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State Ownership, Policy Missions and Commercial Operation – A Case Study of the Agricultural Bank of China

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China has maintained government control over major banks through its holding of controlling shares, leading to concerns about their possible policy burdens. In the case of the Agricultural Bank of China (ABC), the explicit policy mission of serving the rural economy and farmers has been assigned along its public listing in stock markets. Although it has adopted strategies to redefine the scope of rural business and implemented organizational and regulatory reforms to reduce the costs of implementing the policy missions, the contradiction between policy and commercial objectives has not been reconciled.

Keywords: state ownership, banking system, banking reform, China

INTRODUCTION

The Chinese government has initiated a new series of banking reform since 2003. The new approach aims to further clean up the balance sheets and recapitalize the state banks, followed by the introduction of strategic investors, and finally the listing in stock exchanges. Previous attempts to commercialize the state banks only stopped at the recapitalization of the banks and failed to limit the growth of nonperforming loans. Evidently, as much as RMB 1.4 trillion of nonperforming loans (NPLs) of the four big state banks were transferred to asset management companies in 2000, but their NPLs were found to reach RMB 2 trillion by the end of 2001 (Ma & Fung, 2002). Under the new approach, the emphasis is placed on the improvement of the corporate governance structure, which is supposed to come about by the presence of strategic investors and the tightened discipline due to the listing in stock exchanges. China Construction Bank (CCB) and Bank of China (BOC) and Industrial and Commercial Bank of China (ICBC) were all reformed along this line and had their IPOs in 2005–2006 (Kwong, 2009). Due to the special policy roles of the Agricultural Bank of China (ABC), its Initial Public Offering (IPO) was not launched until 2010.

Although the ownership is more diversified, state entities have remained to be the controlling shareholders of these major banks.[1] Research on the costs and benefits of state ownership

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of banks has a long history. Supporters of state ownership argue that it can help economic development when the private banking system is premature to channel capital to finance industrialization (see, for example, Gerschenkron, 1962 and Myrdal, 1968). An alternative view is that governments acquire control of banks and enterprises in order to provide employment, subsidies, and other benefits to supporters, who return the favor in the form of votes, political contributions, and bribes (Shleifer & Vishny, 1994).[2] In the case of China, the holding of controlling shares of the banks has given rise to worries about possible imposition of policy missions to the banks. The complication is that once the government imposes policy burdens on the state banks, the problem of soft budget constraint may arise (Kornai, 1979 and Lin, Cai, & Li, 1998). Due to the lack of information, the total cost of the policy burdens to state banks is difficult to determine, thus providing justifications for the banks to ask for more subsidies when they are in trouble. This problem existed in centrally planned economies and has prevailed in transition economies (Lin & Tan, 1999). Thus, the state and the banks are often engaged in a bargaining process, in which the state wants the banks to take up policy missions at low costs while the banks want to bargain for more resources to compensate for the policy burdens. As a result, the implementation costs of policy missions are often high.

This article documents and analyses the reforms of ABC, which can be seen as the Chinese government's attempt in designing a new institution to carry out policy missions, with an aim to reduce the implementation costs. ABC has long been assigned the policy mission of serving the rural economy. Providing financial services in rural areas involved high unit costs due to poor transportation, insufficient information about the borrowers, and the lack of collaterals. In the 1980s, ABC had been making financial losses due to its specialization of business in rural areas. In the 1994 banking reform, the Agricultural Development Bank of China (ADBC) was set up to take over the policy loans of the ABC, so that the latter can be fully commercialized. However, it was later found that building a full-fledged network to reach all the remote rural areas was too costly for ADBC. The government decided to keep a significant amount of policy loans in ABC (Cheng, 2006, 2009). In the recent reform, the policy mission of serving *sangnong* (i.e., farmers, villages, and agriculture) has been explicitly stated in its IPO document. However, the government has adopted a new institutional approach—to create a new division within ABC to take care of the policy mission. The new division takes a special organization form and a distinct set of regulatory guidelines are applied to it. As will be pointed out, the reform is far from complete. Despite clear improvement in the balance sheet, ABC has continued to be perplexed by the contradictory roles of serving *sannong* and maximizing commercial profits.

In the next section, how ABC underwent financial restructuring and launched its IPO will be analyzed. The major elements of the recent reforms will be studied in the following section, followed by an assessment of the problems in the practice in the fourth section. Some remarks will be given in the conclusion.

FINANCIAL RESTRUCTURING AND THE IPO

Among the four large state-owned banks, ABC was the last one that went for the IPO. Due to its long-existing heavy policy burdens, ABC required more funding to clean up its balance sheet. The nonperforming loan (NPL) ratio of ABC was near 40% in 2001. Even though efforts were made to reduce the ratio in the subsequent years, it remained at 23.4% in 2006, with the total amount of NPLs rising from RMB 635.8 billion in 2001 to RMB 735.6 billion in 2006. Thus, a huge amount of funding was needed to recapitalize the bank to the level meeting the requirement of capital adequacy ratio of 8% at the time (Li & Zeng, 2007).

There were hot debates regarding whether ABC should be split into two banks by function (i.e. one policy bank and one commercial bank), or to be broken up into smaller provincial banks.[3] The Chinese leadership finally decided to keep ABC as one single bank with the policy mission of serving *sannong* while going public to ensure commercial operation. Various experiments were conducted in selected regions during 2007–2008 on how to improve the efficiencies and risk management of rural lending (Cheng, 2009).

Subsequent to the experiments, the shareholding reform of ABC was approved by the State Council in October 2008. Financial restructuring measures prior to the IPO were carried out. First, Central Huijin Investment Limited injected RMB 130 billion to ABC in exchange for 50% shares of equity of ABC. Second, the Ministry of Finance (MOF) was declared to hold 50% shares of equity. Third, NPLs and impaired assets totaling RMB 815.7 billion were disposed at their book value at the end of 2007 in two parts. The first part was utilized to offset a loan of RMB 150.6 billion from the People's Bank of China (PBOC). The remaining amount was exchanged for an interest-bearing receivable from the MOF in an aggregate principal amount of RMB 665.1 billion. The receivables were managed by a fund which was jointly managed by MOF and ABC.[4] As a result, capital adequacy ratio improved to 9.41% at the end of 2008 and 10.07% at the end of 2009. Accordingly, the NPL ratio dropped from 23.57% at the end of 2007 to 4.32% and 2.91%, respectively, at the end of 2008 and 2009.[5]

Another crucial step was to introduce strategic investors into the bank. In April 2010, the National Council for Social Security Fund injected RMB 15.5 billion in exchange for 10 billion shares of equity of ABC.[6] Therefore, total capital of ABC increased to RMB 270 billion. Finally, approval to the public listing of ABC was obtained from the China Securities Regulatory Commission in June 2010.

ABC launched its IPO in Shanghai on July 15, 2010 and in Hong Kong on July 16, 2010. The total amount of capital raised from this IPO was USD 22.1 billion, which was the largest IPO in history at that time. After the IPO and the exercise of Greenshoe, the total amount of shares was 324.79 billion. MOF and Central Huijin each owned about 40% of the shares, whereas National Council for Social Security Fund held 3.89%. Other A share shareholders and other H share shareholders owned 7.87% and 9.00%, respectively.[7] The change of shareholding of ABC before and after IPO is listed in Table 1.

It is noteworthy that while other state commercial banks introduced foreign strategic investors, ABC only introduced one domestic strategic investor. The ICBC, for instance, introduced Goldman Sachs, Allianz, American Express, and the National Council for Social Security Fund as strategic investors (Kwong, 2009, p. 17). Likewise, CCB introduced Bank of America and Temasek as strategic investors (Kwong, 2009, p. 17). In addition, BOC introduced Royal Bank of Scotland, Tamasek, UBS, Asian Development Bank, Merrill Lynch, and Li Kashing as strategic investors (Kwong, 2009, p. 17). The objective of introducing foreign strategic investors is to improve the corporate governance and management of the banks as well as to enhance the confidence of investors towards the IPO of the banks. In exchange,

TABLE 1
Shareholding of the agricultural bank of China.

Name of Shareholder	*Number of shares after the exercise of the Greenshoe (billion)*	*% of total*
Before IPO		
The Ministry of Finance (MOF)	130	48.15
Central Huijin Investment Ltd.	130	48.15
National Council for Social Security Fund (SSF)	10	3.70
Total	270	100
After IPO and Underwriters Exercise Greenshoe Right:		
The Ministry of Finance (MOF)	127.36	39.21
Central Huijin Investment Ltd.	130	40.03
National Council for Social Security Fund (SSF)	12.64	3.89
Other A share shareholders	25.57	7.87
Other H share shareholders	29.22	9.00
Total	324.79	100

Source: For figures before the IPO, see *Agricultural Bank of China Limited – Global Offering,* 2010, http://www.abchina.com/en/investor-relations/corporate-announcements/Announcements/201007/t20100701_32127.htm. For figures after the IPO and the exercise of Greenshoe right, see *The Announcement of Exercise of the Over-Allotment Option for the A Share Offering,* 2010, http://www.hkexnews.hk/listedco/listconews/sehk/2010/0816/LTN20100816007.pdf.

foreign strategic investors can purchase shares of the banks at a price lower than that in the subsequent IPO. However, this practice was not followed in the financial restructuring of ABC, which came after the outbreak of the subprime mortgage crisis in the United States. As explained by Xiang Junbo, the chairman of the board of directors at the time, it was difficult for ABC to find healthy financial institutions on board as strategic investors, as many foreign financial institutions faced serious troubles after the crisis.[8] A number of foreign strategic investors of Chinese banks sold a large amount of their shares after the lock-up period in order to recover capital for other uses. For example, Bank of America sold USD 7.3 billion worth of China Construction Bank stocks in May 2009.[9] Against this background, ABC chose to introduce only one domestic strategic investor in its IPO.

The financial performance of ABC after the public listing was positive. Net profit increased by 17.51% per annum on average during 2010–2014, amounting to RMB 180.8 billion in 2015. Return on assets rose from 0.99% in 2010 to 1.18% in 2014, then declined slightly to 1.07% in 2015 (see Figure 1). The NPL ratio remained below 2.5% throughout the years after listing. Capital adequacy ratio improved to 13.40% in 2015 (see Figure 2). All these financial indicators suggested that the quality of lending of ABC had ameliorated.[10]

REDEFINING RURAL BUSINESS AND INSTITUTIONAL REFORMS

In addition to the shareholding reform, the Chinese government has redefined the scope of rural business while initiating a new series of organizational and regulatory reforms to improve the operation of ABC. Limiting the scope of rural business has been a clear strategy to achieving financial sustainability of ABC.[11] Details about the new organizational structure

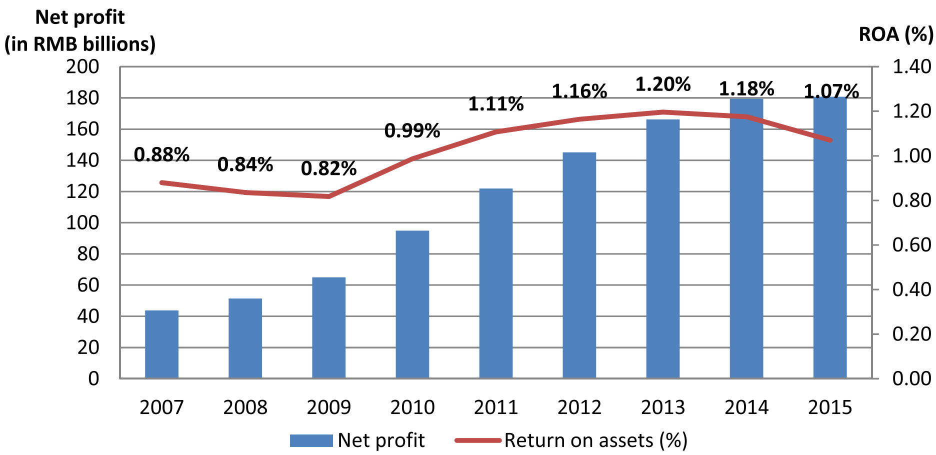

FIGURE 1 Net profit and return on assets (ROA).

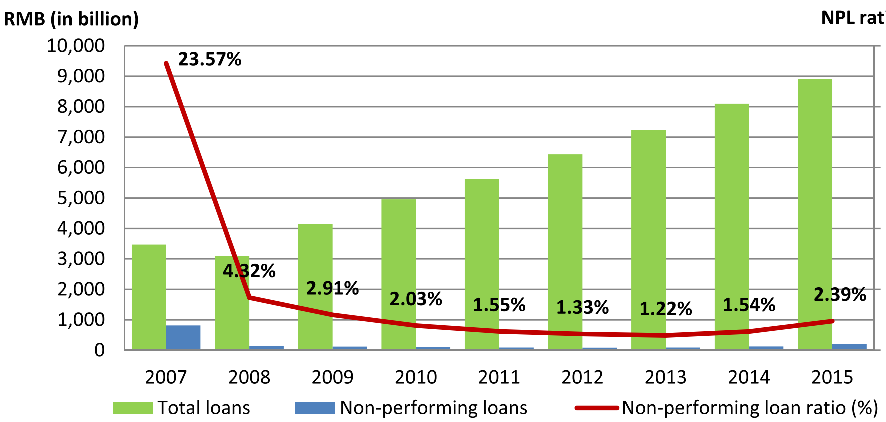

FIGURE 2 Total loans and nonperforming loan (NPL) ratio (%).

and special regulatory policies were stipulated in the supervision guidelines promulgated by the China Banking Regulatory Commission (CBRC) in 2010 (hereafter, the "Guidelines").[12]

The first round of experimentation of these reforms was conducted in in 2008. Subsequently, the experiments were extended to more provinces. By April 2015, the government had decided to extend the reforms to all county branches of ABC.[13]

Redefining Rural Business for ABC

Although ABC has to spend efforts on serving *sannong*, it is not necessary for it to engage in all kinds of rural business. From the very beginning of this round of reform, ABC has been pondering the boundary of its rural business. Its strategy is to redefine *sannong* business, in contrast to the conventional understanding, as county area business. In economically advanced areas, many counties have a highly urbanized seat town, where the operating cost is low and profitability of banking services is high. More importantly, under China's aggressive urbanization drive in recent years, population and economic activities in county capitals are growing rapidly.[14]

As a large bank with a nationwide network, ABC's tactics are to make use of its strength in rural-urban connections and to extend its relatively advanced commercial products to county areas, including card services, e-banking, funds, insurance agencies, international business, and wealth management products. These products cannot be offered efficiently by small rural financial institutions. As pointed out in its IPO document, ABC's target corporate customers include leading enterprises engaged in agricultural commercialization, major wholesalers designated by the Ministry of Agriculture, major distributors designated by the Ministry of Commerce, suppliers and distributors of leading agricultural enterprises, and so forth. For retail customers, ABC focuses on the middle and high end of the market, for example, residents in counties and county-level cities, private business owners, and affluent farmer households (Agricultural Bank of China, 2010).

Organizational Strategy

The crucial organizational reform of ABC is the setting up of a new division called the County Area Banking Division (CABD) that specializes in rural-related banking business. Independent from other divisions that operate normal commercial business, the CABD has distinct features in its governance system and business decision-making process. Under the board of directors, the County Area Banking Business Development Committee is established to formulate strategies and plans for CABD. Furthermore, the County Area Banking Business Management Committee is set up to implement the board's decisions that are related to CABD.

The "Guidelines" also stipulate in detail the organization structure within the CABD— three departments and six management centers for CABD should be set up.[15] The three departments are Rural Policy and Planning Department, Rural Industries Banking Department, and Farmers Banking Department. The six management centers include accounting and assessment, capital and funding management, credit management, human resources, product R&D, and risk management. All the centers report to both CABD and the supervising departments of the centers, representing a dual supervision structure. For example, CABD's human resources management center is accountable to CABD and the human resources management department of ABC.

Provincial branches and prefectural branches are required to set up the subdivisions of CABD, with functions similar to those of the CABD at the headquarters of ABC. Every provincial and prefectural subdivision is required to establish a corresponding management committee, though some flexibility is allowed in its specific form. For instance, a provincial branch could manage the county subbranches directly if the number of counties in the province is small. All county subbranches would be transformed into frontline operating units providing rural lending to enterprises and individuals.

The new division has a vertical structure called "three-tier supervision and one-tier operation." The supervision role is taken up by the CABD at the headquarters of ABC, and its subdivisions at the provincial and prefectural branches. Accordingly, the county subbranches

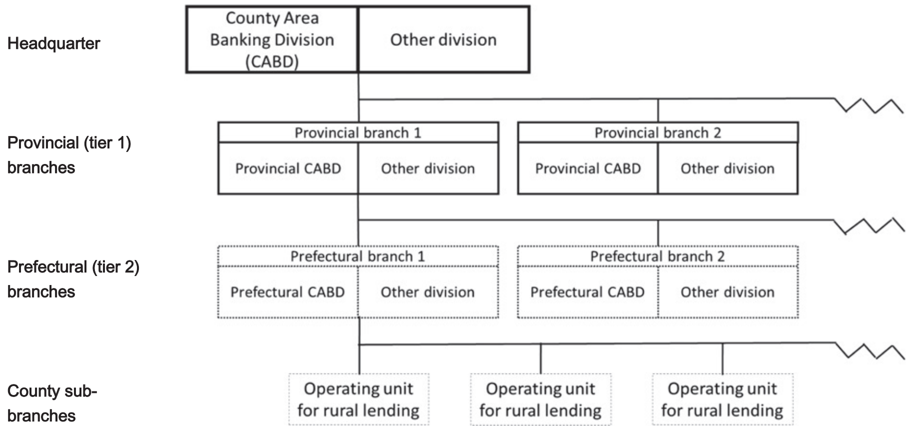

FIGURE 3 Organization structure of Agricultural Bank of China.

concentrate on the business operation. Subordinate branches should sign a contract which specifies their targets and the responsibilities with and report to the immediate superior branches. Most important, the "Guidelines" suggest that the credit approval power should be devolved to the county level. The new organisation structure is depicted in Figure 3.

Lastly, CABD has established an operation system which is independent of the rest of the commercial bank. It has introduced "six independent operation mechanisms" for: (a) credit management, (b) capital management, (c) accounting, (d) credit risk provision and verification, (e) balance and operation fund, and (f) performance appraisal.

The new organization form allows the Chinese government to employ different policies to different divisions of ABC. While the commercial loans of ABC is treated as normal lending like other commercial banks, preferential policies have been provided to lending of CABD. First, CBRC has exempted the supervision fee for business of CABD and the institutional supervision fee for the operating capital transferred to CABD by ABC.[16] Second, starting from April 2012, selected county subbranches under CABD have enjoyed a required reserve ratio (RRR) which is 2 percentage points lower than commercial banks.[17] Third, the business tax for interest incomes of county subbranches under CABD was reduced to 3% (from the general rate of 5%) from November 2013—December 2015.[18] Furthermore, when the Chinese implemented the nationwide reform of replacing business tax by value-added tax (VAT) in May 2016, county subbranches under CABD enjoyed the same concessionary VAT rate of 3% as other rural financial institutions (i.e., half of the rate for financial institutions).[19]

Regulatory Reforms

The Guidelines also contain clearly regulatory policies that are different from those for other banks (and, likewise, other parts of ABC). The document contains specific targets that can be classified into three groups.

1. *Pro-rural sectoral targets*. The “Guidelines” stipulate that the funding of county area organizations of ABC should mainly be used within the county area and that ABC should determine a specific ratio of funds to be used in the county area, based on the principle of business sustainability. Specific targets include: (i) the growth of lending by the CABD should not be slower than the total lending of ABC; (ii) the ratio of new lending to new deposits of CABD should be over 50% in 2011 (i.e., the year subsequent to the financial restructuring of ABC), and (iii) in five years’ time, the ratio of the outstanding loans to outstanding deposits in CABD should be over 50%. These targets aim at preventing the outflow of capital from rural to urban areas so that more funding will be available for use in the former.
2. *Profit targets*. Returns on assets of CABD should be over 0.5% in 2011, and gradually be raised to over 0.8% in subsequent years. Moreover, returns on operating capital should be over 10% in 2011, and gradually be raised to over 12% in subsequent years. Furthermore, cost-to-income ratio should be below 50% from 2011 onward. These targets put pressure on ABC to improve the profitability of rural business.
3. *Financial targets*. Any single customer of CABD should not constitute over 10% (15% for any single enterprise group) of the total lending of the County Area Banking Division. Moreover, the NPL ratio of CABD should be under 5% in principle. Furthermore, CABD should keep an adequate amount of loan provisions basing on a proper classification of loans, with 100% coverage in 2011 and gradually increase to 130% in three years.

Some of these targets are different from those for other commercial banks. For instance, the cost-revenue ratio and the return on assets for commercial banks are 45% and 0.6%, respectively.[20] The relatively lenient targets for CABD represent the regulator’s recognition of the high costs and lower profits of rural lending provided by ABC.

IMPACTS AND IMPLEMENTATION PROBLEMS

All these new policies have attempted to provide incentives for ABC to achieve the specified targets. The initial result appeared to be positive. ABC maintained a growth of rural-related loans higher than the expansion of total loans by 2–3 percentage points in the years 2008–2014, satisfying the pro-rural sectoral target.[21] Furthermore, CABD had met major profit and financial targets set in the regulatory guidelines.[22] For instance, after 2011, ROA of CABD remains above 1%. After 2010, cost-to-income ratio remained below 40%. Also, the NPL ratio was kept below 2% until 2014 and rose to 3.02% in 2015 when the economy was slowing down. Furthermore, the “allowance to NLPs” ratio increased from 168% in 2010 to 287% in 2014. Even in 2015, the ratio stayed at 189%, well above the required level.[23]

However, the good financial performance after the financial restructuring and IPO could simply be the result of the shedding off of the bad debts and injection of new capital, which is often referred to as the “bonus of IPO reform” by Chinese commentators.[24] As more and more rural loans are extended under the new mechanism over time, the true quality of loans will be revealed gradually. A real test of the mechanism is thus the financial performance of ABC (and in particular CABD) in the longer term, which is significantly affected by the successfulness of ABC in handling the policy mission. However, the contradiction between policy mission and commercial objectives has already been exposed in the practice of CABD in recent years. Many policies that were tried in experimental counties in previous years turned out to be not very successful in wider regions.

One fundamental issue is the relatively poor endowment of county economies. Although ABC has redefined rural business as those in the county areas, the economic development levels of different counties are very diverse. While many affluent counties are undergoing rapid urbanization and economic growth, there are still poor counties where profitable businesses are rare. As a matter of fact, 592 counties (about 30% of all counties in China) are designated by the central government as poor counties in 2014.[25] In economically backward counties, loan projects can easily fail and lead to a high level of NPLs. Even in rich counties, loan projects are riskier than those in the cities. The problem may not surface during an economic boom. However, when economic growth slows down, NPLs in county areas may accumulate faster than cities. This was the case in 2015, when many county subbranches in the coastal region registered a rapid growth of NPLs (Rural Study Group & Party School of ABC, 2015). Given the policy mission, however, ABC cannot retreat from these businesses.

Thus, the CABD continues to be perplexed by the contradiction between the policy and commercial objectives. At the operational level, there is a dilemma in fulfilling the pro-rural sectoral targets and the financial targets. To ensure the financial soundness, CABD has to pay special attention to the NPL ratio. In some locations, CABD will ban further lending of its operating units if the NPL ratio reaches a certain level. Sun (2013) observed that most of branches would ban the business of the operating units at the county level if the NPL ratio exceeds 3%. Li (2013) documented that the policy is implemented in Jilin Province at the manager level: credit managers would not be allowed to lend out more money if the NPL ratio of the previous loans exceed 3%. Furthermore, it was reported that a lending business (or a financial product) will be stopped if its NPL ratio exceeds 5%. When rural business is stopped, it would be difficult to achieve the pro-rural sectoral target.

Indeed, it is almost impossible to meet both the pro-rural sectoral targets and the financial targets in some poor areas. Sichuan is a case in point. If allocation of funds follow financial efficiency, more funds should be allocated to city branches so as to fulfill the financial targets and capital requirements. According to Xiong and Jiang, (2013), the ratio of required capital to cover risk-weighted loans in county businesses was higher than that of city businesses (8.40% and 2.99%, respectively, in 2011), while the NPL ratio in county areas was higher than that of the city branches (6.08% and 4.44%, respectively). It was estimated that less than one-third of the demand in rural areas was met. In some occasions, even though the monthly lending quota to rural households has been approved, there was a lack of incentives for the county subbranches to lend the money out. For instance, some county subbranches preferred to lend to nonrural purposes when the NPL ratio exceeded the regulatory standard to reach 7.78% in 2011.

When these problems arose, CABD responded by recentralizing the loan approval power from the county subbranches, representing a back-tracking of the institutional reforms. Soon after the IPO, Jilin reportedly recentralized the credit approval power in 2011–2012 (Li, 2013). In the subsequent years, it was observed that ABC already moved back to the credit approval hierarchy before the IPO reform (Rural Study Group & Party School of ABC, 2015). Whether this shift would be temporary or permanent is unclear. The benefit of granting county subbranches the loan approval power is their better access to borrowers' information and lower investigation costs. The risk is the lack of independence in lending decisions as the credit managers might be too close to the local clients. However, as CABD recentralizes the loan approval power to Tier 2 branches or above, it may lead to high transportation and investigation costs for the latter to gather more real site information (Sun, 2013). Thus, the optimal level of decentralization of loan approval authority has yet to be found out.

CONCLUSION

Our study demonstrates that the interaction between the Chinese government and ABC has been in line with the analysis of the two major theories of state ownership. Suggested by the "politician theory" of state-ownership, the government has tried to squeeze resources from ABC to serve social and political objectives (e.g., rural development). However, ABC has been able to request preferential treatment for implementation of the policies, which is consistent to the "policy burden" explanation of soft budget constraint in state ownership. The consequence is the creation of room for bargaining between the government and the bank.

The government has tried to control the costs of policy implementation by organizational and regulatory reforms. The CABD has been set up to run all the rural-related businesses so that its operation and financial accountability would be independent from other businesses of the bank. However, the set-up and operational costs of the CABD are high, as it needs to reshuffle all the local branches of the bank, many of which are located in remote areas. Precisely due to these costs and the information disadvantage of the government, ABC can bargain for preferential treatment.

Our study of ABC also suggests that the recent reforms are far from successful. In regions where there are difficulties in simultaneously fulfilling financial and pro-rural targets, the government may need to rethink whether it is necessary to mandate ABC to continue the business. If there is no way to run the business on a commercial basis, explicit subsidies or other forms of support by the government may be needed. The next question is then whether it is the best option for the government to provide this kind of support through ABC.

NOTES

1. State entities have continued to own major proportion of the shares of ABC, BOC, CCB, and ICBC even after many years they have gone public. This can be demonstrated by the shareholding figures at the end of 2015. Among the shares of ABC, the Central Huijin Investment Ltd., Ministry of Finance, National Council for Social Security Fund, and China Securities Finance Corporation Ltd. were respectively holding 40.42%, 39.21%, 3.02%, and 1.57%. In the case of BOC, Central Huijin Investment Ltd., National Council for Social Security Fund and China Securities Finance Corporation Ltd. owned 64.63%, 2.55% and 2.53% of its ordinary shares. Likewise, Central Huijin Investment Ltd. and China Securities Finance Corporation Ltd. were respectively holding 57.31% and 1.0% of the ordinary shares of CCB. Lastly, Central Huijin Investment Ltd., Ministry of Finance, National Council for Social Security Fund, and China Securities Finance Corporation Ltd. owned 34.99%, 34.60%, 2.43%,

and 1.23% of the ordinary shares of ICBC. For the shareholding information of ABC, see the *Annual Report of Agricultural Bank of China 2015*, p. 106, at http://www.abchina.com/en/AboutUs/annual-report/201604/P020160429512374459519.pdf (accessed 19 August 2016). For BOC, see the *Annual Report of Bank of China 2015,* pp. 89–90, at http://pic.bankofchina.com/bocappd/report/201603/P020160330590530834765.pdf (accessed 9 May 2016). For CCB, see the *Annual Report of China Construction Bank Corporation 2015*, p. 73, at http://en.ccb.com/en/newinvestor/upload/20160429_1461932711/20160429202514840744.pdf (accessed 19 August 2016). For ICBC, see *Annual Report of Industrial and Commercial Bank of China*, pp. 77–79, at http://v.icbc.com.cn/userfiles/Resources/ICBCLTD/download/2016/7201520160422.pdf (accessed 9 May 2016).

2. La Porta, Lopez-de-Silanes, and Shleifer (2002) provide cross-country evidence that supports the second view: higher government ownership of banks is associated with slower subsequent financial development and lower growth of income and productivity.

3. The debates about ABC reforms have been reviewed by Cheng (2009).

4. See the IPO document (Agricultural Bank of China, 2010) for an account of the financial structuring procedures. Furthermore, it has a detailed description of the co-management of the fund by MOF and ABC:

> A co-managed fund was set up and is jointly managed by the MOF and [ABC] to pay [ABC] the principal of and the interest accrued on the receivable from the MOF within 15 years. The assets held in this fund are owned by the MOF. The funding sources of the co-managed fund include (i) corporate income tax paid by [ABC] to the PRC central government during the life of the co-managed fund, (ii) cash dividends distributed by [ABC] to the MOF during the life of the co-managed fund, (iii) cash proceeds, net of related expenses, from the disposal of the nonperforming loans and impaired assets which [ABC] disposed of to the MOF in connection with [ABC's] financial restructuring, (iv) proceeds, which are allocated to the co-managed fund, from the sale by the MOF of [ABC's] shares, (v) other funds allocated by the MOF or other PRC government agencies, and (vi) interest income from the funds deposited in the co-managed account.

5. The figures come from the *Annual report of the Agricultural Bank of China 2009*, p. 6, at http://www.abchina.com/en/AboutUs/annual-report/ (accessed May 9, 2016).

6. National Council for Social Security Fund enjoys some rights under the agreement. See the IPO document (Agricultural Bank of China, 2010).

7. All these figures are recorded after the underwriter exercised Greenshoe right. The document is available at http://www.hkexnews.hk/listedco/listconews/sehk/2010/0816/LTN20100816007.pdf

8. Chairman at that time, Xiang Junbo revealed the reasons why ABC did not introduce foreign strategic investors in the IPO. See the report in *cnfol.com*, 31 December 2010 at http://hkstock.cnfol.com/101231/132,1709,9079754,00.shtml (accessed May 9, 2016).

9. Also see the report at *USA* Today, May 14, 2009, http://usatoday30.usatoday.com/money/industries/banking/2009-05-14-bank-america-china-stock_N.htm. In fact, Western banks became less interested in holding minority shares in Chinese banks due to the tightening of capital requirement rules in the post-2008 period. See the report at *Wall Street Journal*, September 3, 2013, http://www.wsj.com/articles/SB10001424127887324432404579052401692576092

10. The figures are reported in the Annual report of the Agricultural Bank of China, various issues, at: http://www.abchina.com/en/about-us/annual-report/

11. This is clearly stated in a document about the reforms of ABC released in 2009, available at http://www.cbrc.gov.cn/chinese/files/2009/2009053159FCF9C2CD3B146DFFD312F3A3145D00.doc

12. CBRC published in 2009 a preliminary version of the supervision guidelines, which was revised in 2010. For the 2010 version, see China Banking Regulatory Commission (2010).

13. See the report at http://news.xinhuanet.com/fortune/2015-08/20/c_128149719.htm

14. See the 2009 document cited in footnote no. 8.

15. The setting up of the departments and the management centers for CABD has changed several times. The most recent reform was implemented in 2014. See the organizational chart of the Agricultural Bank of China in the *Annual Report of the Agricultural Bank of China*, various issues, at http://www.abchina.com/en/AboutUs/

annual-report/ (accessed May 9, 2016) and the news in *people.com.cn*, April 1, 2014 at http://finance.people.com.cn/money/n/2014/0401/c42877-24791458.html (accessed May 9, 2016).

16. See the 2010 policy document at http://zhs.mof.gov.cn/zhengwuxinxi/zhengcefabu/201009/t20100926_340635.html and the 2015 document at http://szs.mof.gov.cn/zhengwuxinxi/zhengcefabu/201502/t20150209_1190240.html.

17. See the report at http://news.xinhuanet.com/finance/2012-04/18/c_111803511.htm

18. See the policy document at http://202.108.90.131/SuniT/202.108.90.130/n810341/n810755/c1149582/content.html

19. See the policy document at http://www.chinatax.gov.cn/n810219/n810744/n2048831/n2059355/c2111190/content.html

20. The targets for commercial banks are released by CBRC in 2005, available at http://www.cbrc.gov.cn/chinese/home/docDOC_ReadView/2196.html

21. The figures are available at: http://www.cbrc.gov.cn/showJgsyDoc/1810591C3479439EB9170E770095CC59.html

22. It is not clear whether all the targets are met, as some of the indicators are not released regularly.

23. The figures came from the *Annual report of the Agricultural Bank of China*, various issues, at: http://www.abchina.com/en/about-us/annual-report/

24. For instance, see the comments in an article in *Caixin Magazine*, available at http://magazine.caixin.com/2011-10-21/100316355.html

25. See the report in http://politics.people.com.cn/n/2014/1017/c1026-25854065.html

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