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中国农业银行

AGRICULTURAL BANK OF CHINA

AGRICULTURAL BANK OF CHINA LIMITED

中國農業銀行股份有限公司

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

(Stock Code: 1288)

PROPOSED ISSUANCE OF PREFERENCE SHARES

A meeting (the “**Meeting**”) of the board of directors (the “**Board**”) of Agricultural Bank of China Limited (the “**Bank**”) was held physically in Beijing on 8 May 2014. 15 directors were entitled to attend, 13 of them attended in person and two of them attended by proxy. Mr. ZHANG Yun, Vice Chairman of the Board, Mr. GUO Haoda were unable to attend the Meeting due to other arrangements and designated Mr. JIANG Chaoliang, Chairman of the Board, in writing to attend the Meeting and vote on their behalf. Mr. Anthony WU Ting-yuk, Mr. Frederick MA Si-hang attended the Meeting through conference call, Mr. Francis YUEN Tin-fan attended the Meeting through video conference. The Meeting was convened in compliance with the applicable laws, administrative regulations, rules, the articles of association of the Bank and the rules of procedure of the Board.

The following proposal was considered and approved at the Meeting:

The Proposal on the Issuance Plan for Preference Shares

Voting result of this proposal: 15 valid votes, including 15 votes in favour, 0 vote against and 0 vote in abstention.

This proposal is subject to consideration and approval at the shareholders’ general meeting of the Bank by way of a special resolution. Further details about the proposed issuance of preference shares will be set out in the circular of the shareholders’ general meeting to be dispatched to the shareholders of the Bank in due course.

The full text of the *Preliminary Plan for the Issuance of Preference Shares* which was considered and approved at the Meeting is set out as follows:

Preliminary Plan for the Issuance of Preference Shares[※]

Important Notice

1. Type and number of securities to be issued: The type of securities under the Issuance will be preference shares to be issued in the PRC that are in compliance with CBRC rules regarding the eligibility criteria of Additional Tier-1 capital instruments. The number of preference shares proposed to be issued shall not exceed 800 million shares. The specific size of the Issuance will be determined by the Board of the Bank within the aforesaid limit on the maximum number of shares in accordance with the authorization of the shareholders' general meeting.
2. Duration of the securities: Perpetual.
3. Method of issuance: The Issuance of Preference Shares will be entirely conducted through a private placement. Pursuant to the details of the approvals of the CBRC, the CSRC and other relevant regulatory authorities, the Issuance will be conducted in several tranches in accordance with market conditions. The initial tranche shall be conducted within six months starting from the date of the CSRC's approval of the Issuance. The amount of the initial tranche shall not be less than 50% of the total approved size of the Issuance and the remaining tranches shall be issued within the following 24 months.
4. Subscribers of the issuance: Subscribers of the preference shares under the Issuance shall be qualified investors in compliance with the requirements of the *Experimental Administrative Measures on Preference Shares* and other relevant laws and regulations, and shall not exceed 200 in number. In addition, the aggregate number of all the subscribers of preference shares with the same terms and conditions shall not exceed 200. The Issuance does not arrange for preferential offerings to existing shareholders.
5. Upon the completion of the Issuance, any changes in the business operations and profits of the Bank shall be borne by the Bank. The investment risks arising from the Issuance of Preference Shares shall be borne by the investors.
6. The Issuance is subject to the approval of the 2013 annual general meeting of the Bank. In addition, the implementation of the Issuance is further subject to the approvals of the CBRC, the CSRC and other regulatory authorities.
7. The Board of the Bank hereby represents that, aside from the Issuance of Preference Shares, the Bank does not have other equity financing plans within the next 12 months. However, the Bank does not exclude the possibility of replenishing the Bank's capital in accordance with regulatory requirements and capital adequacy ratio, among others situations, through offshore issuance of preference shares.

[※] This is an English translation of the original version in Chinese. In the case of any discrepancy between the two versions, the Chinese version shall prevail.

Definitions

In this preliminary plan for the private placement of preference shares, unless the context specifies otherwise, the following terms shall be defined as set forth below:

Bank/Issuer/ABC	:	Agricultural Bank of China Limited
Preliminary Plan	:	the <i>Preliminary Plan for the Issuance of Preference Shares by Agricultural Bank of China Limited</i> considered and adopted by the fourth meeting of the Board of the Issuer held on 8 May 2014
Issuance/Issuance of Preference Shares	:	the proposed PRC onshore private placement of preference shares by the Issuer to not more than 200 qualified investors in aggregate
A Share(s)	:	Domestically listed ordinary shares that are subscribed and traded in Renminbi
Company Law	:	the Company Law of the People's Republic of China
Articles/Articles of Association	:	the <i>Articles of Association of Agricultural Bank of China Limited</i>
China/PRC	:	the People's Republic of China, excluding, for the purpose of this Preliminary Plan (unless the context specifies otherwise), the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan
County Area Banking Business	:	the Bank provides customers in the County Areas with a broad range of financial products and services through its branch outlets located in counties and county-level cities in China
State Council	:	the State Council of the PRC
MOF	:	the Ministry of Finance of the PRC
CBRC	:	China Banking Regulatory Commission
CSRC	:	China Securities Regulatory Commission

Unless otherwise specified, all financial data contained in this Preliminary Plan are from the Bank's consolidated financial statements.

I. PURPOSE OF THE ISSUANCE

In June 2012, the CBRC issued the *Capital Rules for Commercial Banks (Provisional)*, which became effective on 1 January 2013. The *Capital Rules for Commercial Banks (Provisional)* and relevant rules set out higher regulatory requirements on the capital adequacy ratios, capital quality, capital management and capital replenishment mechanisms of the commercial banks of the PRC.

The rapid business development of the Bank will expose the Bank to certain pressures on its capital in the future. Compared with foreign banks, the Bank's capital structure is suboptimal and the Bank's Additional Tier-1 capital can be increased substantially. In light of rapid changes in the macroeconomic environment and the tightening requirements of regulations on capital, in accordance with the *State Council Guiding Opinions on the Experimental Development of Preference Shares*, the CSRC's *Experimental Administrative Measures on Preference Shares*, the CBRC's *Capital Rules for Commercial Banks (Provisional)*, the *CBRC and CSRC Joint Guiding Opinions on the Issuance of Preference Shares by Commercial Banks to Replenish Tier-1 Capital* and other relevant rules, in order to improve the Bank's capital structure, establish and optimize long-term capital management mechanisms, increase capital adequacy ratios and strengthen sustainable development capacities, the Bank proposes to issue preference shares in the PRC to replenish its Additional Tier-1 capital.

II. ISSUANCE PLAN

(I) Type and Number of Securities to be Issued

The type of securities under the Issuance will be preference shares to be issued in the PRC that are in compliance with CBRC rules regarding the eligibility criteria of Additional Tier-1 capital instruments. The number of the preference shares proposed to be issued shall not exceed 800 million shares. The specific size of the Issuance will be determined by the Board of the Bank within the aforesaid limit on the maximum number of shares in accordance with the authorization of the shareholders' general meeting.

(II) Duration

The duration of the preference shares under the Issuance is perpetual.

(III) Method of the Issuance

The Issuance of Preference Shares will be entirely conducted through a private placement. Pursuant to the details of the approvals of the CBRC, the CSRC and other relevant regulatory authorities, the Issuance will be conducted in several tranches in accordance with market conditions. The initial tranche shall be conducted within six months starting from the date of the CSRC's approval of the Issuance. The amount of the initial tranche shall not be less than 50% of the total approved size of the Issuance and the remaining tranches shall be issued within the following 24 months.

In any event, any Issuance of Preference Shares shall be subject to the general mandate¹ to issue new shares to be proposed for consideration by shareholders at the annual general meeting, and any Issuance shall not exceed the maximum size permitted under such general mandate during the valid period of such general mandate. To the extent the Bank wishes to issue any further Preference Shares after the expiry of any general mandate, the Bank will seek a new general mandate from shareholders.

(IV) Subscribers of the Issuance

Subscribers of the preference shares under the Issuance shall be qualified investors in compliance with the requirements of the *Experimental Administrative Measures on Preference Shares* and other laws and regulations, and shall not exceed 200 in number. In addition, the aggregate number of all subscribers of preference shares with the same terms and conditions shall not exceed 200. The Issuance does not arrange for preferential offerings to existing shareholders.

(V) Nominal Value and Issuance Price

The nominal value (i.e. par value) of the preference shares under the Issuance will be RMB100 per share, and the preference shares shall be issued at their par value.

(VI) Dividend Distribution Provisions

1. The coupon rate and determination principles

The dividend of the preference shares under the Issuance will be paid at an agreed fixed coupon rate for each coupon rate adjustment interval. The coupon rate for the preference shares shall be determined by a book-building procedure or through another approach recognized by the CSRC. The coupon rate of the preference shares shall not exceed the mean of the weighted average return on equity of the Bank for the two most recent financial years². The coupon rate shall consist of two parts: a base rate and a fixed premium. Among them, the base rate shall be the yield of PRC Treasury bonds with a pre-agreed maturity, and the fixed premium shall be the difference between the coupon rate set at the time of Issuance and the base rate at the time of Issuance. Once the fixed premium is determined, it shall no longer be adjusted.

On the re-pricing date, the new coupon rate applicable to the subsequent dividend period will be determined. The new coupon rate shall be determined by adding the base rate preceding the re-pricing date to the fixed premium determined at the initial pricing.

¹ The general mandate proposed to be granted by the shareholders to the Board of Directors to issue new shares in accordance with the provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

² Calculated in accordance with the *Guidelines on the Compilation of Information Disclosure Documents by Companies that Offer Securities to the Public No. 9 — Calculation and Disclosure of Return on Equity and Earnings Per Share* (amended in 2010).

The relevant arrangements for the final coupon rate shall be determined by the Board of the Bank pursuant to the authorization of the shareholders' general meeting and market conditions under the principle and framework passed by the shareholders' general meeting.

2. *Conditions of dividend distribution*

- 1) In order to satisfy the regulatory requirements regarding the eligibility criteria of Additional Tier-1 capital instruments, the Bank has the right to cancel the distribution of part or all of the dividends on preference shares, and such cancellation shall not constitute a breach of the agreement by the Bank. The Bank will make its best effort to protect the interests of holders of preference shares when resolving matters of dividend distribution.
- 2) Decisions on the declaration and payment of all of the dividends on preference shares shall be made by the Board of the Bank in accordance with the authorization of the shareholders' general meeting. If the distribution of part or all of the dividends on preference shares is cancelled, the cancellation shall be approved by the shareholders' general meeting. Where the Bank resolves to cancel the distribution of part or all of the dividends on preference shares, the Bank shall inform holders of preference shares at least 10 business days prior to dividend distribution date in accordance with the provisions of relevant authorities.
- 3) The distribution of dividends shall be neither linked to the Bank's rating, nor be adjusted pursuant to any change thereof.
- 4) Unless the Bank resolves to distribute all of the dividends on preference shares for the current dividend period, the Bank shall not distribute any dividends to its ordinary shareholders over the same period.

3. *Method of dividend payments*

Dividends on the preference shares will be paid in cash and shall be paid annually. The dividends will start to accrue on the last day for receiving investors' subscription payments. The dividend distribution date shall be the anniversary date of the last day for receiving preference share investors' subscription payments (for example, if 1 March is the last day to receive investors' subscription payments, then every subsequent 1 March shall be the dividend distribution date). If any dividend distribution date falls on a statutory holiday of the PRC, it shall be postponed to the next trading day and the interest of the payable dividends shall not be accrued during such postponement period.

In the event that any dividends on the preference shares need to be calculated and distributed depending on the circumstances prior to the agreed dividend distribution date, such dividend shall be calculated based on the actual holding period of the preference shares, starting from the preceding dividend distribution date on a 360 days per year basis.

4. *Dividend accumulation*

Where the Bank resolves to cancel part or all of the dividends to holders of the preference shares, such undistributed dividends shall not be accumulated to subsequent dividend periods.

5. *Distribution of remaining profit*

The holders of preference shares of the Bank, upon receiving dividends at the agreed coupon rate, shall not participate together with ordinary shareholders in the distribution of the remaining profit.

(VII) Optional Redemption Provisions

1. *The holder of the right of redemption*

The Issuance of preference shares provides for optional redemption by the Issuer but does not provide for an investor's right to put back their preference shares. Holders of preference shares do not have the right to call for the Bank's redemption of their preference shares.

2. *Conditions and timing of the redemption*

The Bank is entitled to exercise its redemption right in the following circumstances with prior approval from the CBRC:

- 1) Replacing the redeemed preference shares with capital instruments of equal or higher quality while maintaining the Bank's sustainable earnings; or
- 2) Ensuring a capital level significantly higher than the regulatory capital requirements stipulated by the CBRC following the redemption.

Following the fifth anniversary of the issuance date, the Bank is entitled to redeem all or part of the preference shares under the Issuance on every dividend distribution date, with such redemption right remaining exercisable until all the preference shares have been converted or redeemed in full. The detailed arrangements for the redemption right shall be finalized by the Board of the Bank in accordance with the authorization of the shareholders' general meeting.

3. *Redemption price*

Preference shares shall be redeemed in cash. The redemption price shall be the nominal value plus any declared but unpaid dividends for the then-current dividend period.

(VIII) Mandatory Conversion Provisions

When the trigger conditions for mandatory conversion are met, the remaining existing preference shares under the Issuance, subject to regulatory approvals, will be wholly or partially converted into A Share ordinary shares.

1. *Trigger conditions for mandatory conversion*

- 1) If the Common Equity Tier-1 (“**CET 1**”) capital adequacy ratio of the Bank decreases to 5.125% (or below), preference shares under the Issuance shall be wholly or partially converted into A Share ordinary shares in order to restore the Bank’s CET 1 capital adequacy ratio to above 5.125%. In the case of partial conversion, all preference shares under the Issuance shall be converted on a *pro rata* basis on the same terms and conditions.
- 2) All preference shares under the Issuance shall be converted into A Share ordinary shares upon the earlier occurrence of either of the following two situations: (i) the CBRC is of the view that the Bank can no longer sustain itself if the preference shares are not converted; (ii) relevant authorities are of the view that the Bank can no longer sustain itself without capital injections from the public sector or any support to the same effect.

When the above trigger conditions of mandatory conversion are met, the Bank shall report the matter of converting the preference shares under the Issuance into ordinary shares to the CBRC for vetting and approval, and perform its obligations of information disclosure pursuant to the *Securities Law of The People’s Republic of China* and relevant provisions of the CSRC, such as provisional reports, announcements, among others.

2. *Conversion amount and determination principles*

The number of ordinary shares converted from preference shares shall be calculated based on the following formula: $Q=V/P$.

Among which:

“V” is the aggregate nominal value of the preference shares to be converted; “P” is the conversion price.

Following a calculation based on the above formula, any remaining preference shares held by a holder of preference shares that can only be converted into less than one full A Share ordinary share shall be handled by the Bank in accordance with the requirements of relevant regulatory authorities.

3. *Conversion price and adjustment mechanisms*

The initial conversion price of the preference shares under the Issuance shall be the average trading price³ of the A Share ordinary shares of the Bank in 20 trading days preceding the date of the Board resolution on the Issuance Plan (i.e. RMB2.43 per share).

After the date of the Board resolution, in the event the Bank issues stock dividends, converts capital reserves to share capital, conducts follow-on issuances of shares (excluding the ordinary shares that may be converted from the convertible capital instruments issued by the Bank such as preference shares and convertible corporate bonds, among others), conducts a rights issue or acts under similar circumstances, the Bank will adjust the conversion price on a cumulative basis in accordance with the sequence of occurrences of the foregoing events. The specific adjustment measures are as follows:

In the event of issuing stock dividends or converting capital reserves to share capital: $P1 = P0 / (1 + n)$;

In the event of conducting follow-on issuances of shares or rights issue: $P1 = P0 \times (N + Q \times (A/M)) / (N + Q)$;

Among which: “P0” is the conversion price before the adjustment; “n” is the ratio of stock dividends or converting capital reserves to share capital; “Q” is the number of ordinary shares issued in the follow-on issuances of shares or the rights issue; “N” is the total number of the Bank’s ordinary shares before the increase or rights issue; “A” is the subscription price of the follow-on issuances of shares or rights issue; “M” is the newly issued shares’ closing price on the trading day one day prior to the announcement date in the follow-on issuances of shares or rights issue; P1 is the adjusted conversion price.

When the above changes in the Bank’s shares and/or shareholder’s interests occur, the Bank will adjust the conversion price in sequence, and will make corresponding information disclosure in accordance with relevant requirements. The mandatory conversion price of the preference shares will not be adjusted according to the Bank’s distribution of cash dividends on ordinary shares.

³ The average trading price of the A Share ordinary shares of the Bank in 20 trading days preceding the date of the Board resolution on the Issuance Plan = the total trading amount of the Bank’s A Share ordinary shares in these 20 trading days ÷ the total trading volume of the Bank’s A Share ordinary shares in these 20 trading days.

4. *Attribution of dividends on ordinary shares in the year of mandatory conversion*

Any additional A Share ordinary shares of the Bank resulting from the mandatory conversion of the preference shares under the Issuance shall rank *pari passu* with the Bank's existing A Share ordinary shares. All ordinary shareholders registered on the share register of the Bank on the dividend record date (including any holders of A Share ordinary shares converted from the preference shares under the Issuance) shall be entitled to dividend distributions on ordinary shares in the then-current period and shall equally enjoy all the interests of ordinary shareholders.

(IX) Restriction on and Restoration of Voting Rights

1. *Restriction on voting rights*

Except in the following circumstances, holders of preference shares shall not attend shareholders' general meetings and the preference shares held by them shall have no voting rights attached. Upon the occurrence of any of the following circumstances, holders of preference shares shall have the right to attend shareholders' general meetings and shall resolve, as a different class from the ordinary shareholders, the following matters. Each preference share held by the holders of preference shares shall have one voting right except for preference shares held by the Bank, which shall have no voting rights:

- 1) any amendment to the provisions regarding preference shares in the Articles of Association;
- 2) any decrease or series of decreases representing in aggregate more than 10% of the registered capital of the Bank;
- 3) any merger, division, dissolution or change in form of incorporation;
- 4) any issuance of preference shares by the Bank;
- 5) any other circumstances specified by laws, administrative regulations, departmental rules, any securities regulatory authorities of the listing places of the Bank or the Articles of Association.

Any resolutions on the foregoing matters shall be adopted both by more than two thirds (2/3) of the voting rights of the ordinary shareholders present at the meeting (including the holders of preference shares whose voting rights have been restored) and by more than two thirds (2/3) of the voting rights of the holders of preference shares present at the meeting (excluding the holders of preference shares whose voting rights have been restored).

2. *Restoration of voting rights*

For the duration of the preference shares under the Issuance, when the Bank fails to pay dividends on preference shares for a total of three financial years or for two consecutive financial years, holders of preference shares shall have the right to attend the shareholders' general meetings and jointly vote with ordinary shareholders starting from the day following the date on which the shareholders' general meeting resolves to not distribute dividends on preference shares as agreed in the profit distribution plan for that year.

The number of voting rights to be restored from preference shares shall be calculated using the following formula: $Q=V/P$. The number of voting rights shall be rounded down to the nearest integer.

“V” is the total nominal value of preference shares from which the voting rights shall be restored;

“P” is the average trading price of the A Share ordinary shares of the Bank for the 20 trading days preceding the date of the Board resolution on the Issuance Plan (i.e. RMB2.43 per share).

The voting rights shall be restored until the date on which all dividends for preference shares of that year are distributed.

(X) Sequence of Settlement and Method of Liquidation

Holders of preference shares under the Issuance shall have priority over ordinary shareholders in receiving distribution of the remaining assets of the Bank. In the event of liquidation, the remaining assets of the Bank following a settlement pursuant to the requirements of applicable laws, administrative regulations and departmental rules shall be first distributed to holders of preference shares for the payment of the sum of the nominal value and the dividends resolved to be paid but unpaid of the then-current period. In the event that the remaining assets are not sufficient to satisfy these payments, they will be distributed on a pro rata basis in accordance with the shareholding percentages of holders of preference shares.

(XI) Use of Proceeds

The total amount of the proceeds shall be not more than RMB80 billion. The proceeds will be used to replenish the Additional Tier-1 capital of the Bank in accordance with applicable laws and regulations and with the approval of the regulatory authorities including the CBRC and the CSRC.

(XII) Rating Arrangement

The preference shares under the Issuance do not have a rating arrangement. If a rating is to be conducted, the Bank will make a disclosure in the prospectus or relevant announcements of the Issuance. The detailed rating arrangements of preference shares under the Issuance will be determined by the Board in accordance with authorization from the shareholders' general meeting and in accordance with relevant laws and regulations and market conditions.

(XIII) Guarantee Arrangement

There is no guarantee arrangement in relation to the Issuance.

(XIV) Transfer Arrangement

No lock-up period is attached to the preference shares under the Issuance. The preference shares will be traded on the designated trading platform of the Shanghai Stock Exchange.

(XV) Effective Period of the Resolution of the Issuance

The effective period of the resolution of the Issuance shall be 24 months starting from the date of the resolution of the shareholders' general meeting.

(XVI) Update of Regulatory Requirements

For the duration of the preference shares under the Issuance, when new regulatory capital requirements are published or material amendments are made to the existing regulatory capital requirements, the Bank has the right to modify the provisions of the preference shares pursuant to the updated regulatory requirements in order to continue to satisfy the regulatory requirements of Additional Tier 1 capital instruments eligibility criteria.

Certain provisions of this Preliminary Plan may be further amended in accordance with regulatory opinions and the authorization of the shareholders' general meeting to the Board after the deliberation of the Board and the approval of the shareholders' general meeting.

III. MAJOR RISKS ARISING FROM THE ISSUANCE OF PREFERENCE SHARES

(I) Risks of Reduction in Dividends

As the holders of preference shares are entitled to receive their profit distribution of the Bank prior to ordinary shareholders, the profit distributed to ordinary shareholders may decrease. In addition, ordinary shareholders may not receive any dividends in the event that the Bank cancels the distribution of part or all of the dividends on preference shares. Assuming that the total amount of the preference shares under the Issuance is RMB80.0 billion with a coupon rate of 6% (for illustrative purposes only, and does

not represent the expected coupon rate for the preference shares under the Issuance) and that the dividends will be paid in full, without taking into account any return that may be generated from the use of proceeds and assuming that the dividends on the preference shares will not be tax deductible, the annual distributable profits for ordinary shareholders will be reduced by RMB4.8 billion.

(II) Risks of Decreases in Financial Returns

As the holders of preference shares are entitled to receive their profit distribution of the Bank prior to ordinary shareholders, without taking into account any financial return that may be generated from the use of proceeds, the Issuance of Preference Shares will reduce the net profit attributable to ordinary shareholders, which will result in decreases in earnings per share, returns on equity and other financial returns for ordinary shareholders.

(III) Risks of Dilution of Voting Rights

When the voting rights of the holders of preference shares are restored, the holders of preference shares are entitled to attend shareholders' general meetings and vote alongside ordinary shareholders as if they were A Share ordinary shareholders based on their restored voting rights as calculated by the formula set out in the Issuance Plan of the preference shares. As a result, the total number of voting shares will increase and existing ordinary shareholders may be exposed to the risk of voting rights dilution. Assuming that the total number of the preference shares under the Issuance is 800 million shares and that the average trading price of the A Share ordinary shares of the Bank for the 20 trading days preceding the date of the Board resolution on the Issuance is RMB2.43 per share, upon the restoration of voting rights, the total voting rights held by all the holders of preference shares will account for 9.20% of the voting rights of the total voting shares.

(IV) Risks Arising from Mandatory Conversion

When the trigger conditions for mandatory conversion are met, the remaining existing preference shares under the Issuance by the Bank, subject to regulatory approvals, will be wholly or partially converted into A Share ordinary shares. As a result, the total number of ordinary shares will increase, which will dilute the shareholding percentages, voting rights and certain financial indicators (including earnings per share) of existing ordinary shareholders.

(V) Subordination of Ordinary Shareholders on Liquidation

As the preference shares under the Issuance rank senior to ordinary shares in terms of repayment of nominal value and dividend distribution, ordinary shareholders may be exposed to the risk of reduced attributable liquidating assets as a result of subordination in the event of liquidation due to the dissolution or bankruptcy of the Bank.

(VI) Risks of Taxation

As there is no existing tax law or regulation of the PRC specifying whether the dividends of preference shares are entitled to enterprise income tax deductions, the dividends of the preference shares to be paid by the Bank are unlikely to be deductible before income taxes under enterprise income tax calculations. However, the Bank is unable to predict whether or when the PRC government will modify its taxation policy on preference shares and any associated tax implications.

IV. USE OF PROCEEDS RECEIVED FROM THE ISSUANCE OF PREFERENCE SHARES

The proceeds will be used to replenish the Additional Tier-1 capital of the Bank in accordance with applicable laws and regulations and the approval of regulatory authorities including the CBRC and the CSRC.

For the rationale of the size of the Issuance of Preference Shares and the effects of the Issuance on the regulatory capital indicators of the Bank, please refer to “(I) Analysis of the Rationality of the Size of the Issuance”, “(V) Effects of the Issuance on the Regulatory Capital Indicators of the Bank” and “(VI) Capability of the Issuer to Pay Dividends on Preference Shares” in “V. Discussion and Analysis of the Board on the Effects of the Issuance”.

V. DISCUSSION AND ANALYSIS OF THE BOARD ON EFFECTS OF THE ISSUANCE

(I) Rationality Analysis of the Size of the Issuance of Preference Shares

Since the listing of its shares, the Bank has consistently applied its strategy of scientific development and prudent operations, maintained the healthy development of all its businesses and continuously improved its operational results. While enjoying rapid business development, the Bank faces increasingly rigid capital regulations and its capital adequacy ratio is lower than comparable domestic banks. At 31 December 2013, on a consolidated basis the capital adequacy ratio of the Bank was 11.86% and its Tier 1 capital adequacy ratio was 9.25%, exposing the Bank to certain capital adequacy pressure in future.

At 31 December 2013, on a consolidated basis the risk-weighted assets of the Bank were RMB9,065.6 billion. In order to calculate the Additional Tier-1 capital on a 1% basis, the economical size of the Additional Tier-1 capital of the Bank shall be approximately RMB90.0 billion. Moreover, comprehensively considering the characteristics of preference shares, methods of issuance, potential target investors, capacity of the market and various other factors, the Bank has set the size of the Issuance at RMB80.0 billion. After calculation, the issuance of RMB80.0 billion of preference shares can increase both the Bank’s Tier 1 capital adequacy ratio and its capital adequacy ratio by about 0.83 percentage points, which will effectively improve the Bank’s capital adequacy level, optimize its capital structure and strengthen its sustainable development capacities in the future.

(II) Accounting Treatment Relating to the Issuance of Preference Shares

Pursuant to the provisions under the *Accounting Standards for Enterprises No. 22 — Recognition and Measurement of Financial Instruments*, the *Accounting Standards for Enterprises No. 37 — Presentation of Financial Instruments*, the *Rules on Differentiating the Financial Liabilities and the Equity Instruments and Relevant Accounting Treatment*, promulgated by the Ministry of Finance, and the *International Accounting Standards 39 — Financial Instruments: Recognition and Measurement* and the *International Accounting Standards 32 — Financial Instruments: Presentation* formulated by International Accounting Standards Board, the Bank is of the view that the terms of the Issuance of Preference Shares conform to the accounting requirements of equity instruments. Therefore, the preference shares under the Issuance will be accounted for as equity instruments.

(III) Tax Implications of the Issuance for the Bank

There is no existing tax law or regulation of the PRC specifying whether the dividends of preference shares are entitled to enterprise income tax deductions. However, the Bank is of the view that the dividends of the preference shares are unlikely to be deductible before income taxes. Therefore, there will be no substantial unfavorable tax consequences to the Bank.

(IV) Effects of the Issuance on the Financial Data and Financial Indicators of the Bank

In accordance with the Issuance Plan of the preference shares, the total size of the preference shares under the Issuance shall not exceed RMB80.0 billion. As of the announcement date of this Preliminary Plan, the total size and coupon rate are yet to be finalized.

Based on the financial data of the Bank at 31 December 2013 for the twelve months ended 31 December 2013, assuming that the Issuance of Preference Shares was completed on 1 January 2013 with a total size of RMB80.0 billion and a coupon rate of 6% (this figure is for illustrative purposes only and does not represent the expected coupon rate for the Issuance of Preference Shares) and that the dividends were distributed

in full, without taking into account returns generated from the use of proceeds and assuming that the dividends of the preference shares were not tax deductible (unless otherwise indicated, the following calculations in this Preliminary Plan are all based on such assumptions), the simulated estimates of the Issuance of Preference Shares on key financial data and financial indicators are as follows:

In millions of RMB unless otherwise specified

Key financial data and financial indicators	31 December 2013/ Twelve months ended 31 December 2013	
	Before the Issuance	After the Issuance
Share capital	324,794	324,794
Net assets	844,537	919,737 ¹
Net profit	166,211	166,211
Return on net assets attributable to ordinary shareholders of the Bank (annualized, %)	20.89	20.35 ²
Earnings per share attributable to ordinary shareholders of the Bank (RMB)	0.51	0.50 ³

Notes:

1. Net assets after the Issuance = net assets before the Issuance + preference shares of RMB80.0 billion – dividends on preference shares in current year;
2. Return on net assets attributable to ordinary shareholders of the Bank after the Issuance = (net profit attributable to shareholders of the Bank – dividends of preference shares in current year)/(weighted average net assets attributable to shareholders of the Bank – preference share capital – dividends of preference shares in current year);
3. Earnings per share attributable to ordinary shareholders of the Bank after the Issuance = (net profit attributable to shareholders of the Bank – dividends of preference shares in current year)/ordinary share capital.

(V) Effects of the Issuance on the Regulatory Capital Indicators of the Bank

Pursuant to the *Capital Rules for Commercial Banks (Provisional)*, effective from 1 January 2013, commercial banks shall meet the regulatory capital requirements stipulated in the rules no later than the end of 2018. Regulatory requirements on the capital adequacy of a commercial bank consist of the minimum capital requirements, conservation buffer, countercyclical buffer, capital surcharge for systemically important banks (SIBs) and Pillar 2 capital requirements.

Item		Regulatory requirement
Minimum capital requirements	CET 1 capital adequacy ratio	5%
	Tier-1 capital adequacy ratio	6%
	Capital adequacy ratio	8%
Conservation buffer		The conservation buffer gradually phase in during the transitional period, i.e. 0.5% at the end of 2013, 0.9% at the end of 2014, 1.3% at the end of 2015, 1.7% at the end of 2016, 2.1% at the end of 2017 and 2.5% at the end of 2018, and shall be funded by CET 1 capital.
Countercyclical buffer		0–2.5% of the risk-weighted assets, and shall be funded by CET1 capital.
Capital surcharge for SIBs		Domestic SIBs: 1% of the risk-weighted assets, and shall be funded by CET1 capital. Global SIBs: as stipulated by the Basel Committee.
Pillar 2 capital requirements		As stipulated by the CBRC under the framework of Pillar 2.

Proceeds from the Issuance of the Preference Shares will be used to replenish the Additional Tier-1 capital of the Bank. Based on the regulatory indicators of the Bank at 31 December 2013 with the same assumptions described above, the effects of the Issuance of Preference Shares on the regulatory capital indicators of the Bank are as follows:

In millions of RMB unless otherwise specified

Regulatory capital indicator	31 December 2013			
	Before the Issuance		After the Issuance	
	Consolidated	Unconsolidated	Consolidated	Unconsolidated
CET 1 capital (net)	838,473	831,648	833,673 ¹	826,848 ¹
Tier-1 capital (net)	838,474	831,648	913,674 ²	906,848 ²
Net capital	1,074,967	1,067,420	1,150,167 ²	1,142,620 ²
Risk-weighted assets	9,065,631	9,004,578	9,065,631	9,004,578
CET 1 capital adequacy ratio	9.25%	9.24%	9.20%	9.18%
Tier-1 capital adequacy ratio	9.25%	9.24%	10.08%	10.07%
Capital adequacy ratio	11.86%	11.85%	12.69%	12.69%

Notes:

1. Takes into account effect on undistributed profits from dividends on preference shares paid in 2013; without taking into account returns generated from the use of proceeds.
2. Takes into account effects on undistributed profits from dividends on preference shares paid in 2013 and the addition of RMB80.0 billion of preference shares into Additional Tier-1 capital.

Calculated based on the financial data of the Bank at 31 December 2013, following the Issuance, the Bank's Tier-1 capital adequacy ratio will increase by 0.83 percentage points to 10.08% and its capital adequacy ratio will increase by 0.83 percentage points to 12.69%, both on a consolidated basis, laying a solid foundation for the development of the Bank's various businesses.

(VI) Capability of the Issuer to Pay the Dividends on the Preference Shares

In accordance with the Articles of Association, the Bank shall prioritize profit distribution in the form of cash dividends in an annual amount of no less than 10% of the consolidated net profit attributable to the ordinary shareholders of the Bank for each financial year.

Since the listing of the Bank, the formulation and implementation of the cash dividend policy has complied with the Articles of Association and the resolutions of the shareholders' general meetings. The relevant decision making procedures and systems are complete and the distribution standards and proportions are clearly stated. Independent non-executive directors have diligently served their obligations, properly exercised their role and fully expressed their opinions. As minority shareholders have opportunities to fully express their opinions and appeals, their legitimate interests have been fully protected.

The table below sets out the Bank's distribution of cash dividends for the past three years.

In millions of RMB unless otherwise specified

Cash dividend	2013²	2012	2011
Cash dividend (before tax)	57,489	50,830	42,710
Cash dividend payout ratio ¹ (%)	34.6	35.0	35.0

Notes:

1. Cash dividend (before tax) divided by net profit attributable to equity holders of the Bank in the reporting period.
2. The 2013 dividend distribution plan of the Bank is subject to the approval of the 2013 annual general meeting.

As of the announcement date of this Preliminary Plan, the Bank does not have any outstanding material debt or significant capital expenditure plans to be settled in the future. Dividends on the preference shares under the Issuance will account for 3.32%, an insignificant proportion, of the average net profit attributable to equity holders of the Bank for the past three years. The Bank has sufficient payment capacity to meet the dividend payment requirements of the preference shares under the Issuance.

(VII) The Board's Representations and Undertakings Relating to the Issuance

The Board of the Bank hereby represents that, aside from the Issuance of Preference Shares, the Bank does not have other equity financing plans within the next 12 months. However, the Bank does not exclude the possibility of replenishing the Bank's capital in accordance with regulatory requirements and capital adequacy ratio, among others situations, through offshore issuance of preference shares.

As the holders of preference shares are entitled to receive their profit distribution of the Bank prior to the ordinary shareholders at the agreed coupon rate, without taking into account any financial return that may be generated from the use of proceeds, the Issuance will reduce the net profit attributable to ordinary shareholders, which will result in decreases of RMB0.01 in earnings per share attributable to the ordinary shareholders of the Bank and 0.54 percentage points in returns on equity, respectively⁴.

⁴ Based on the financial data for the 12 months ended on 31 December, 2013, assuming the Issuance of Preference Share was completed on 1 January 2013 with an Issuance size of RMB80 billion and a coupon rate of 6%.

In light of the above, the Bank plans to use the proceeds from the Issuance rationally by strengthening capital constraints, optimizing resource allocation, improving development advantages, and maintaining the risk limitation, and through the following measures to enhance the Bank's sustainable development capabilities as well as enhance shareholders' value in the mid- to long-term to compensate for the short-term negative impacts on instant returns to shareholders:

1. Strengthen capital constraints and promote business development mode to change towards a capital-saving one. The Bank will adhere to the basic principles of established capital management and capital adequacy ratio management objectives, strengthen capital constraints and returns management and establish and improve long-term capital management mechanisms.
2. Optimize the allocation of resources and improve capital efficiency. The Bank will conscientiously implement the requirements of the national industrial structural adjustment and rationally allocate credit resources. The Bank will manage the diversity and yield of the investment portfolio while ensuring adequate liquidity.
3. Enhance the competitive advantage of the Bank's County Area Banking Business, tap into the new financial needs arising from rural reforms and urbanization, innovate the financial services model and continuously improve the service synergies between urban and rural areas.
4. Maintain the risk limitation and strengthen risk management. The Bank will continue to strengthen comprehensive risk management system construction from culture, structure, systems and tools perspectives and enhance risk prevention and control of key areas.

Based on the above measures, the Bank undertakes that, in the absence of major incidents resulting in substantial material impact on the Bank's operations, earnings per share attributable to ordinary shareholders of the Bank in 2014 (i.e. the year of the Issuance of Preference Shares) will be able to return to the level above those in 2013, which is RMB0.51. Currently, the remunerations of the Chairman of the Board, President, Chairman of the Board of Supervisors, the executive directors and other senior managers are approved by the relevant authorities in accordance with the Bank's results of operations. In the event that the results of operations decline, the remunerations of the Chairman, President, Chairman of the Board of Supervisors, the executive directors and other senior managers of the Bank will be significantly affected.

VI. AMENDMENT TO THE ARTICLES OF ASSOCIATION

The Bank has amended the Articles pursuant to the requirements of the *Company Law of the People's Republic of China*, the *State Council Guiding Opinions on the Experimental Development of Preference Shares*, and the *CSRC's Experimental Administrative Measures on Preference Shares*. The provisions relating to the Issuance of Preference Shares in the amended Articles of Association are as follows:

(I) Profit Distribution

1. *Coupon rate of preference shares*

The dividend of the preference shares issued by the Bank will be paid at an agreed fixed coupon rate for each coupon rate adjustment interval. The coupon rate of the preference shares shall not exceed the mean of the weighted average return on net assets of the Bank for the two most recent financial years. The coupon rate shall consist of two parts: a base rate and a fixed premium. Among them, the fixed premium shall be the difference between the coupon rate set at the time of Issuance and the base rate. Once the fixed premium is determined, it shall no longer be adjusted.

On the re-pricing date, the new coupon rate applicable to the subsequent dividend period will be determined. The new coupon rate shall be determined by adding the base rate preceding the re-pricing date to the fixed premium determined at the initial pricing.

2. *The holders of preference shares shall not participate in the distribution of remaining profits*

The holders of preference shares of the Bank, upon receiving their dividends at the coupon rate, shall not participate together with ordinary shareholders in the distribution of the remaining profits.

3. *Discretionary distribution of dividends on preference shares*

Where the Bank has distributable profit after tax, it may exercise its discretion to not declare dividend distributions to the holders of preference shares.

4. *No accumulation of dividends on preference shares*

Where the Bank resolves to cancel part or all of the dividends to holders of the preference shares, such undistributed dividends shall not be accumulated to subsequent dividend periods.

(II) Distribution of Remaining Assets

1. *Seniority in distribution of dividends on preference shares*

The holders of preference shares of the Bank shall have priority over ordinary shareholders in receiving distribution of profit at the agreed fixed coupon rate or floating coupon rate. The Bank shall make dividend payments in cash to the holders of preference shares, and no profit shall be distributed to ordinary shareholders before the agreed dividends have been fully paid to holders of the preference shares.

The after-tax profit of the Bank for the year shall be distributed in the following order: (1) to make up for the losses of previous years; (2) to allocate 10% as a statutory reserve fund; (3) to allocate to the general reserve; (4) to pay dividends to holders of preference shares; (5) to allocate to the discretionary reserve fund; and (6) to pay dividends to ordinary shareholders. When the cumulative amount of the statutory reserve funds of the Bank is greater than 50% of the registered capital of the Bank, allocation is no longer strictly necessary. After allocation to the statutory reserve fund and the general reserve fund and dividend payments to holders of preference shares, whether further allocation shall be made to the discretionary reserve fund shall be determined by the shareholders' general meeting. The Bank shall not distribute its profits to shareholders before recouping losses and making allocations to the statutory reserve fund and the general reserve fund.

2. *Seniority in distribution of remaining assets of holders of preference shares*

The holders of the preference shares of the Bank shall have priority over ordinary shareholders in receiving distribution of the remaining assets of the Bank.

In the event of liquidation, the remaining assets of the Bank following a settlement pursuant to the requirements of applicable laws, administrative regulations and departmental rules shall be first distributed to holders of preference shares for the payment of the sum of the nominal value (i.e. par value) and the dividends resolved to be paid but unpaid of the then-current period. In the event that the remaining assets are not sufficient to satisfy these payments, they will be distributed on a pro rata basis in accordance with the shareholding percentages of holders of preference shares.

(III) Restrictions on and Restoration of Voting Rights

1. *Restrictions on voting rights of preference shares*

Except in the following circumstances, holders of preference shares shall not attend shareholders' general meetings and the preference shares held by them shall have no voting rights attached:

- 1) any amendment to the provisions regarding preference shares in the Articles of Association;

- 2) any decrease or series of decreases representing in aggregate more than 10% of the registered capital of the Bank;
- 3) any merger, division, dissolution or change in form of incorporation;
- 4) any issuance of preference shares by the Bank;
- 5) any other circumstances specified by any laws, administrative regulations, departmental rules, any securities regulatory authorities of the listing place of the Bank or the Articles of Association.

Upon the occurrence of any of the foregoing circumstances, holders of preference shares shall have the right to attend shareholders' general meetings, and the notice of such meetings shall be delivered to holders of preference shares prior to convention of the meeting. The Bank shall also comply with the required notice procedure for ordinary shareholders set forth herein. Any resolutions on the foregoing matters shall be adopted both by more than two thirds (2/3) of the voting rights of the ordinary shareholders present at the meeting (including the holders of preference shares whose voting rights have been restored) and by more than two thirds (2/3) of the voting rights of the holders of preference shares present at the meeting (excluding the holders of preference shares whose voting rights have been restored). Each preference share (excluding the holders of preference shares with restored voting rights) shall have one voting right. The holders of preference shares who had their voting rights restored shall possess voting rights as calculated in accordance with conversion ratio determined at the issuance of such preference shares. However, the preference shares held by the Bank shall have no voting rights.

2. *Restoration of voting rights of holders of preference shares*

When the Bank fails to pay dividends on preference shares for a total of three financial years or for two consecutive financial years, holders of preference shares shall have the right to attend the shareholders' general meetings and jointly vote with ordinary shareholders starting from the day following the date on which the shareholders' general meeting resolves to not distribute profits as agreed in the profit distribution plan and until the dividends that shall be paid by the Bank when voting rights are restored as determined at the Issuance of such preference shares are paid in full. Each preference share shall have voting rights as calculated in accordance with conversion ratio determined at the issuance of such preference shares.

(IV) Conditions of Repurchase of Preference Shares and its Conversion to Ordinary Shares

1. Redemption of preference shares

Following the fifth anniversary of the issuance date, the Bank is entitled to redeem all or part of the preference shares issued by the Bank on every dividend distribution date, with such redemption right remaining exercisable until all the preference shares have been converted or redeemed in full. Preference shares shall be redeemed in cash. The redemption price shall be the sum of the nominal value (i.e. par value) and any declared but unpaid dividends in the then-current dividend period. The specific arrangement for the redemption shall be implemented as agreed at the issuance of the preference shares.

2. Conversion of preference shares

The preference shares of the Bank can be converted into ordinary shares in accordance with the requirements of the laws, administrative regulations, departmental rules, securities regulatory authorities of the listing places of the Bank, the Articles of Association or upon occurrence of the conversion events as agreed at the time of issuance of preference shares.

(V) Other Provisions relating to the Rights and Obligations of Holders of Preference Shares

Holders of preference shares shall have the rights that ordinary shareholders are entitled to and shall assume corresponding obligations. Where any laws, administrative regulations, departmental rules, securities regulatory authorities of the listing places of the Bank, or any banking regulatory authorities of the State Council provide otherwise in terms of the rights and obligations of the holders of the preference shares of the Bank, such relevant provisions thereof shall prevail.

Please refer to the Circular of the 2013 annual general meeting for detailed modifications.

By Order of the Board
Agricultural Bank of China Limited
ZHU Gaoming
Company Secretary

Beijing, the PRC
8 May 2014

As at the date of this announcement, our executive directors are Mr. JIANG Chaoliang, Mr. ZHANG Yun, Mr. GUO Haoda and Mr. LOU Wenlong; our non-executive directors are Mr. SHEN Bingxi, Mr. LIN Damao, Mr. CHENG Fengchao, Mr. LI Yelin, Mr. XIAO Shusheng and Mr. ZHAO Chao; and our independent non-executive directors are Mr. Anthony WU Ting-yuk, Mr. QIU Dong, Mr. Frederick MA Si-hang, Mr. WEN Tiejun and Mr. Francis YUEN Tin-fan.