statements (Cont'd)**

**16 Borrowings from the Central Bank**

	<b>The Group and the Bank</b>	
	<b>31 December 2018</b>	<b>31 December 2017</b>
Pledged supplementary loan	406,400,000,000.00	392,200,000,000.00
Policy and liquidity reloan	272,000,000,000.00	302,000,000,000.00
Total	<u>678,400,000,000.00</u>	<u>694,200,000,000.00</u>

**17 Deposits from banks and non-bank financial institutions**

	<b>The Group and the Bank</b>	
	<b>31 December 2018</b>	<b>31 December 2017</b>
Domestic banks	285,237,578,448.87	12,918,983,504.10
Domestic non-bank financial institutions	5,446,334.30	1,479,006,967.60
Total	<u>285,243,024,783.17</u>	<u>14,397,990,471.70</u>

**18 Financial liabilities at fair value through profit or loss**

	<b>The Group and the Bank</b>	
	<b>31 December 2018</b>	<b>31 December 2017</b>
Designated as financial liabilities at fair value through profit or loss		
Including: Client-driven wealth management product	<u>-</u>	<u>1,202,814,246.58</u>

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**VIII Notes to key items in the financial statements (Cont'd)**

**19 Due to customers**

	<b>The Group</b>	
	<b>31 December 2018</b>	<b>31 December 2017</b>
Corporate demand deposits	1,272,596,073,575.93	1,328,568,718,300.72
Corporate time deposits	98,860,078,144.37	93,634,896,372.09
Corporate margin deposits	16,982,942,249.84	15,400,213,777.76
Outward remittance and drafts and telegraphic transfers payable	176,840,431.62	150,138,830.65
<b>Total</b>	<b>1,388,615,934,401.76</b>	<b>1,437,753,967,281.22</b>

	<b>The Bank</b>	
	<b>31 December 2018</b>	<b>31 December 2017</b>
Corporate demand deposits	1,318,916,061,870.55	1,343,777,100,825.45
Corporate time deposits	98,860,078,144.37	93,634,896,372.09
Corporate margin deposits	16,982,942,249.84	15,400,213,777.76
Outward remittance and drafts and telegraphic transfers payable	176,756,040.82	150,138,830.65
<b>Total</b>	<b>1,434,935,838,305.58</b>	<b>1,452,962,349,805.95</b>

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**VIII Notes to key items in the financial statements (Cont'd)**

**20 Employee benefits payable**

	The Group and the Bank	
	31 December 2018	31 December 2017
Short-term employee benefits (1)	8,844,871,039.12	7,553,529,949.40
Post-employment benefits (2)	399,636,978.10	394,418,484.81
Total	9,244,508,017.22	7,947,948,434.21

**(1) Short-term employee benefits**

**The Group and the Bank**

	2018			
	Opening balance	Increased	Decreased	Closing balance
Wages and salaries, bonuses, allowances and subsidies	7,393,720,052.43	11,984,000,004.45	(10,712,843,246.84)	8,664,876,810.04
Employee welfare	-	836,565,623.35	(836,565,623.35)	-
Social insurance	1,025,871.40	538,212,875.06	(537,874,915.28)	1,363,831.18
Including: Medical insurance	961,049.01	479,994,791.45	(479,696,048.89)	1,259,791.57
Employment injury and maternity insurance	15,626.91	46,395,438.81	(46,354,141.15)	56,924.57
Others	49,195.48	11,822,644.80	(11,824,725.24)	47,115.04
Housing funds	12,228,946.92	1,031,692,457.99	(1,031,898,834.30)	12,022,570.61
Labour union fee and Employee education fee	68,319,227.85	418,033,039.80	(427,769,759.20)	58,582,508.45
Other short-term employee benefits	78,235,850.80	177,278,431.31	(147,488,963.27)	108,025,318.84
Total	7,553,529,949.40	14,985,782,431.96	(13,694,441,342.24)	8,844,871,039.12

	2017			
	Opening balance	Increased	Decreased	Closing balance
Wages and salaries, bonuses, allowances and subsidies	5,199,832,946.64	11,687,999,992.54	(9,494,112,886.75)	7,393,720,052.43
Employee welfare	-	781,101,452.39	(781,101,452.39)	-
Social insurance	2,135,680.84	470,391,052.90	(471,500,862.34)	1,025,871.40
Including: Medical insurance	2,059,748.23	418,416,885.04	(419,515,584.26)	961,049.01
Employment injury and maternity insurance	26,737.13	37,392,216.99	(37,403,327.21)	15,626.91
Others	49,195.48	14,581,950.87	(14,581,950.87)	49,195.48
Housing funds	10,193,861.19	960,578,408.33	(958,543,322.60)	12,228,946.92
Labour union fee and Employee education fee	59,808,917.87	378,101,712.75	(369,591,402.77)	68,319,227.85
Other short-term employee benefits	54,880,321.55	154,116,745.40	(130,761,216.15)	78,235,850.80
Total	5,326,851,728.09	14,432,289,364.31	(12,205,611,143.00)	7,553,529,949.40

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**VIII Notes to key items in the financial statements (Cont'd)**

**20 Employee benefits payable (Cont'd)**

(2) Post-employment benefits

**The Group and the Bank**

	2018			
	Opening balance	Increased	Decreased	Closing balance
Basic pensions	21,597,207.69	1,360,295,848.35	(1,359,504,130.49)	22,388,925.55
Unemployment insurance	744,376.11	25,388,929.86	(25,355,108.76)	778,197.21
Supplementary retirement benefits	344,161,638.51	-	(2,045,144.83) (520,952,560.56)	342,116,493.68
Supplementary pensions	6,038,717.94	523,033,412.00		8,119,569.38
Supplementary medical insurance	21,876,544.56	500,799,687.13	(496,442,439.41)	26,233,792.28
Total	394,418,484.81	2,409,517,877.34	(2,404,299,384.05)	399,636,978.10

	2017			
	Opening balance	Increased	Decreased	Closing balance
Basic pensions	21,313,191.83	1,196,835,690.86	(1,196,551,675.00)	21,597,207.69
Unemployment insurance	764,518.24	22,699,396.56	(22,719,538.69)	744,376.11
Supplementary retirement benefits	345,581,791.06	-	(1,420,152.55)	344,161,638.51
Supplementary pensions	1,105,502.48	459,952,127.23	(455,018,911.77)	6,038,717.94
Supplementary medical insurance	17,682,978.96	439,280,027.86	(435,086,462.26)	21,876,544.56
Total	386,447,982.57	2,118,767,242.51	(2,110,796,740.27)	394,418,484.81

**21 Tax payable**

	The Group	
	31 December 2018	31 December 2017
Enterprise income tax	7,943,109,847.96	5,225,503,014.79
Value added tax	1,823,495,341.86	1,567,543,011.71
Others	293,576,454.79	290,930,650.85
Total	10,060,181,644.61	7,083,976,677.35

	The Bank	
	31 December 2018	31 December 2017
Enterprise income tax	6,383,465,663.20	3,732,141,934.22
Value added tax	1,741,708,156.49	1,482,267,268.63
Others	285,397,736.25	282,403,076.55
Total	8,410,571,555.94	5,496,812,279.40



**AGRICULTURAL DEVELOPMENT BANK OF CHINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

(All amounts in RMB Yuan unless otherwise stated)  
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**VIII Notes to key items in the financial statements (Cont'd)**

**22 Interest payable**

	<b>The Group and the Bank</b>	
	<b>31 December 2018</b>	<b>31 December 2017</b>
Interest of debt securities issued	112,320,197,799.89	90,981,642,461.11
Interest of due to customers	2,084,697,339.23	1,682,486,859.20
Others	18,287,884.13	-
<b>Total</b>	<b>114,423,183,023.25</b>	<b>92,664,129,320.31</b>

**23 Provisions**

	<b>The Group and the Bank</b>	
	<b>31 December 2018</b>	<b>31 December 2017</b>
Financial guarantee and loan commitment	9,019,925,959.28	-

Since 2018, the Bank has begun to regularly take stock of its off-balance sheet items, including letters of credit, letters of guarantee, bank acceptances and loan commitments, and accrued provisions as per relevant regulatory requirements.

**24 Debt securities issued**

	<b>The Group and the Bank</b>	
	<b>31 December 2018</b>	<b>31 December 2017</b>
Debt securities issued	4,201,489,087,784.32	3,813,134,606,622.10

Based on national credit, debt securities issued by the Bank are all debenture bond or unsecured bond. As at 31 December 2018 and 31 December 2017, there had been no defaults on any principal, interest or redemption payments regarding debt securities issued by the Group and the Bank. The interest rates for the debt securities issued by the Group were determined with reference to the prevailing market rates in the same periods.

The principal and maturity date of debt securities issued by the Group are as follows:

<b>31 December 2018</b>	<b>The Group and the Bank</b>	
	<b>Principal</b>	<b>Maturity date</b>
Debt securities issued domestically	4,183,650,000,000.00	1-20 Years
Debt securities issued offshore	9,927,931,440.00	2-5 Years
<b>31 December 2017</b>	<b>The Group and the Bank</b>	
	<b>Principal</b>	<b>Maturity date</b>
Debt securities issued domestically	3,811,450,000,000.00	1-20 Years

**AGRICULTURAL DEVELOPMENT BANK OF CHINA**

**NOTES TO THE FINANCIAL STATEMENTS  
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(All amounts in RMB Yuan unless otherwise stated)  
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**VIII Notes to key items in the financial statements (Cont'd)**

**25 Other liabilities**

	<b>The Group and the Bank</b>	
	<b>31 December 2018</b>	<b>31 December 2017</b>
Other payables	1,826,993,441.13	1,606,425,278.56
Deferred income	70,821,386.94	76,509,644.14
Others	441,004,393.21	628,929,664.12
<b>Total</b>	<b>2,338,819,221.28</b>	<b>2,311,864,586.82</b>

**26 Share capital**

<b>The Group and the Bank</b>	<b>31 December 2018 and 31 December 2017</b>	
	<b>Balance</b>	<b>Shareholding ratio</b>
Ministry of Finance of the People's Republic of China	57,000,000,000.00	100%

**27 Capital reserve**

	<b>The Group and the Bank</b>	
	<b>31 December 2018</b>	<b>31 December 2017</b>
Other capital reserve	12,397,525.36	12,397,525.36

**28 Other comprehensive income**

Other comprehensive income movement:

	<b>Share of changes of other comprehensive income in associates</b>
Balance at 1 January 2017	38,542,936.65
Movements during 2017	(27,817,822.71)
Balance at 1 January 2018	10,725,113.94
Movements during 2018	(41,946,300.00)
Balance at 31 December 2018	(31,221,186.06)

# AGRICULTURAL DEVELOPMENT BANK OF CHINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

(All amounts in RMB Yuan unless otherwise stated)  
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### VIII Notes to key items in the financial statements (Cont'd)

#### 29 Surplus reserve

According to relevant laws and regulations, the Group is required to appropriate 10% of net profit, under the Accounting Standards for Business Enterprises, to statutory surplus reserve. When the statutory surplus reserve accounts for more than 50% of the Bank's capital, the Group can cease appropriation. The statutory surplus reserve appropriated by the Group can be used to offset accumulated losses of the Group or to contribute to its capital, with remaining balance being no less than 25% of the share capital of the Group. The Group set aside RMB 1,811,749,290.33 (2017: RMB 1,711,826,414.72) for statutory surplus reserve at 10% of its year-end net profit.

In addition, the Bank can appropriate discretionary surplus reserve upon approval. No surplus reserve had been appropriated by the Bank in 2018 and 2017.

#### 30 General risk reserve

	The Group and the Bank	
	31 December 2018	31 December 2017
General risk reserve	24,000,000,000.00	24,000,000,000.00

Pursuant to the requirement of the Ministry of Finance, in addition to the provision for impairment of assets, the Bank establishes general risk reserve to address unidentified potential impairment losses associated with risk assets.

#### 31 Retained earnings

	The Group	
	2018	2017
Balance at the beginning of the year	42,819,918,270.32	27,413,480,537.82
Add: Net profit for the year ended	18,117,492,903.27	17,118,264,147.22
Less: Appropriation to statutory surplus reserve	(1,811,749,290.33)	(1,711,826,414.72)
Balance at the end of the year	59,125,661,883.26	42,819,918,270.32

	The Bank	
	2018	2017
Balance at the beginning of the year	42,816,186,448.61	27,410,901,079.19
Add: Net profit for the year	18,115,904,147.68	17,116,983,743.80
Less: Appropriation to statutory surplus reserve	(1,811,590,414.77)	(1,711,698,374.38)
Balance at the end of the year	59,120,500,181.52	42,816,186,448.61

**AGRICULTURAL DEVELOPMENT BANK OF CHINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

(All amounts in RMB Yuan unless otherwise stated)  
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**VIII Notes to key items in the financial statements (Cont'd)**

**32 Net interest income**

	<b>The Group</b>	
	<b>2018</b>	<b>2017</b>
Interest income		
Deposits with the Central Bank	2,841,246,648.72	2,513,372,730.73
Deposits with banks and non-bank financial institutions	14,858,960,596.81	6,433,233,247.65
Placements with banks and non-bank financial institutions	4,515,082,417.60	2,375,780,452.13
Financial assets held under resale agreements	4,717,250,558.57	9,985,574,271.98
Loans and advances to customers	227,742,856,000.53	194,610,145,984.50
Subtotal	<u>254,675,396,222.23</u>	<u>215,918,106,686.99</u>
Interest expenses		
Borrowings from the Central Bank	(21,871,627,888.91)	(18,661,414,916.65)
Deposits from banks and non-bank financial institutions	(8,010,803,866.47)	(552,504,953.38)
Placements from banks and non-bank financial institutions	-	(102,948.05)
Debt securities issued	(144,786,098,283.99)	(121,340,332,362.15)
Due to customers	(8,159,043,881.53)	(7,426,587,192.71)
Subtotal	<u>(182,827,573,920.90)</u>	<u>(147,980,942,372.94)</u>
Net interest income	<u>71,847,822,301.33</u>	<u>67,937,164,314.05</u>
Interest income includes:		
Interest income on impaired financial assets	<u>699,074,614.82</u>	<u>757,935,336.66</u>

**AGRICULTURAL DEVELOPMENT BANK OF CHINA**

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(All amounts in RMB Yuan unless otherwise stated)  
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**VIII Notes to key items in the financial statements (Cont'd)**

**32 Net interest income (Cont'd)**

	<b>The Bank</b>	
	<b>2018</b>	<b>2017</b>
Interest income		
Deposits with the Central Bank	2,841,246,648.72	2,513,372,730.73
Deposits with banks and non-bank financial institutions	14,060,299,536.03	6,273,656,647.53
Placements with banks and non-bank financial institutions	4,515,082,417.60	2,375,780,452.13
Financial assets held under resale agreements	4,717,250,558.57	9,985,574,271.98
Loans and advances to customers	226,876,496,459.75	193,702,969,927.97
Subtotal	253,010,375,620.67	214,851,354,030.34
Interest expenses		
Borrowings from the Central Bank	(21,871,627,888.91)	(18,661,414,916.65)
Deposits from banks and non-bank financial institutions	(8,010,803,866.47)	(552,504,953.38)
Placements from banks and non-bank financial institutions	-	(102,948.05)
Debt securities issued	(144,786,098,283.99)	(121,340,332,362.15)
Due to customers	(8,159,043,881.53)	(7,426,587,192.71)
Subtotal	(182,827,573,920.90)	(147,980,942,372.94)
Net Interest Income	70,182,801,699.77	66,870,411,657.40
Interest income includes:		
Interest income on impaired financial assets	699,074,614.82	757,935,336.66

**33 Net income from fees and commissions**

	<b>The Group and the Bank</b>	
	<b>2018</b>	<b>2017</b>
Fee and commission income		
Agent business fees	81,315,063.21	92,586,695.16
Clearing and settlement fee	22,942,866.13	63,368,328.00
Others	215,359,040.47	245,722,185.97
Subtotal	319,616,969.81	401,677,209.13
Fee and commission expenses		
Commission expenses	(164,960,734.15)	(319,048,631.70)
Net fee and commission income	154,656,235.66	82,628,577.43

**VIII Notes to key items in the financial statements (Cont'd)**

**34 Investment income**

	<b>The Group</b>	
	<b>2018</b>	<b>2017</b>
Investment classified as receivables	15,085,986,959.52	12,801,820,194.42
Financial assets at fair value through profit or loss	4,607,637,215.78	4,944,353,626.62
Held-to-maturity investments	4,220,710,125.88	3,576,496,054.06
Others	(26,023,293.70)	(12,842,056.36)
<b>Total</b>	<b>23,888,311,007.48</b>	<b>21,309,827,818.74</b>

	<b>The Bank</b>	
	<b>2018</b>	<b>2017</b>
Investment classified as receivables	15,085,986,959.52	12,801,820,194.42
Financial assets at fair value through profit or loss	-	1,279,578.08
Held-to-maturity investments	4,220,710,125.88	3,576,496,054.06
Others	(26,023,293.70)	(12,842,056.36)
<b>Total</b>	<b>19,280,673,791.70</b>	<b>16,366,753,770.20</b>

**VIII Notes to key items in the financial statements (Cont'd)**

**35 Changes in fair value gains and losses**

	<b>The Group</b>	
	<b>2018</b>	<b>2017</b>
Financial instruments at fair value through profit or loss	5,371,983,206.48	5,146,161,035.55
Foreign exchange derivative product	98,431,141.25	(125,098.78)
<b>Total</b>	<b>5,470,414,347.73</b>	<b>5,146,035,936.77</b>

	<b>The Bank</b>	
	<b>2018</b>	<b>2017</b>
Foreign exchange derivative product	98,431,141.25	(125,098.78)

**36 Taxes and surcharges**

	<b>The Group</b>	
	<b>2018</b>	<b>2017</b>
City maintenance and construction tax	441,846,231.46	375,565,913.95
Educational surcharge	315,095,669.85	269,214,141.36
Others	313,825,660.27	310,642,445.86
<b>Total</b>	<b>1,070,767,561.58</b>	<b>955,422,501.17</b>

	<b>The Bank</b>	
	<b>2018</b>	<b>2017</b>
City maintenance and construction tax	441,846,231.46	375,565,913.95
Educational surcharge	315,095,669.85	269,214,141.36
Others	280,926,183.72	275,540,945.23
<b>Total</b>	<b>1,037,868,085.03</b>	<b>920,321,000.54</b>



**VIII Notes to key items in the financial statements (Cont'd)**

**37 Operation and administrative expenses**

	<b>The Group</b>	
	<b>2018</b>	<b>2017</b>
Staff expenses	17,395,300,309.30	16,551,056,606.82
Management expenses	3,165,920,575.71	3,270,471,267.10
Depreciation and amortisation expenses	1,418,639,682.62	1,410,433,320.78
Electronic equipment maintenance expenses	506,459,956.06	530,662,788.23
Business expenses	627,863,447.36	649,546,984.73
Others	1,143,842,774.66	942,772,663.02
<b>Total</b>	<b>24,258,026,745.71</b>	<b>23,354,943,630.68</b>

**38 Impairment losses on assets**

	<b>The Group</b>	
	<b>2018</b>	<b>2017</b>
Loans and advances to customers	33,841,349,281.41	42,894,771,333.33
Financial guarantees and loan commitments	9,019,925,959.28	-
Repossessed assets	2,449,855,098.03	182,991,947.29
Others	(280,990.76)	19,606,158.33
<b>Total</b>	<b>45,310,849,347.96</b>	<b>43,097,369,438.95</b>

	<b>The Bank</b>	
	<b>2018</b>	<b>2017</b>
Loans and advances to customers	32,975,692,487.89	42,067,914,368.88
Financial guarantees and loan commitments	9,019,925,959.28	-
Repossessed assets	2,449,855,098.03	182,991,947.29
Others	(280,990.76)	19,606,158.33
<b>Total</b>	<b>44,445,192,554.44</b>	<b>42,270,512,474.50</b>

**39 Other operating expenses**

	<b>The Group and the Bank</b>	
	<b>2018</b>	<b>2017</b>
Deposit insurance expenses	246,811,260.93	265,886,431.73
Repossessed assets custodian expenses	11,823,864.28	16,074,700.81
Others	2,190,911.42	50,327,851.58
<b>Total</b>	<b>260,826,036.63</b>	<b>332,288,984.12</b>

**VIII Notes to key items in the financial statements (Cont'd)**

**40 Income tax expense**

	<b>The Group</b>	
	<b>2018</b>	<b>2017</b>
Current income tax expenses	11,284,110,338.39	9,017,446,242.42
Deferred income tax expenses (Notes VIII 13)	(9,872,750,148.51)	(8,834,519,565.78)
<b>Total</b>	<b>1,411,360,189.88</b>	<b>182,926,676.64</b>

	<b>The Group</b>	
	<b>2018</b>	<b>2017</b>
Total profit	19,528,853,093.15	17,301,190,823.86
Income tax expenses calculated at applicable tax rate of 25%	4,882,213,273.29	4,325,297,705.97
Impact of tax-exempt income	(3,757,228,581.19)	(3,420,245,039.75)
Costs, expenses and losses not deductible for tax purposes	214,091,121.42	37,968,694.01
Adjustments on income tax for prior years which affect profit or loss	72,284,376.36	(760,094,683.59)
<b>Income tax expenses</b>	<b>1,411,360,189.88</b>	<b>182,926,676.64</b>

	<b>The Bank</b>	
	<b>2018</b>	<b>2017</b>
Current income tax expenses	9,724,170,753.19	7,514,969,634.62
Deferred income tax expenses (Note VIII 13)	(8,313,340,148.51)	(7,332,469,759.12)
<b>Total</b>	<b>1,410,830,604.68</b>	<b>182,499,875.50</b>

	<b>The Bank</b>	
	<b>2018</b>	<b>2017</b>
Total profit	19,526,734,752.36	17,299,483,619.30
Income tax expenses calculated at applicable tax rate of 25%	4,881,683,688.09	4,324,870,904.83
Impact of tax-exempt income	(3,757,228,581.19)	(3,420,245,039.75)
Costs, expenses and losses not deductible for tax purposes	214,091,121.42	37,968,694.01
Adjustments on income tax for prior years which affect profit or loss	72,284,376.36	(760,094,683.59)
<b>Income tax expenses</b>	<b>1,410,830,604.68</b>	<b>182,499,875.50</b>

**VIII Notes to key items in the financial statements (Cont'd)**

**41 Supplementary information to the cash flow statement**

**(1) Reconciliation from net profit to cash flows from operating activities**

	<b>The Group</b>	
	<b>2018</b>	<b>2017</b>
Net profit	18,117,492,903.27	17,118,264,147.22
Add: Impairment provision on loans	33,841,349,281.41	42,894,771,333.33
Impairment provision on financial guarantees and loan commitment	9,019,925,959.28	-
Impairment provision on repossessed assets	2,449,855,098.03	182,991,947.29
Impairment provision on other assets	(280,990.76)	19,606,158.33
Depreciation and amortisation of fixed assets, intangible assets and long-term prepaid expenses	1,418,639,682.62	1,410,433,320.78
Investment Income	(23,888,311,007.48)	(21,309,827,818.74)
Losses arising from changes in fair value	5,470,414,347.73	5,146,035,936.77
Net gains on disposal of fixed assets, intangible assets and other long-term assets	(211,963,513.94)	(71,264,118.78)
Interest expenses of debt instrument issued	144,786,098,283.99	121,340,332,362.15
Increase in deferred tax assets	(9,872,750,148.51)	(8,834,519,565.78)
Net increase in operating receivables	(842,434,965,570.84)	(656,604,774,872.33)
Net decrease in operating payables	209,477,372,713.16	276,226,594,758.70
Net cash flows from operating activities	<u>(451,827,122,962.04)</u>	<u>(222,481,356,411.06)</u>

	<b>The Bank</b>	
	<b>2018</b>	<b>2017</b>
Net profit	18,115,904,147.68	17,116,983,743.80
Add: Impairment provision on loans	32,975,692,487.89	42,067,914,368.88
Impairment provision on financial guarantees and loan commitment	9,019,925,959.28	-
Impairment provision on repossessed assets	2,449,855,098.03	182,991,947.29
Impairment provision on other assets	(280,990.76)	19,606,158.33
Depreciation and amortisation of fixed assets, intangible assets and long-term prepaid expenses	1,418,639,682.62	1,410,433,320.78
Investment Income	(19,280,673,791.70)	(16,366,753,770.20)
Losses/(Gains) arising from changes in fair value	98,431,141.25	(125,098.78)
Net gains on disposal of fixed assets, intangible assets and other long-term assets	(211,963,513.94)	(71,264,118.78)
Interest expenses of debt instrument issued	144,786,098,283.99	121,340,332,362.15
Increase in deferred tax assets	(8,313,340,148.51)	(7,332,469,759.12)
Net increase in operating receivables	(847,243,234,398.16)	(656,051,581,545.48)
Net decrease in operating payables	240,526,448,401.53	276,286,848,048.84
Net cash flows from operating activities	<u>(425,658,497,640.80)</u>	<u>(221,397,084,342.29)</u>

**VIII Notes to key items in the financial statements (Cont'd)**

**41 Supplementary information to the cash flow statement (Cont'd)**

**(2) Net changes in cash and cash equivalents**

	<b>The Group</b>	
	<b>2018</b>	<b>2017</b>
Cash and cash equivalents at the end of the year	186,153,706,532.10	330,190,075,791.94
Less: Cash and cash equivalents at the beginning of the year	(330,190,075,791.94)	(217,027,211,510.49)
Net (decrease)/increase in cash and cash equivalents	(144,036,369,259.84)	113,162,864,281.45

	<b>The Bank</b>	
	<b>2018</b>	<b>2017</b>
Cash and cash equivalents at the end of the year	156,910,630,244.43	313,862,014,898.64
Less: Cash and cash equivalents at the beginning of the year	(313,862,014,898.64)	(225,586,846,430.49)
Net (decrease)/increase in cash and cash equivalents	(156,951,384,654.21)	88,275,168,468.15

**(3) Cash and cash equivalents presented in the cash flow statement include:**

	<b>The Group</b>	
	<b>31 December 2018</b>	<b>31 December 2017</b>
Cash in hand	29,358,707,978.73	16,486,017,776.87
Banks deposits that can be readily used for payment	38,111,556,136.23	38,746,383,215.07
Within the original maturity of no more than three months:		
Deposits with banks and non-bank financial institutions	12,761,862,417.14	190,984,254,800.00
Placements with banks and non-bank financial institutions	105,921,580,000.00	83,973,420,000.00
Total	186,153,706,532.10	330,190,075,791.94

**VIII Notes to key items in the financial statements (Cont'd)**

**41 Supplementary information to the cash flow statement (Cont'd)**

(3) Cash and cash equivalents presented in the cash flow statement include (Cont'd):

	<b>The Bank</b>	
	<b>31 December 2018</b>	<b>31 December 2017</b>
Cash in hand	115,631,691.06	157,956,883.57
Deposits with the Central Bank that can be used for payment	38,111,556,136.23	38,746,383,215.07
Other cash that can be readily used for payment Within the original maturity of no more than three months:		
Deposits with banks and non-bank financial institutions	12,761,862,417.14	190,984,254,800.00
Placements with banks and non-bank financial institutions	105,921,580,000.00	83,973,420,000.00
Total	<u>156,910,630,244.43</u>	<u>313,862,014,898.64</u>

**42 Interests in structured entities**

In the year 2017, the Group issued and managed several principal-guaranteed wealth management products, and recognised investments and related liabilities of such products respectively into the financial assets and financial liabilities at fair value through profit or loss. As at 31 December 2017, the balance of wealth management products issued and managed by the Group was RMB 1,202,814,246.58, and such products have matured in succession and were cashed in full in 2018.

**IX Segment reporting**

The Bank coordinates and allocates resources at the bank level. Therefore, based on the internal organisational structure, management requirements and internal reporting system, the Bank operates as a whole segment, and thus there is no need to disclose segment information.

**X Related party relationships and transactions**

**1 Ministry of Finance**

The Ministry of Finance holds 100% of the Group's equity. As at 31 December 2018 and 31 December 2017, there were no transactions and ending balance between the Group and the Ministry of Finance.

**2 Transactions with associates**

The transactions with associates take normal trading prices as the pricing base, and are conducted on normal commercial terms.

Equity investments in the suspense account

Associates	<b>Book Value</b>	
	<b>31 December 2018</b>	<b>31 December 2017</b>
Modern Seed Development Fund	500,000,000.00	500,000,000.00
Beijing Xiannong Investment Management Co., Ltd.	25,000,000.00	-

**X Related party relationships and transactions (Cont'd)**

**2 Transactions with associates (Cont'd)**

The Bank appropriates RMB 25 million and 500 million additional capital contribution to Beijing Xiannong Investment Management Co., Ltd., and Modern Seed Development Fund in 2018 and 2017 respectively. As negotiations regarding the additional capital contribution have yet to be completed, the Bank provisionally recorded the capital contributions in other assets.

**3 Key management personnel**

Key management personnel refers those persons who are authorized and responsible to plan, conduct and control the Group's activities. In 2018 and 2017, the Group's transactions and transaction amounts with key management personnel were not significant.

**XI Contingencies and commitments**

**1 Legal proceedings**

As at 31 December 2018, the Group and the Bank were involved in a number of litigations. Management of the Bank believes that the final results of these litigations will not have a material impact on the financial positions or operating results of the Group and the Bank.

**2 Capital commitments**

The Group's capital commitments that are contracted but yet to be presented on the balance sheets as of balance sheets date are as follows:

	<b>The Group and the Bank</b>	
	<b>31 December 2018</b>	<b>31 December 2017</b>
Equity investment	750,000,000.00	-
Fixed assets investment	357,971,023.39	333,006,223.58
Total	<u>1,107,971,023.39</u>	<u>333,006,223.58</u>

**3 Credit commitments**

	<b>The Group and the Bank</b>	
	<b>31 December 2018</b>	<b>31 December 2017</b>
Loan commitments	1,564,795,663,967.32	1,623,999,037,963.77
Guarantee and letters of guarantee issued	-	408,531,769.00
Letters of credit issued	2,562,661,415.71	2,368,443,497.01
Bank acceptance notes	1,727,177,590.00	2,315,267,091.00
Total	<u>1,569,085,502,973.03</u>	<u>1,629,091,280,320.78</u>

## **XII Risk management**

### **1 Target and policy of risk management**

The Group mainly undertakes the agricultural policy-oriented financial business stipulated by the state in accordance with the industrial policy of the Chinese government, and acts as the agent for the financial support of agriculture, serving the agricultural and rural economic development. In accordance with the policy goal, the Group achieves moderate profits on basis of capital level instead of pursuing the maximization of profits. The operating activities of the Group are exposed to various financial risks. The Group identifies, monitors, reports and deals with these financial risks and their combinations in the course of operations. Primary financial risks that the Group is confronted with are credit risk, market risk, operation risk and liquidity risk, among which, exchange rate risk and interest rate risk are included in market risk. The target of the Group is to achieve proper balance between risks and rewards, and reduce the negative impact to the financial reports.

The Group mainly raises funds by issuing financial bonds, and uses the proceeds in asset business to obtain revenues. The Group strives to reduce the cost of capital to increase profits by issuing different types of bonds in accordance with its own asset and liability management requirements and demand for funds.

### **2 Credit risk**

Credit risk is the risk of financial losses caused by default of the debtor or the counterparty. The credit risk of the Group exists mainly in loans and advances to customers, interbank loans, bond investments, bill acceptances, letters of credit, bank guarantees and other on- and off-balance sheet activities.

The Risk Management Department takes the lead in the Bank's enterprise-wide risk management, and the Credit Management Department specialises in managing credit risk. Each and every business department and credit approval department implement risk management policies and standards in their daily operations as per their respective functions and responsibilities, and contribute to risk management by carrying out specific risk control activities before, during and after the loan origination.

The Group continues to make solid improvements to standardising its end-to-end credit management process, step up efforts in the specialisation of key areas in the credit process, including optimization of credit rating and credit limits, credit review and approval, disbursement oversight, post-lending management, and disposal and workout of non-performing assets, and enhance the quality and efficiency of its overall credit risk management.

#### **(i) Loans**

In accordance with *Guidelines for Classification of Loan Risks* (Yin Jian Fa [2007] No. 54) issued by CBRC, the Group has established the credit risk classification system to measure and manage the quality of the Group's credit assets. The Group's five-tier credit risk classification system and the *Guidelines for Classification of Loan Risks* require that the credit assets be classified into the pass, special-mention, substandard, doubtful and loss categories and the last three categories are non-performing loans.

The core definitions of the credit assets in the *Guidelines for Classification of Loan Risks* are:

**Pass:** the borrower is able to perform the contract, and there is no sufficient reason to suspect the timely and full payment of the principal and interest of a loan.

**Special-mention:** although the borrower currently has the ability to pay the principal and interest of a loan, there are some factors which may have unfavorable effect on the payment of the loan.



## **XII Risk management (Cont'd)**

### **2 Credit risk (Cont'd)**

#### **(1) Loans (Cont'd)**

Substandard: the borrower lacks solvency obviously, and the principal and interest of the loan cannot be fully repaid in reliance on the normal income of the borrower. A loss may exist even if the security provided is executed.

Doubtful: the borrower is unable to repay the principal and interest of a loan and significant loss will happen even if the securities provided are executed.

Loss: the principal and interest still cannot be recovered, or, only an extremely small part thereof, can be recovered after all possible measures or all necessary legal actions have been carried out.

#### **(2) Bonds and derivative financial instruments**

The Group manages the credit risk exposure of bonds based on internal rating, and with reference to Standard & Poor's ratings and other similar external ratings. Investment in these bonds is to obtain good credit rating assets and at the same time, maintain sufficient liquidity to satisfy capital demands. The management of financial derivatives' credit risk is incorporated into the unified credit management of customers.

#### **(3) Interbank loans**

The Group conducts regular reviews and management of the credit risk of individual financial institutions. A credit line is set for any bank or non-bank financial institution that has balances with the Group.

#### **(4) Off-balance sheet credit risk exposure**

The Group manages its off-balance sheet credit risk exposures separately by the characteristics of the products. Off-balance sheet credit risk exposures include conditional irrevocable loan commitments, letters of guarantee, bank acceptances, and letters of credit. The Group deems the conditional uncancellable loan commitments, letters of guarantee, bank acceptance and letters of credit also have credit risk, just like loans.

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**XII Risk management (Cont'd)**

**2 Credit risk (Cont'd)**

- (5) Maximum exposures to credit risk before considering collateral held or other credit enhancements

As at the balance sheet date, the information on the maximum exposures of credit risk is set out below:

	<b>The Group</b>	
	<b>31 December 2018</b>	<b>31 December 2017</b>
<b>On-balance sheet items</b>		
Deposits with the Central Bank	158,872,943,395.64	168,104,791,229.79
Deposits with banks and non-bank financial institutions	429,611,862,435.14	190,982,690,383.53
Placements with banks and non-bank financial institutions	225,621,580,000.00	83,973,420,000.00
Financial assets at fair value through profit or loss	326,891,577,859.01	367,943,431,256.06
Financial assets held under resale agreements	89,077,859,000.00	211,903,186,000.00
Loans and advances to customers	4,969,370,397,294.04	4,566,092,278,109.96
Held-to-maturity investments	110,818,784,665.68	97,713,601,292.25
Investment classified as receivables	428,288,551,878.92	426,969,125,832.25
Other financial assets	2,320,103,492.63	2,634,925,419.26
Subtotal	6,740,873,660,021.06	6,116,317,449,523.10
<b>Off-balance sheet items</b>		
Loan commitments	1,564,795,663,967.32	1,623,999,037,963.77
Letters of guarantee issued	-	408,531,769.00
Letter of credit issued	2,562,661,415.71	2,368,443,497.01
Bank acceptance notes	1,727,177,590.00	2,315,267,091.00
Subtotal	1,569,085,502,973.03	1,629,091,280,320.78
<b>Total</b>	<b>8,309,959,162,994.09</b>	<b>7,745,408,729,843.88</b>

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**XII Risk management (Cont'd)**

**2 Credit risk (Cont'd)**

- (5) Maximum exposures to credit risk before considering collaterals held or other credit enhancements (Cont'd)

As at the balance sheet date, the information of maximum exposures of credit risk is set out below:

	<b>The Bank</b>	
	<b>31 December 2018</b>	<b>31 December 2017</b>
<b>On-balance sheet items</b>		
Deposits with the Central Bank	158,872,943,395.64	168,104,791,229.79
Deposits with banks and other financial institutions	429,611,862,435.14	190,982,690,383.53
Placements with banks and other financial institutions	225,621,580,000.00	83,973,420,000.00
Financial assets at fair value through profit or loss	-	1,203,866,690.74
Financial assets held under resale agreements	89,077,859,000.00	211,903,186,000.00
Loans and advances to customers	4,916,484,836,176.70	4,507,160,518,959.51
Held-to-maturity investments	110,818,784,665.68	97,713,601,292.25
Investment classified as receivables	428,288,551,878.92	426,969,125,832.25
Other financial assets	2,320,103,492.63	2,634,925,419.26
<b>Subtotal</b>	<b>6,361,096,521,044.71</b>	<b>5,690,646,125,807.33</b>
<b>Off-balance sheet items</b>		
Loan commitments	1,564,795,663,967.32	1,623,999,037,963.77
Letters of guarantee issued	-	408,531,769.00
Letter of credit issued	2,562,661,415.71	2,368,443,497.01
Bank acceptance notes	1,727,177,590.00	2,315,267,091.00
<b>Subtotal</b>	<b>1,569,085,502,973.03</b>	<b>1,629,091,280,320.78</b>
<b>Total</b>	<b>7,930,182,024,017.74</b>	<b>7,319,737,406,128.11</b>

The table above presents the credit risk exposures of the Group in the worst case scenario as at 31 December 2018 and 2017, i.e., credit risk exposures before considering any collateral or credit enhancement measures. For balance sheet items, the above credit risk exposures are presented using their net carrying amounts in the balance sheet.

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**XII Risk management (Cont'd)**

**2 Credit risk (Cont'd)**

**(6) Loans and advances to customers**

**(a) Analysed by geographical sector concentrations**

	<b>The Group</b>	
	<b>31 December 2018</b>	<b>31 December 2017</b>
Eastern district	1,571,191,548,218.99	1,371,705,222,431.58
Western district	1,440,239,135,020.84	1,300,328,757,778.26
Central district	1,351,264,230,032.03	1,171,556,738,535.31
Northeastern district	782,051,265,698.32	872,694,776,667.32
Total loans and advances to customers	5,144,746,178,970.18	4,716,285,495,412.47

	<b>The Bank</b>	
	<b>31 December 2018</b>	<b>31 December 2017</b>
Eastern district	1,544,264,613,367.77	1,342,770,893,765.67
Western district	1,419,153,463,588.75	1,276,446,391,734.15
Central district	1,344,962,934,590.17	1,164,896,468,500.38
Northeastern district	781,300,487,983.08	871,926,520,732.27
Total loans and advances to customers	5,089,681,499,529.77	4,656,040,274,732.47

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**XII Risk management (Cont'd)**

**2 Credit risk (Cont'd)**

(6) Loans and advances to customers (Cont'd)

(b) Financial assets by customer industries

**The Group**

	<b>31 December 2018</b>	
	<b>Balance</b>	<b>%</b>
Wholesale and retail trade	1,414,007,915,701.39	27.48%
Leasing and commercial services	1,236,975,936,168.25	24.04%
Water conservancy, environment and public facilities management	1,000,748,144,553.41	19.45%
Public transportation, storage and posting	401,235,849,655.72	7.80%
The construction industry	371,804,181,524.06	7.23%
The real estate industry	281,543,861,914.17	5.47%
Manufacturing industry	126,129,217,801.51	2.45%
Public management, social security and social organization	82,916,000,169.66	1.61%
Agriculture, forestry, animal husbandry and fishery industry	68,777,655,673.66	1.34%
Others	55,446,172,662.82	1.09%
Subtotal	5,039,584,935,824.65	97.96%
Discounted bill	105,161,243,145.53	2.04%
Total Loans and advances to customers	5,144,746,178,970.18	100.00%

**The Group**

	<b>31 December 2017</b>	
	<b>Balance</b>	<b>%</b>
Wholesale and retail trade	1,540,086,813,641.77	32.65%
Leasing and commercial services	804,214,207,413.95	17.05%
Water conservancy, environment and public facilities management	982,040,890,289.48	20.82%
Public transportation, storage and posting	409,303,184,710.93	8.68%
The construction industry	325,935,630,202.09	6.91%
The real estate industry	230,504,053,053.62	4.89%
Manufacturing industry	137,937,118,738.06	2.92%
Public management, social security and social organization	125,849,760,133.15	2.67%
Agriculture, forestry, animal husbandry and fishery industry	60,563,807,495.45	1.28%
Others	45,352,308,098.44	0.97%
Subtotal	4,661,787,773,776.94	98.84%
Discounted bill	54,497,721,635.53	1.16%
Total Loans and advances to customers	4,716,285,495,412.47	100.00%

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**XII Risk management (Cont'd)**

**2 Credit risk (Cont'd)**

(6) Loans and advances to customers (Cont'd)

(b) Financial assets by customer industries (Cont'd)

The Bank	31 December 2018	
	Balance	%
Wholesale and retail trade	1,414,007,915,701.39	27.78%
Leasing and commercial services	1,236,975,936,168.25	24.30%
Water conservancy, environment and public facilities management	981,619,491,052.60	19.29%
Public transportation, storage and posting	394,068,150,533.18	7.74%
The construction industry	371,804,181,524.06	7.31%
The real estate industry	261,243,070,925.57	5.13%
Manufacturing industry	120,077,876,155.65	2.36%
Public management, social security and social organisation	82,916,000,169.66	1.63%
Agriculture, forestry, animal husbandry and fishery industry	68,777,655,673.66	1.35%
Others	53,029,978,480.22	1.04%
Subtotal	4,984,520,256,384.24	97.93%
Discounted bill	105,161,243,145.53	2.07%
Total Loans and advances to customers	5,089,681,499,529.77	100.00%

The Bank	31 December 2017	
	Balance	%
Wholesale and retail trade	1,540,086,813,641.77	33.08%
Leasing and commercial services	804,214,207,413.95	17.27%
Water conservancy, environment and public facilities management	961,268,258,908.34	20.65%
Public transportation, storage and posting	401,212,112,396.25	8.62%
The construction industry	325,935,630,202.09	7.00%
The real estate industry	208,195,156,443.09	4.47%
Manufacturing industry	131,328,810,322.09	2.82%
Public management, social security and social organisation	125,849,760,133.15	2.70%
Agriculture, forestry, animal husbandry and fishery industry	60,563,807,495.45	1.30%
Others	42,887,996,140.76	0.92%
Subtotal	4,601,542,553,096.94	98.83%
Discounted bill	54,497,721,635.53	1.17%
Total Loans and advances to customers	4,656,040,274,732.47	100.00%

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**XII Risk management (Cont'd)**

**2 Credit risk (Cont'd)**

**(6) Loans and advances to customers (Cont'd)**

**(c) Analysed by types of collateral**

	<b>The Group</b>	
	<b>31 December 2018</b>	<b>31 December 2017</b>
Unsecured loans	2,176,103,871,953.63	2,228,966,947,547.99
Guaranteed loans	1,215,768,063,466.21	1,076,568,020,520.30
Mortgage loans	531,768,628,717.36	617,459,037,226.39
Pledged loans	1,221,105,614,832.98	793,291,490,117.79
Total Loans and advances to customers	5,144,746,178,970.18	4,716,285,495,412.47

	<b>The Bank</b>	
	<b>31 December 2018</b>	<b>31 December 2017</b>
Unsecured loans	2,152,812,837,183.45	2,200,494,412,165.20
Guaranteed loans	1,202,755,588,922.31	1,062,816,079,922.90
Mortgage loans	526,077,061,425.57	609,571,695,377.65
Pledged loans	1,208,036,011,998.44	783,158,087,266.72
Total Loans and advances to customers	5,089,681,499,529.77	4,656,040,274,732.47

**(d) Loans and advances by overdue and impairment status are as below:**

	<b>The Group</b>	
	<b>31 December 2018</b>	<b>31 December 2017</b>
Neither overdue nor impaired	5,099,368,412,219.08	4,666,878,544,460.82
Overdue but not impaired (i)	3,072,565,026.90	11,589,364,716.23
Impaired (ii)	42,305,201,724.20	37,817,586,235.42
Total	5,144,746,178,970.18	4,716,285,495,412.47
Less: Allowance for impairment losses	(175,375,781,676.14)	(150,193,217,302.51)
Total	4,969,370,397,294.04	4,566,092,278,109.96

	<b>The Bank</b>	
	<b>31 December 2018</b>	<b>31 December 2017</b>
Neither overdue nor impaired	5,044,303,732,778.67	4,606,633,323,780.82
Overdue but not impaired (i)	3,072,565,026.90	11,589,364,716.23
Impaired (ii)	42,305,201,724.20	37,817,586,235.42
Total	5,089,681,499,529.77	4,656,040,274,732.47
Less: Allowance as for impairment losses	(173,196,663,353.07)	(148,879,755,772.96)
Total	4,916,484,836,176.70	4,507,160,518,959.51

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**XII Risk management (Cont'd)**

**2 Credit risk (Cont'd)**

(d) Loans and advances by overdue and impairment status are as below (Cont'd):

(i) Overdue but not impaired

	<b>The Group and The Bank</b>	
	<b>31 December 2018</b>	<b>31 December 2017</b>
Overdue within 1 month	2,105,696,941.12	4,966,653,159.52
Overdue within 1-2 months	966,868,085.78	2,898,641,035.69
Overdue within 2-3 months	-	2,482,570,521.02
Overdue over 3 months	-	1,241,500,000.00
<b>Total</b>	<b>3,072,565,026.90</b>	<b>11,589,364,716.23</b>

(ii) Impaired

	<b>The Group and The Bank</b>	
	<b>31 December 2018</b>	<b>31 December 2017</b>
Impaired	42,305,201,724.20	37,817,586,235.42
Less: Allowance for impairment losses	(24,855,418,824.93)	(21,219,657,754.20)
<b>Total</b>	<b>17,449,782,899.27</b>	<b>16,597,928,481.22</b>



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**XII Risk management (Cont'd)**

**3 Market risk**

Market risk refers to the potential loss in both on and off-balance sheet businesses of a bank caused by adverse changes of market prices (interest rates, exchange rates, goods prices and stock prices). The market risks exist in the Group's proprietary trading activities and agency trading.

Exchange rate risk refers to the risk of loss due to changes in exchanges rates on its foreign exchange positions assumed as a result of transactions involving assets and liabilities denominated in foreign currencies. The mismatches between the repricing date of interest-bearing assets and interest-bearing liabilities are the main cause of the interest rate risk.

**(1) Interest rate risk**

Interest rate risk refers to the risk of loss due to uncertainties arising from changes in market interest rates, and mainly includes gap risk, basis risk, and option risk. Of these three types, the basis risk is currently the main risk, and a common risk among banks. Currently, the Bank mainly uses interest rate sensitivity analysis to measure and analyse the impact of interest rate changes on the Bank's income and economic value for the current period. As interest rates become further market-driven, the banking industry will face increasingly greater interest rate risk, and all asset and liability business lines will be subject to interest risk arising from market interest rate fluctuations.

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XII Risk management (Cont'd)

3 Market risk (Cont'd)

(1) Interest rate risk (Cont'd)

Repricing gap analysis

The Group's exposures to interest rate risk from financial instruments at carrying amount by the earlier of contractual repricing or maturity dates are analysed as follows:

The Group	Within 1 year	1 to 5 years	Over 5 years	Non-Interest bearing	Total
31 December 2018					
Financial assets:					
Cash and deposits with the Central Bank	188,231,651,374.37	-	-	-	188,231,651,374.37
Deposits with banks and non-bank financial institutions	429,611,862,435.14	-	-	-	429,611,862,435.14
Placements with banks and non-bank financial institutions	225,621,580,000.00	-	-	-	225,621,580,000.00
Financial assets at fair value through profit or loss	25,922,751.50	3,198,040,887.42	323,667,614,220.09	-	326,891,577,859.01
Financial assets held under resale agreements	89,077,859,000.00	-	-	-	89,077,859,000.00
Loans and advances to customers	4,969,353,859,162.52	-	-	16,538,131.52	4,969,370,397,294.04
Held-to-maturity investments	106,021,949,712.93	-	4,796,834,952.75	-	110,818,784,665.68
Investment classified as receivables	40,396,740,000.00	242,859,231,878.92	145,033,580,000.00	-	428,288,551,878.92
Interest receivable	-	-	-	20,572,196,018.32	20,572,196,018.32
Total Financial assets	6,048,340,424,436.46	246,057,272,766.34	473,498,029,172.84	20,588,734,149.84	6,788,484,460,525.48

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XII Risk management (Cont'd)

3 Market risk (Cont'd)

(1) Interest rate risk (Cont'd)

Repricing gap analysis (Cont'd)

The Group (Cont'd)	Within 1 year	1 to 5 years	Over 5 years	Non-interest bearing	Total
31 December 2018					
Financial liabilities:					
Borrowings from the Central Bank	586,000,000,000.00	92,400,000,000.00	-	-	678,400,000,000.00
Deposits from banks and non-bank financial institutions	285,243,024,783.17	-	-	-	285,243,024,783.17
Derivative financial liabilities	-	-	-	275,800,289.42	275,800,289.42
Due to customers	1,361,909,474,792.73	6,729,679,933.49	-	19,976,779,675.54	1,388,615,934,401.76
Debt securities issued	945,661,030,530.09	1,989,071,879,034.71	1,266,756,178,219.52	-	4,201,489,087,784.32
Interest payable	-	-	-	114,423,183,023.25	114,423,183,023.25
Total Financial liabilities	3,178,813,530,105.99	2,088,201,558,968.20	1,266,756,178,219.52	134,675,762,988.21	6,668,447,030,281.92
Total Interest repricing gap	2,869,526,894,330.47	(1,842,144,286,201.86)	(793,258,149,046.68)	(114,087,028,838.37)	120,037,430,243.56
31 December 2017					
Total Financial assets	5,344,935,553,103.53	218,386,532,198.53	566,829,880,216.85	18,850,359,002.59	6,149,002,324,521.50
Total Financial liabilities	2,989,092,590,834.23	1,839,848,188,245.24	1,113,483,914,175.60	110,928,814,686.84	6,053,353,507,941.91
Total Interest repricing gap	2,355,842,962,269.30	(1,621,461,656,046.71)	(546,654,033,958.75)	(92,078,455,684.25)	95,648,816,579.59

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**XII Risk management (Cont'd)**

**3 Market risk (Cont'd)**

**(1) Interest rate risk (Cont'd)**

Repricing gap analysis (Cont'd)

The Group's exposures to interest rate risk from financial instruments at carrying amount by the earlier of contractual repricing or maturity dates are analysed as follows:

The Bank	Within 1 year	1 to 5 years	Over 5 years	Non-interest bearing	Total
31 December 2018					
Financial assets:					
Cash and deposits with the Central Bank	158,988,575,086.70	-	-	-	158,988,575,086.70
Deposits with banks and non-bank financial institutions	429,611,862,435.14	-	-	-	429,611,862,435.14
Investments with banks and non-bank financial institutions	225,621,580,000.00	-	-	-	225,621,580,000.00
Financial assets held under resale agreements	89,077,859,000.00	-	-	-	89,077,859,000.00
Loans and advances to customers	4,916,468,473,325.74	-	-	16,362,850.96	4,916,484,836,176.70
Held-to-maturity investments	106,021,949,712.93	-	4,796,834,952.75	-	110,818,784,665.68
Investment classified as receivables	40,395,740,000.00	242,859,231,878.92	145,033,580,000.00	-	428,288,551,878.92
Interest receivable	-	-	-	20,197,834,373.33	20,197,834,373.33
Total Financial assets	5,966,186,039,560.51	242,859,231,878.92	149,830,414,952.75	20,214,197,224.29	6,379,089,883,616.47

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<b>XII</b>	<b>Risk management (Cont'd)</b>					
<b>3</b>	<b>Market risk (Cont'd)</b>					
(1)	Interest rate risk (Cont'd)					
	Repricing gap analysis (Cont'd)					
	<b>The Bank (Cont'd)</b>	<b>Within 1 year</b>	<b>1 to 5 years</b>	<b>Over 5 years</b>	<b>Non-interest bearing</b>	<b>Total</b>
	31 December 2018					
	Financial liabilities:					
	Borrowings from the Central Bank	586,000,000,000.00	92,400,000,000.00	-	-	678,400,000,000.00
	Deposits from banks and non-bank financial institutions	285,243,024,783.17	-	-	-	285,243,024,783.17
	Derivative financial liabilities	-	-	-	275,800,289.42	275,800,289.42
	Due to customers	1,371,395,564,552.85	3,663,494,077.19	-	59,876,779,675.54	1,434,935,838,305.58
	Debt securities issued	945,661,030,530.09	1,989,071,879,034.71	1,266,756,178,219.52	-	4,201,489,087,784.32
	Interest payable	-	-	-	114,423,183,023.25	114,423,183,023.25
	Total Financial liabilities	3,188,299,619,866.11	2,085,135,373,111.90	1,266,756,178,219.52	174,575,762,988.21	6,714,766,934,185.74
	Total Interest repricing gap	2,777,886,419,694.40	(1,842,276,141,232.98)	(1,116,925,763,266.77)	(154,361,565,763.92)	(335,677,050,569.27)
	31 December 2017					
	Total Financial assets	5,269,675,946,570.62	216,176,225,832.25	202,300,622,017.81	18,848,056,259.03	5,707,000,850,679.71
	Total Financial liabilities	3,004,300,973,358.96	1,839,848,188,245.24	1,113,483,914,175.60	110,928,814,686.84	6,068,561,890,466.64
	Total Interest repricing gap	2,265,374,973,211.66	(1,623,671,962,412.99)	(911,183,292,157.79)	(92,080,758,427.81)	(361,561,039,786.93)

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#### **XII Risk management (Cont'd)**

##### **3 Market risk (Cont'd)**

###### **(2) Foreign exchange risk**

The Group is exposed to exchange rate risks arising from changes in foreign exchange rates, which will affect its financial position and cash flow.

The majority of the Group's businesses are denominated in Renminbi, with small-scale operations denominated in US dollars, Euros and other foreign currencies. Through purchasing foreign currency swaps, the Group's exchange rate risk is mainly concentrated on USD. The Group has used exchange rate derivatives to hedge some of its USD exposures.

The Group measures the impact of exchange rate changes on its operations principally by using foreign currency exposures, exchange rate sensitivity analysis and tries to mitigate the exchange rate risk by actively adjusting its asset and liability structure and adopting hedging strategies in its transactions.

##### **4 Liquidity risk**

Liquidity risk is the risk that the Group is unable to fund its current obligations to deliver cash or other financial assets. Liquidity risk arises when the overall asset and liability structure or the maturity structure become unbalanced, the Bank does not have sufficient liquidity reserve, and the Bank cannot obtain the funds needed at reasonable cost in a timely manner, so as not to have sufficient cash to pay to its clients, and when it becomes serious, it may lead to the risk of bank runs. Adverse factors that may affect the liquidity of the Group mainly include: significant increase in the demand for credit, large-scale fulfillments of loan commitments, significant decrease in deposits, and difficulties in recovering loans when due, among others. In addition, other factors may adversely affect the liquidity of the Group, including adjustments of required reserve ratios by the People's Bank of China, drastic changes of interest rates domestically and offshore, and funding difficulties in monetary markets.

The Group, in light of its funding and asset/liability positions, adopts various ratios (including but not limited to liquidity ratio and liquidity coverage ratio) to monitor and manage its liquidity risk. The Group has initially put in place emergency response and early warning measures to mitigate its liquidity risk, and report the latest changes in its liquidity position to the senior management in a timely manner. The Group has the ability to ensure sufficient liquidity to meet its funding needs, including its obligations for matured debts and its asset business growth.

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### XII Risk management (Cont'd)

#### 4 Liquidity risk (Cont'd)

#### Liquidity analysis of financial instruments (Cont'd)

The Group's undiscounted cash flows of non-derivative and derivative financial instruments (settled in net or gross) by maturities in contracts are analysed as follows. The cash flows of financial instruments estimated by the Group may be significantly different from the analysis below:

The Group	Overdue/indefinite	Repayable on demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
31 December 2018								
Non-derivative financial assets								
Cash and deposits with the Central Bank	-	67,470,264,114.96	-	-	120,761,387,259.41	-	-	188,231,651,374.37
Deposits with banks and non-bank financial institutions	-	1,761,862,417.14	-	11,000,000,000.00	416,850,000,018.00	-	-	429,611,862,435.14
Placements with banks and non-bank financial institutions	-	-	73,250,000,000.00	32,671,580,000.00	119,700,000,000.00	-	-	225,621,580,000.00
Financial assets at fair value	-	-	-	-	25,922,751.50	3,198,040,887.42	323,667,614,220.09	326,891,577,859.01
Financial assets held through profit or loss	-	-	-	-	-	-	-	-
Financial assets held under resale agreements	-	-	75,522,671,000.00	13,555,188,000.00	-	-	-	89,077,859,000.00
Loans and advances to customers	20,901,690,387.80	-	35,650,357,935.39	51,156,189,372.14	2,164,719,708,608.34	950,011,616,591.29	1,746,930,834,399.08	4,969,370,397,294.04
Held-to-maturity investments	-	-	50,794,921,891.59	44,271,260,354.53	10,955,767,466.81	-	4,796,834,952.75	110,818,784,665.68
Investment classified as receivables	-	-	-	7,878,430,000.00	32,517,310,000.00	242,859,231,878.92	145,033,580,000.00	428,288,551,878.92
Interest receivables	-	20,572,196,018.32	-	-	-	-	-	20,572,196,018.32
Total non-derivative financial assets	20,901,690,387.80	89,804,322,550.42	235,217,950,826.98	160,532,647,726.67	2,865,530,096,104.06	1,196,068,889,357.63	2,220,428,863,571.92	6,788,484,460,525.48

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XII Risk management (Cont'd)

4 Liquidity risk (Cont'd)

Liquidity analysis of financial instruments (Cont'd)

The Group (Cont'd)	Overdue/Indefinite	Repayable on demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
31 December 2018								
Non-derivative financial liabilities								
Borrowings from the Central Bank	-	-	7,100,000,000.00	18,000,000,000.00	560,900,000,000.00	92,400,000,000.00	-	678,400,000,000.00
Deposits from banks and non- bank financial institutions	-	238,024,783.17	-	-	285,005,000,000.00	-	-	285,243,024,783.17
Due to customers	-	1,297,928,916,247.43	9,519,949,581.95	16,281,430,779.12	52,104,644,528.37	12,655,243,264.89	125,750,000.00	1,388,616,534,401.76
Debt securities issued	-	-	83,064,010,169.40	190,256,614,136.20	482,352,793,797.98	2,066,873,039,172.20	1,378,942,630,508.54	4,201,489,087,784.32
Interest payable	-	114,423,183,023.25	-	-	-	-	-	114,423,183,023.25
Total non-derivative financial liabilities	-	1,412,590,124,053.85	99,683,959,751.35	224,538,044,915.32	1,380,362,438,326.35	2,171,928,282,437.09	1,379,068,380,508.54	6,668,171,229,992.50
Net position	20,901,690,387.80	(1,322,785,801,503.43)	135,533,991,075.63	(64,005,397,188.65)	1,495,167,657,777.71	(975,859,393,079.46)	841,360,489,063.38	120,313,230,532.98
31 December 2017								
Total non-derivative financial assets	28,489,274,069.43	79,749,899,799.33	384,153,348,676.21	221,312,311,076.29	2,363,016,425,610.39	1,115,378,547,049.21	1,956,899,677,332.97	6,148,999,483,613.83
Total non-derivative financial liabilities	-	1,457,261,909,353.88	116,891,326,330.49	101,982,897,393.19	1,232,827,629,062.08	1,918,743,187,985.14	1,225,646,457,817.13	6,053,353,507,941.91
Net position	28,489,274,069.43	(1,377,512,009,554.55)	267,262,022,345.72	119,329,313,683.10	1,130,188,796,548.31	(803,364,640,935.93)	731,253,219,515.84	95,645,975,671.92



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### XII Risk management (Cont'd)

#### 4 Liquidity risk (Cont'd)

#### Liquidity analysis of financial instruments (Cont'd)

The Group's undiscounted cash flows of non-derivative and derivative financial instruments (settled in net or gross) by maturities in contracts are analysed as follows. The cash flows of financial instruments estimated by the Group may be significantly different from the analysis below:

The Bank	Overdue/indefinite	Repayable on demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
31 December 2018								
Non-derivative financial assets								
Cash and deposits with the Central Bank	-	38,227,187,827.29	-	-	120,761,387,259.41	-	-	158,988,575,086.70
Deposits with banks and non-bank financial institutions	-	1,761,862,417.14	-	11,000,000,000.00	416,850,000,018.00	-	-	429,611,862,435.14
Placements with bank financial institutions	-	-	-	-	-	-	-	-
Financial assets held under resale agreements	-	-	73,250,000,000.00	32,671,580,000.00	119,700,000,000.00	-	-	225,621,580,000.00
Loans and advances to customers	20,430,181,776.28	-	75,522,671,000.00	13,555,188,000.00	-	-	-	89,077,859,000.00
Hold-to-maturity investments	-	-	35,278,641,580.21	50,622,304,371.19	2,141,794,890,762.50	939,942,887,214.78	1,728,415,930,471.74	4,916,484,836,176.70
Investment classified as receivables	-	-	50,794,921,891.59	44,271,260,354.53	10,955,767,466.81	-	4,796,834,952.75	110,818,784,665.68
Interest receivables	-	-	-	7,878,430,000.00	32,517,310,000.00	242,859,231,878.92	145,033,580,000.00	428,288,551,878.92
	-	20,197,834,373.33	-	-	-	-	-	20,197,834,373.33
Total non-derivative assets	20,430,181,776.28	60,186,884,617.76	234,846,234,471.80	159,998,762,725.72	2,842,579,355,506.72	1,182,802,119,093.70	1,878,246,345,424.49	6,379,089,883,616.47

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XII Risk management (Cont'd)

4 Liquidity risk (Cont'd)

Liquidity analysis of financial instruments (Cont'd)

The Bank (Cont'd)	Overdue/Indefinite	Repayable on demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
31 December 2018								
Non-derivative financial liabilities								
Borrowings from the Central Bank	-	-	7,100,000,000.00	18,000,000,000.00	560,900,000,000.00	92,400,000,000.00	-	678,400,000,000.00
Deposits from banks and other financial institutions	-	238,024,783.17	-	-	285,005,000,000.00	-	-	285,243,024,783.17
Due to customers	-	1,344,248,820,151.25	9,519,949,581.95	16,281,430,779.12	52,104,644,528.37	12,655,243,264.89	125,750,000.00	1,434,935,838,305.58
Debt securities issued	-	-	83,064,010,169.40	130,255,614,136.20	482,352,793,797.98	2,065,873,039,172.20	1,378,942,630,508.54	4,201,488,087,784.32
Interest payable	-	114,423,183,023.25	-	-	-	-	-	114,423,183,023.25
Total non-derivative financial liabilities	-	1,458,910,027,957.67	99,683,959,751.35	224,538,044,915.32	1,380,362,438,326.35	2,171,928,282,437.09	1,379,068,380,508.54	6,714,491,133,896.32
Net position	20,430,181,776.28	(1,398,723,143,335.91)	135,162,274,720.45	(64,539,282,189.60)	1,462,216,917,180.37	(988,126,163,343.39)	499,177,964,915.95	(335,401,250,279.85)
31 December 2017								
Total non-derivative financial assets	27,863,927,559.94	63,419,749,688.03	383,802,743,455.08	220,705,141,979.62	2,335,063,387,284.30	1,101,639,204,456.47	1,574,503,855,348.60	5,706,998,009,772.04
Total non-derivative financial liabilities	-	1,472,470,291,878.61	116,891,326,330.49	101,982,997,393.19	1,232,827,629,062.08	1,918,743,187,965.14	1,225,646,457,817.13	6,068,561,890,466.64
Net position	27,863,927,559.94	(1,409,050,542,190.58)	266,911,417,124.59	118,722,144,586.43	1,102,235,758,222.22	(817,103,983,528.67)	348,857,397,531.47	(361,563,880,694.60)

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XII Risk management (Cont'd)

4 Liquidity risk (Cont'd)

Off-balance sheet items

Loan commitments, letters of guarantee issued, bank acceptance notes and letters of credit issued by maturities in contacts are analysed as follows:

The Group and The Bank	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
31 December 2018						
Loan commitments	28,690,250,960.38	521,895,891.79	111,092,366,468.32	54,690,472,193.66	1,369,800,678,453.17	1,564,795,663,967.32
Bank acceptance notes	240,897,590.00	647,400,000.00	838,880,000.00	-	-	1,727,177,590.00
Letters of credit issued	1,242,985,867.03	890,397,004.89	429,278,543.79	-	-	2,562,661,415.71
Total	30,174,134,417.41	2,059,692,896.68	112,360,525,012.11	54,690,472,193.66	1,369,800,678,453.17	1,569,085,502,973.03
31 December 2017	21,114,290,473.36	7,637,694,077.76	104,141,596,799.38	76,738,222,522.43	1,419,459,476,447.85	1,629,091,280,320.78

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**XII Risk management (Cont'd)**

**5 Fair value of financial assets and liabilities**

The best evidence of the fair value of a financial instrument is the unadjusted quoted prices in active markets for identical assets or liabilities. When quoted prices in active markets are unavailable, the Group uses valuation techniques to determine the fair value of its financial instruments. The valuation techniques maximize the use of observable market data and minimize the reliance on the Group's own data, i.e., the valuation techniques used by the Group comprehensively consider all the factors that market participants consider in their pricing process, while remaining consistent with generally accepted economic theories for financial instrument pricing.

Financial instruments at fair value are classified into the following three levels of measurement hierarchy:

Level 1: Fair value is determined based on quoted market prices (unadjusted) in active markets assets or liabilities.

Level 2: Fair value based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3: Fair value based on inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

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**XII Risk management (Cont'd)**

**5 Fair value of financial assets and liabilities (Cont'd)**

**(1) Financial instruments measured at fair value**

The Group's financial instruments by fair value hierarchy level are analysed as follows:

The Group	Level 1	Level 2	Level 3	Total
31 December 2018				
Financial assets				
Financial assets designated as at fair value through profit or loss				
-Equity investment	-	-	326,891,577,859.01	326,891,577,859.01
Derivative financial liabilities				
-Exchange rate derivatives	-	275,800,289.42	-	275,800,289.42
The Group	Level 1	Level 2	Level 3	Total
31 December 2017				
Financial assets				
Financial assets designated as at fair value through profit or loss				
-Equity investment	-	-	366,739,564,565.32	366,739,564,565.32
-Asset management plan	-	-	1,203,866,690.74	1,203,866,690.74
Derivative financial assets				
-Exchange rate derivatives	-	2,840,907.67	-	2,840,907.67
Total	-	2,840,907.67	367,943,431,256.06	367,946,272,163.73
Financial liabilities				
Financial liabilities at fair value through profit or loss				
-Client-driven wealth management product	-	-	1,202,814,246.58	1,202,814,246.58

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**XII Risk management (Cont'd)**

**5 Fair value of financial assets and liabilities (Cont'd)**

**(1) Financial instruments measured at fair value (Cont'd)**

The Bank	Level 1	Level 2	Level 3	Total
31 December 2018				
Derivative financial liabilities				
-Exchange rate derivatives	-	275,800,289.42	-	275,800,289.42
The Bank	Level 1	Level 2	Level 3	Total
31 December 2017				
Financial assets				
Financial assets designated as at fair value through profit or loss				
-Asset management plans	-	-	1,203,866,690.74	1,203,866,690.74
Derivative financial assets				
-Exchange rate derivatives	-	2,840,907.67	-	2,840,907.67
Total	-	2,840,907.67	1,203,866,690.74	1,206,707,598.41
Financial liabilities				
Financial liabilities at fair value through profit or loss				
-Client-driven wealth management product	-	-	1,202,814,246.58	1,202,814,246.58

As at 31 December 2018 and 2017, there had been no significant movements of financial instruments between Level 1 and Level 2.

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**XII Risk management (Cont'd)****5 Fair value of financial assets and liabilities (Cont'd)****(2) Financial instruments not measured at fair value through profit or loss**

Financial assets and liabilities not measured at fair value through profit or loss on balance sheet mainly include: cash and deposits with the Central Bank, deposits with bank and non-bank institutions, placement with bank and non-bank institutions, financial assets held under repurchase agreement, interest receivables, loans and advances to customers, held-to-maturity investment, investment classified as receivables, borrowing from the Central Bank, placement from bank and non-bank institutions, due to customers, debt securities issued and interest payable.

The table below presents the book value and corresponding fair value of held-to-maturity investment, investment classified as receivables and debt securities issued. The following financial assets and liabilities both belong to the level 2.

**The Group and The Bank**

<b>31 December 2018</b>		
	<b>Carrying amount</b>	<b>Fair value</b>
Held-to-maturity investment	111,250,000,000.00	111,274,184,000.00
Investment classified as receivables	428,288,550,000.00	424,601,581,939.48
Debt securities issued	4,201,489,087,784.32	4,253,596,990,443.60
<b>31 December 2017</b>		
	<b>Carrying amount</b>	<b>Fair value</b>
Held-to-maturity investment	98,060,000,000.00	97,884,355,600.00
Investment classified as receivables	426,969,125,872.25	405,382,085,381.25
Debt securities issued	3,813,134,606,622.10	3,691,243,794,629.97

Apart from financial assets and liabilities above, the fair value of other financial assets and liabilities that are not measured at fair value is recognised through discounted cash flow method, and there is no significant difference between carrying amount and fair value.

**6 Capital management**

The concept of capital defined by the Group when performing capital management is broader than the "equity" item presented in the balance sheet, the aim of which is to:

- comply with the capital requirements set by the banking regulatory agency located at the place where the Group operates;
- guarantee the Group's abilities to continue as a going concern so as to be able to continue providing return for equity holders; and
- maintain a strong capital base to support the development of its business.

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#### **XII Risk management (Cont'd)**

#### **6 Capital management (Cont'd)**

The capital adequacy and the utilisation of regulatory capital are monitored in real time by the management of the Group in accordance with *Measures for Supervision and Management of Agricultural Development Bank of China* and relevant regulations promulgated by the CBIRC. Required information related to the levels and utilisation of capital is filed quarterly with the CBIRC.

#### **XIII Subsequent events after the balance sheet date**

As of April 30, 2019, the Bank had made 80 new issues of policy financial bonds for a total of RMB 479 billion.

#### **XIV Comparing figure**

For the purpose of financial statements for the current year, the Group has reclassified certain items in the 2017 financial statements to comply with the disclosure requirements of the current year.



**BANK**

**Agricultural Development Bank of China**

A2 Yuetanbeijie Street  
Xicheng District  
Beijing 100045  
The People's Republic of China

**FISCAL AGENT, PAYING AGENT, REGISTRAR AND TRANSFER AGENT**

**Bank of Communications Co., Ltd.**

**Hong Kong Branch**

20 Pedder Street  
Central  
Hong Kong

**LEGAL ADVISERS**

*To the Bank  
as to English law and Hong Kong law*

**Linklaters**  
10th Floor, Alexandra House  
Chater Road  
Hong Kong

*To the Joint Lead Managers  
as to English law and Hong Kong law*

**Clifford Chance**  
27th Floor, Jardine House  
One Connaught Place  
Central Hong Kong

*To the Bank  
as to PRC law*

**King & Wood Mallesons**  
18th Floor, East Tower  
World Financial Center 1 Dongsanhuan Zhonglu  
Chaoyang District  
Beijing 100020, P. R. China

*To the Joint Lead Managers  
as to PRC law*

**Junhe Law Office**  
20/F, China Resources Building  
8 Jianguomenbei Avenue  
Beijing, PRC

**FORMER INDEPENDENT AUDITOR**

**Grant Thornton Certified Public Accountants**

5/F Scitech Palace  
22 Jianguomen Wai Avenue  
Beijing, PRC

**CURRENT INDEPENDENT AUDITOR**

**PricewaterhouseCoopers Zhong Tian LLP**

11/F PricewaterhouseCoopers Center  
Link Square 2, 202 Hu Bin Road  
Huangpu District  
Shanghai, 200021, PRC