

Agricultural Bank of Taiwan



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Message to Shareholders





The gradual economic decline that started in the second-half of 2011 caused the global economy to slip into a sluggish pace in 2012. The lassitude that gripped the global economy was mainly due to unresolvable European debt crisis, the unstable recovery of the constricted financial conditions and rising unemployment rates of developed European nations and the United States, and the slackening growth rate in China. In Taiwan, the U.S. financial difficulties and Euro zone sovereign debt problems affected local economic trends in the first-half of 2012; moreover, the bearish global economy further dented export sales and tugged domestic consumer spending; hence, in its annual statistics for 2012, Directorate General of Budget, Accounting and Statistics (DGBAS) of Executive Yuan merely posted a 1.26% economic growth for Taiwan, falling by a huge gap against the 3.85% forecasted for the year.

In the International Monetary Fund forecast for 2013, if Europe and the United States will be able to solve their debt crisis and financial difficulties, the global economy may scale a slight growth in 2013. The 2013 forecasts posted in the January Issue of Global Insight showed a global economic growth of 2.5%; that is, maintaining the same projections made for 2012. The forecasts are indicating that economic recovery would still be slow in picking up and the current global economy is laden with challenges. The United States has delayed implementation of automatic reductions in government spending (a.k.a. sequestration) and is still deliberating on their debt ceiling and other financial problems. On the other hand, Japan's drastic depreciation of the yen had spurred widespread tension in the international economic scene. Taiwan's exports may likely suffer from the domino effects of these developments; however, the slight recovery manifested by the global economy in September 2012 and the related administrative measures continuously implemented under the Economic Power-Up Plan, the domestic economy is on to a better outlook. For 2013, the DGBAS is projected an economic growth of 3.59%.

Agricultural Bank of Taiwan (ABT) accepts redeposits of farmers' and fisheries associations pursuant to the laws. In light of continuing fund loose market, we face a pressure created by the massive funds redeposited into ABT. To efficiently manage the cash position, we have enhanced internal management of all investment operations to prevent the excessive concentration of investment risks on products.



Mr. S.L. Liu (Chairperson)

Moreover, we have intensified risk factor identification and upgraded our transaction authorization levels, and at the same time activated our asset allocation. We likewise intensified securities business operations and adjusted our asset structure to reduce the interest rate risks and to foster a more stable development. As for the loan business, in addition to developing the government agencies and state enterprise having lower risk weight to reduce credit risks and granting priority processing of policy-oriented special agricultural loans, financing of major government construction projects, participation in syndicated loans, and financing loans of medium and large business enterprises, we also collaborated with farmers' and fisheries associations in implementing syndicated loan programs to upgrade the

competitiveness of the credit departments of farmers' and fisheries associations, and to improve the structure of their loan business, thereby fostering an all-win situation for the farmers and fishermen, farmers' and fisheries associations, and ABT. On the matter of agency business, in an effort to boost retention of current account deposits, to increase risk-free processing fees, and to develop new clientele bases, we continued efforts in consolidating the farmers' and fisheries association channels. After establishing the payment collection and disbursement agreements with organizations, groups, and business corporations, we re-assigned processing to the respective farmers' and fisheries associations to enable farmers and fishermen to process home expenditure payments through these farmers' and fisheries associations, thereby fostering the drive of farmers' and fisheries associations to concentrate on home consumption oriented operations.

In 2012, ABT opened two new branches, one in Taichung and another in Kaohsiung, thereby enhancing the operation performance and the service quality. Moreover, we launched a co-branded credit card together with Union Bank of Taiwan and offered the Farmers Gold Card services. This offer consolidates the resources of farmers and fisheries associations to enhance the image of our agricultural loan services and foster the marketing of the agricultural and fishery products. Moreover, we shall continue to aid the National Agriculture, Fishery, and Finance Information Center in implementing its system integration plan to optimize the value of the agricultural finance system, realize the counseling services for the business and finance operations of the credit departments of farmers' & fisheries associations, develop new financial instruments and joint marketing plans with farmers' and fisheries associations, and define the management policies to foster customer relations building in the hope of achieving our respective statutory missions. Thus, in 2012, our annual net income before tax reached NT\$565 million. We shall endeavor to implement the business operations, enhance operation integration, and assist farmers' and fisheries associations in expanding their businesses under the aim of consolidating a new future of mutual cooperation with farmers' and fisheries associations. We hope to receive the continued strong encouragement and support of our shareholders in these efforts.



A. Business Report 2012

1. Operating Results

1. Deposits

Balance of deposits as of yearend of 2012 amounted to NT\$653,594,572,000, an increase of NT\$14,882,540,000 or 2.33% over the 2011 yearend balance; deposits of farmers' and fisheries associations amounted to NT\$646,137,497,000, or 98.86% of total deposits, and current deposits amounted to NT\$3,224,541,000, or 0.49% of total deposit.

2. Loans

a. Total loans as of yearend of 2012 amounted to NT\$194,760,469,000, an increase of NT\$25,537,063,000, or 15.09% over the 2011 yearend balance; wherein the agricultural loan amounted to NT\$7,766,522,000, or 3.99% of total loans, and regular loans amounted to NT\$186,993,947,000, or 96.01% of total loans.

- b. Total syndicated loans processed and managed with the farmers' and fisheries associations as of yearend of 2012 amounted to NT\$26,493,124,000, including syndicated loans to county and city governments and regular syndicated loans. A total of 156 farmers' and fisheries associations participated in the loan syndication; total loan exposure of other syndication participants amounted to NT\$12,959,004,000 (or 48.9%), whereas, our bank's exposure in the loan syndication amounted to NT\$13,534,120,000 (or 51.1%).

2. Budget execution and operating performance of 2012 net profit before tax

1. Budget Execution

The profit before tax of year 2012 amounted to NT\$564,584,000; against the originally estimated target of NT\$400,000,000, a goal achievement rate of 141.15% was attained.

2. Operating Performance

The CPA-audited net income for year 2012 amounted to NT\$1,859,089,000; divided into net interest revenue amounting NT\$1,052,162,000 and net non-interest revenue amounting NT\$806,927,000.

3. Achievements in guidance the credit departments of the farmers' and fisheries associations in 2012

1. Operation related information of the credit departments of farmers' and fisheries associations in 2012 are provided below:

December 31, 2012

Unit in NTD Thousand

Item	Year	2012	2011	Difference
Total Deposits		1,585,142,469	1,526,828,473	58,313,996
Total Loans		812,522,448	766,373,058	46,149,390
Amount of NPL		12,527,623	17,085,085	-4,557,462
Revenue		4,885,266	4,825,228	60,038
Net Value		103,987,259	99,465,149	4,522,110
Loan-to-Deposit Ratio		47.95%	46.97%	0.98%
NPL Ratio		1.54%	2.23%	-0.69%
Capital Adequacy Ratio		13.28%	13.25%	0.03%
Number of associations with NPL ratio higher than 15%		11	16	-5

2. General and project guidance business: In 2012, ABT conducted 3,636 general guidance sessions and 1,332 project guidance sessions, or a combined total of 4,968 sessions. In addition, ABT attended 502 business meetings of the credit departments of farmers' and fisheries associations, 125 liaison meetings with other agencies, and held 88 guidance sessions with farmers, fishery, and farming enterprises.
3. Allocations for policy-oriented special agricultural loans in 2012 was initially set at NT\$30 Billion; the annual total value of loans released in the year amounted to NT\$28.158 billion, or an implementation rate of 93.86%.
4. Financial operation audit and performance evaluation: In coordination with the requirement of local competent authorities, ABT conducted 125 reviews (business inspections) of the financial examination deficiency rectification procedures of the credit departments and 129 audits (including audit of the liquid assets) on the financing operations of the credit departments. In addition, in the Year 2011 credit department performance evaluation procedure, 302 copies of the performance evaluation reports were prepared.

5. The bank organized an orientation seminar on the Consumer Debt Clearance Regulations for credit departments of farmers' & fisheries associations, an orientation on the laws and regulations governing credit information investigation and credit information investigation practices for small to medium enterprises, an orientation seminar on the Renminbi bills open trading operations and transaction report procedures, a seminar on the credit information investigation operations of credit departments of farmers' & fisheries associations, an orientation seminar on trust transactions, insurance courses and other related subject matters. A total of 105 seminars were held in the year.
6. The bank continued providing assistance to the credit departments of farmers' & fisheries associations on the program for upgrading the loan-to-deposit ratio. The credit departments of all farmers' and fisheries associations posted a loan-to-deposit ratio of 47.95% as of December 31, 2012, an increase of 0.98% vis-à-vis the 46.97% posted on December 31, 2011.
7. In line with the related regulations of the Financial Supervisory Commission, we amended the depositors handbook of the credit departments of farmers' & fisheries associations in May 2012 to define the following: the guidelines of operations for farmers' & fisheries associations implementing the related regulations of Article 12-1 and Article 12-2 of the Banking Act; the internal regulations and model of the consignment of operations to third parties for processing (template); the succession of deposits of the fund deposit operations of credit departments of farmers' & fisheries associations; the guidelines on the fee collection of credit departments processing government agency inquiries and release of the seized deposits. In August of the same year, we amended the guidelines on the homeowner mortgage loans and land mortgage loans (template); in October, we amended the regulations on the processing of syndicated loans (template), the procedure for computing NT dollar loan interest rates of the credit information investigation and loan operations handbook; in November, we defined the notification obligation provisions of Article 8 Paragraph 1 of the Regulations on the Credit Department's Enforcement of the Personal Information Protection Act (template); and in December, we amended the standard contracts for personal Internet banking business services.

4. Research and Development

ABT's research and development program is designed to strengthen the asset allocation planning and enhance the risk management proficiency. Its primary task is to employ consultants to assist in the construction of the risk management system modules. The program shall accomplish the following tasks: counterparty risk assessment, product evaluation and risk assessment, VaR control and management module. It's projected to continue the module verification, stress test and scenario analysis module, corporate loan account risk assessment, and planning of establishment of the risk management system. ABT has poured NT\$720,000 as the R&D expenditure.

B. Summary of the 2013 Business Plan

1. Corporate Policy

In compliance with promulgated government policies, we have aggressively optimized the functions of the regulatory organization of the credit departments of farmers' and fisheries associations and aided these credit departments in establishing their pertinent systems, improving the quality of their loans, and enhancing their organizational structure for sounder operations. Collaborated efforts were made to strengthen the agricultural finance system and to foster the development of the farming and fishery economics of the country. We seek to achieve the optimal performance of our operations for the benefit of our shareholders.

2. Projected business goals for 2013 (year-end balance)

Deposits: NT\$ 695,000,000,000 (annual average business volume of NT\$679,000,000,000)

Loans: NT\$ 230,000,000,000 (annual average business volume of NT\$214,584,000,000)

Net profit before tax: NT\$450,000,000

3. Development strategies

1. Realization of policy goals and stabilization of agricultural finance in line with the bank founding objectives of the government.

2. Enhancement of finances to foster a sound capital structure, maintain an appropriate capital adequacy ratio, and enhance the internal control and risk control systems.
3. Active implementation of policy-oriented special agricultural loans, processing of management services for the Agricultural Development Fund Loan, and providing assistance in the development of agricultural and fishery industries.
4. Continued acceptance of redeposits from the credit departments of farmers' and fisheries associations and processing of financing loans; expansion of the loan business range (granting priorities to agricultural, forestry, fishery and livestock businesses) and financial investment; acceleration of the asset structure improvement work for the enhancement of ABT's business performance.
5. Implementation of the guidance sessions for the business and finance operations of the credit departments of farmers' and fisheries associations; development of new financial products for co-marketing; and strengthening of the competitive power of the agricultural financial institutions.
6. Emphasis on the customer relation management and strengthening of liaison and exchanges with the borrowers of farmers' and fisheries associations and ABT, thereby enhancing the customer satisfaction.
7. Planning of and application for the processing of credit card acquiring operations in order to provide diversified financial services; collaboration with the card issuing banks for a strategic cooperation of jointly issuing the affiliate credit cards for the agricultural banking system; consolidation of related resources of the agriculture and fishery industries and the leisure and tourism industries for promotion of the economic development of farming and fishing villages.
8. Improvement of the quality and efficiency of our information system operations and reinforcement of operation security measures; participation in the operations of the National Agriculture, Fishery, and Finance Information Center for creation of an information sharing system.

C. Credit Rating

Date of Latest Credit Rating	Credit Rating Agency	Long-term Credit Rating	Short-term Credit Rating	Prospect
December 6, 2011	Taiwan Ratings Corp.	twAAA	twA-1+	Stable



Mr. C.N. Shen (Executive Vice President)

Mr. H.M. Yan (Executive Vice President)



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Company Profile



A. Introduction

The Agricultural Bank of Taiwan was established following the consensus resolved in the National Agriculture Finance Meeting which was convened by the government on November 30, 2002 in response to the opinions and needs of the agricultural and fisheries sectors and in order to create a sound agricultural finance system. Subsequent to the legislation of the Agricultural Finance Act on July 10, 2003, the Council of Agriculture established the Bureau of Agricultural Finance under its umbrella on January 30, 2004 and set the wheels in motion for the foundation of the Agricultural Bank of Taiwan for institution of a complete, safe, and independent agricultural finance system. Organization work for ABT's establishment started on July 16, 2004, and on May 26, 2005, ABT was officially incorporated for operation with a capital of NT\$20 billion; 49% of which came from government funding and 51% from farmers' and fisheries association funds. By the yearend of 2012, ABT posted a total assets valued at NT\$733.6 Billion and had a net capital of NT\$20.4 billion; ratio of government capital was 44.75%, whereas that of farmers' and fisheries association fund was 55.22%.

The Agricultural Bank of Taiwan is the only officially authorized banking institution in the country that simultaneously functions as a professional agricultural bank and a commercial bank. It assists the government in attending to the financial requirements of farmers and fishermen. Pursuant to the provisions of the Agricultural Finance Act, the bank also serves as the regulatory organization of the credit departments of farmers' and fisheries associations; hence, the 1,162 head and branch offices of the credit departments of farmers' and fisheries associations comprise the province-wide agricultural financial service network of the bank, enabling the bank to implement the policy of the financial support to the agricultural industry and assist in fostering the stable development of the agricultural economy.

On August 28, 2006, ABT invested NT\$3 million into the Agricultural Finance Insurance Broker Co., Ltd. (AFIB), a fully owned subsidiary of ABT. In the yearend of 2012, AFIB posted a paid-in capital of NT\$54.5 million, and through the mobilization of the nationwide channel network of farmers' and fisheries associations, it gained strong price negotiation vantages and worked together with primary property insurance companies in the country for the allied marketing of insurance services. It opened a new door for the financial instruments and services of the farmers' and fisheries associations.



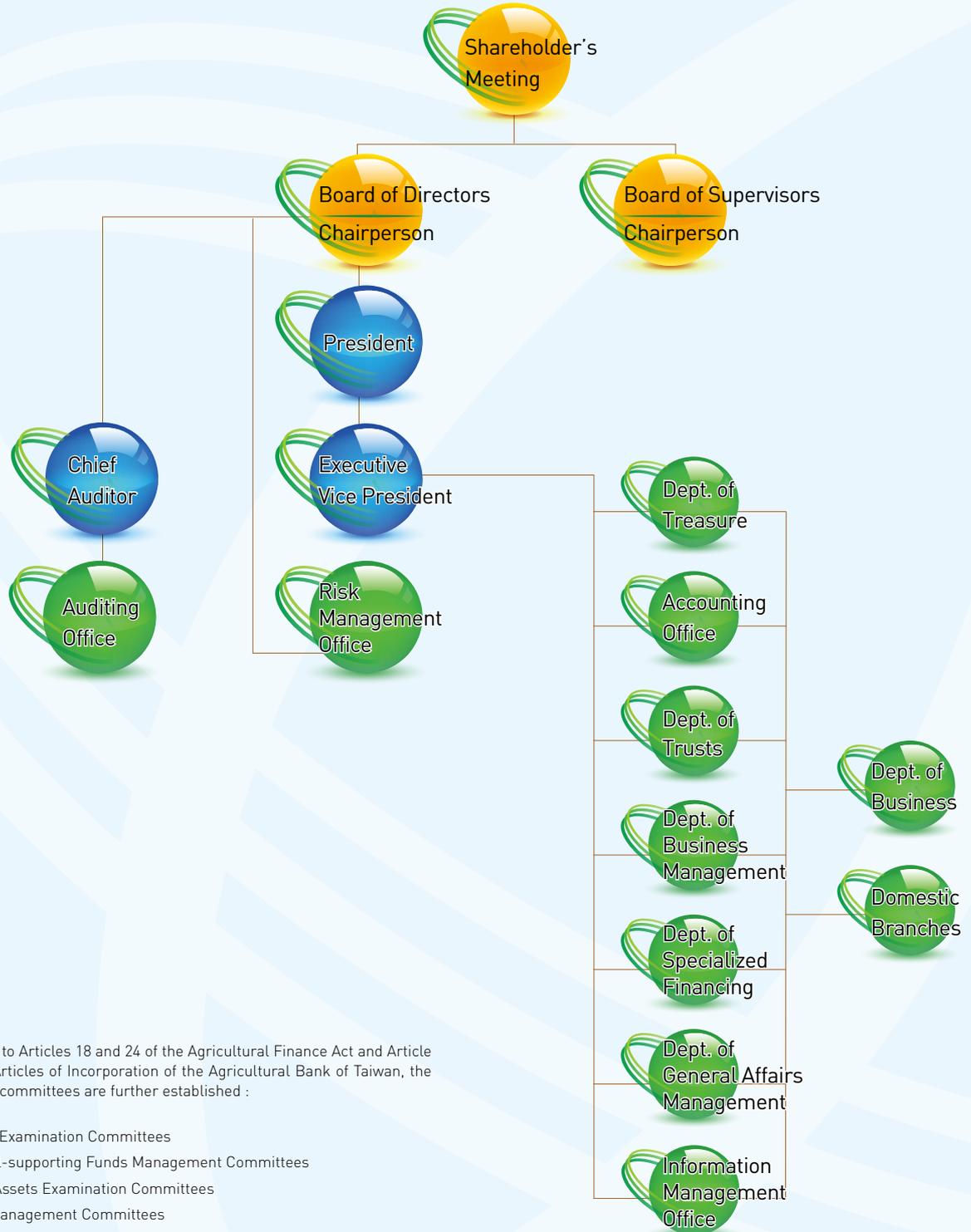
● In the front row from left

Mr. C.M. Hsu (Director of the board)	Mr. S.C. Chen (Director of the board)	Mr. T.K. Peng (Director of the board)
Mr. S.C. Yang (Supervisor)	Mr. S.L. Liu (Chairperson)	Mr. Y.C. Chang (Director of the board)
Mr. C.H. Chen (Director of the board)	Mr. C.C. Yo (Director of the board)	Ms. H.M. Tsai (Director of the board)

● In the back row from left

Mr. Y.K. Lin (Director of the board)	Mr. M.T. Chao (Director of the board)	Mr. M.H. Yang (Director of the board)
Mr. S.S. Lin (Director of the board)	Mr. W.W. Yang (Supervisor)	Mr. K.N. Ou (Director of the board)
Mr. R.T. Yeh (Director of the board)	Mr. H.C. Lin (Supervisor)	Mr. Y.T. Chang (Supervisor)
Mr. C.L. Tsai (Director of the board)	Mr. S.C. Lin (Supervisor)	

B. Organization Structure



Note 1 : Pursuant to Articles 18 and 24 of the Agricultural Finance Act and Article 7 of the Articles of Incorporation of the Agricultural Bank of Taiwan, the following committees are further established :

- Credit Examination Committees
- Mutual-supporting Funds Management Committees
- Trust Assets Examination Committees
- Risk Management Committees
- Assets and Liabilities Management Committees
- Special Guidance Committee
- Investment Examination Committees

Reinvestments: Agricultural Finance Insurance Broker Co., Ltd. (100% holdings)

C. Functions and Operations of Major Departments

Auditing Office	Planning and implementation of the auditing procedures; audit, investigation, tracking, and evaluation of businesses of various departments; audit of expenditures; joint audit, bidding supervision and inspection supervision of construction projects and procurements, settings, and property sales transactions; moreover, regular report shall be made to the Boards of Directors and Supervisors.
Risk Management Office	Planning of risk management operations; planning and implementation of credit rating operations; formulation and definition of risk index and risk measurement procedures; monitoring and control of risks; determination of the compliance of risk management operations with the related provisions of the Basel II system and the risk management related regulations of the national supervisory authority.
Dept. of Treasure	Planning and management of the appropriation of funds in local and foreign currencies, foreign currency exchange transactions, planning and management of medium and long-term capitals; planning and management of bills, bonds and asset investments in both local and foreign currencies; planning, subscription, and risk assessment of new financial products; study and planning of new capital solicitation and preferred share issuances of ABT; fund allocations, account transfers, account clearing and settlement matters with the Central Bank, banks and Financial Information Service Co., Ltd., clearing houses, and inter-bank transaction partners.
Dept. of Business	Processing of all types of deposit, bank remittance, short-, medium-, and long-term loan and bank guarantee related matters; distribute different kinds of funds, beneficiary certificates, gold, gold coins, silver coins, and act as the custodian agent of marketable securities and certificates of creditor's rights .
Dept. of Trusts	Planning, marketing and management of trust products; management of monetary trust and real estate investment trust.
Dept. of Business Management	Amendment and definition of bylaw provisions; formulation of business policies and guidelines; formulation and implementation of the annual business plans and preparation of the related analysis reports; planning and management of deposit, remittance, and agency businesses; planning and implementation of marketing strategies and customer services; summoning and organization of the meetings of the loan review committee and head office loan evaluation team; formulation of the rules governing syndicated loans; assistance in the development, evaluation and advisory of syndicated loan business; supervision and management of ABT branch offices and new business related operations; and planning and management of reinvestment ventures.
Dept. of Specialized Financing	Planning and execution of government subsidy plans for government agencies administering agricultural affairs; guidance of the business operations and audit of the business and financial operations of the credit departments of the farmers' and fisheries associations; financing major agricultural infrastructures; financing special agriculture cases; planning, promotion, and implementation of policy-oriented special agricultural loans.
Dept. of General Affairs Management	Arrangement of the meeting schedules of the Board of Directors; study and deliberation of legal cases; joint audit of major internal regulations, operating manuals, and contracts; planning and execution of human resources development, training, and utilization programs; procurement and management of equipment, building projects, construction and repair projects, and office supplies; disbursement of miscellaneous and operating expenditures.
Information Management Office	Planning, formulation, and evaluation of computer operations plans; preparation of the budget allocation for information services; planning of the security plan for computer and information operations; design, installation and maintenance of information networks; implementation and control of computer room operations; programming, and testing.
Accounting Office	Planning, review and compilation of the annual operating budget and financial forecasts; preparation and publication of monthly reports, quarterly reports, and accounting and clearing reports; formulation and amendment of the accounting system and the accounting procedure manuals; compilation and submission of financial statements and statistics charts; joint audit, supervision, and joint inspection and acceptance procedures implemented on completed construction projects and procurements.

D. Employees

Year		2011	2012	As of March. 20, 2013
Number of employees	Full-time employees	159	173	182
	Contract employees	9	2	3
	Total	168	175	185
Average age		41.8	42.03	41.5
Average years of service		5.5	5.68	5.7
Educational attainment of employees	Doctorate degree	0	1	1
	Master degree	54	57	58
	Bachelor degree	110	113	122
	Senior high school graduate	4	4	4



Corporate Governance Report

A. Directors and Supervisors

December 31, 2012

Title	Name	Date of Appointment (inauguration)	Term	Date of Initial Appointment / Election	Significant experiences and educational attainment	Positions held in other banks and companies
Chairperson Represented corporate shareholder: Council of Agriculture of the Executive Yuan	S.L. Liu	12/30/2009	12/30/2009 to 12/29/2013	08/12/2008	Master of Public Administration Tunghai University; Secretary-General of Dajia Township Farmers' Association, Taichung county; Chairperson of the Taiwan Farmers and Fishermen Central District Information Center	Chairperson of National Agriculture, Fishery and Finance Information Center
Director Represented corporate shareholder: Council of Agriculture, Executive Yuan	C.M. Hsu	01/01/2012	12/30/2009 to 12/29/2013	01/01/2012	Master of Agricultural Economics, National Taiwan University; Deputy Director General, Bureau of Agricultural Finance, Council of Agriculture	Deputy Director General, Bureau of Agricultural Finance, Council of Agriculture
Managing Director Represented corporate shareholder: Council of Agriculture, Executive Yuan	S.C. Tsai	12/30/2009	12/30/2009 to 12/29/2013	12/30/2009	Ph.D. in Business Management, NOVA Southeastern University; Chairperson of Agricultural Credit Guarantee Fund	-
Managing Director Represented corporate shareholder: Taiwan Provincial Farmers' Association	Y.C. Chang	12/30/2009	12/30/2009 to 12/29/2013	12/30/2009	Master of Management Science, Nanhua University; Secretary-General of Taiwan Provincial Farmers' Association	Secretary-General of Taiwan Provincial Farmers' Association; Chairperson of National Training Institute for Farmers' organizations
Managing Director Represented corporate shareholder: Luchou District Farmers' Association, New Taipei City	C.H. Chen	12/30/2009 to 01/18/2013	12/30/2009 to 12/29/2013	12/30/2009	B.A. of Tourism, Chinese Culture University; Secretary-General of Luchou District Farmers' Association	Secretary-General of Luchou District Farmers' Association
Director Represented corporate shareholder: Council of Agriculture, Executive Yuan	H.C. Xiao	05/14/2010 (dismissed on 01/18/2013)	12/30/2009 to 12/29/2013	05/14/2010	Master of Agricultural Economy, National Taiwan University; Senior Executive Officer and Deputy Director of the Fifth Department of the Executive Yuan	Deputy Director of the Economic Energy and Agriculture Department of the Executive Yuan
Director Represented corporate shareholder: Council of Agriculture, Executive Yuan	Y.K. Lin	01/18/2013	12/30/2009 to 12/29/2013	01/18/2013	Master of Construction Engineering, National Taiwan University of Science & Technology; Advisory Committee Member of the Fifth Department of the Executive Yuan	Section Chief of the Economic Energy and Agriculture Department of the Executive Yuan
Director Represented corporate shareholder: Shulin District Farmers' Association, New Taipei City	S.S. Lin	12/30/2009	12/30/2009 to 12/29/2013	12/30/2009	Master of Management Science, National Chiao Tung University; Secretary-General of Shulin District Farmers' Association	Secretary-General of Shulin District Farmers' Association
Director Represented corporate shareholder: Taichung County Farmers' Association	C.L. Tsai	12/30/2009	12/30/2009 to 12/29/2013	12/30/2009	Master of Management, Dayeh University; Secretary-General of Taichung County Farmers' Association	Secretary-General of Taichung County Farmers' Association
Director Represented corporate shareholder: Yung-Kang District Farmers' Association, Tainan City	M.T. Chao	12/30/2009	12/30/2009 to 12/29/2013	12/30/2009	Department of General Education, Fu-Hwa Senior High School; Secretary-General of Yung-Kang District Farmers' Association	Secretary-General of Yung-Kang District Farmers' Association
Director Represented corporate shareholder: Feng-Shan District Farmers' Association, Kaohsiung City	K.N. Ou	12/30/2009	12/30/2009 to 12/29/2013	12/30/2009	Department of Chemical Engineering, National Chin Yi Institute of Technology; Secretary-General of Feng-Shan District Farmers' Association	Secretary-General of Feng-Shan District Farmers' Association

December 31, 2012

Title	Name	Date of Appointment (inauguration)	Term	Date of Initial Appointment / Election	Significant experiences and educational attainment	Positions held in other banks and companies
Director (Independent Director)	H.M. Tsai	06/26/2012	12/30/2009 to 12/29/2013	06/26/2012	Bachelor of Economics, National Taiwan University; Executive Officer of Accounting & Statistics Office, Executive Yuan	Assistant Manager of Economic Research Department, Central Bank of the Republic of China (Taiwan)
Director (Independent Director)	R.T. Yeh	12/30/2009	12/30/2009 to 12/29/2013	12/30/2009	Mater of Finance, National Taiwan University; Consultant and Vice Director General, Department of Economic Research, Central Bank of the Republic of China (Taiwan)	-
Director (Independent Director)	T.K. Peng	06/26/2012	12/30/2009 to 12/29/2013	06/26/2012	Ph.D. in Agricultural Economics, University of Illinois at Urbana-Champaign; Chairperson of the Council of Agriculture of Executive Yuan; President of National Chung Hsing University, President of TransWorld University; President of Chung Chou University of Science & Technology	Lecture Professor of the Department of Business Administration of Asia University
Managing Director (Independent Director)	C.C. Yo	Elected as director 12/30/2009 Elected as managing director 07/19/2011	12/30/2009 to 12/29/2013	12/30/2009	J.D., Stanford University; Judge of Panchiao, Ilan, Hualien District Courts; Lawyer of Lee and Li Attorneys-at-Law; Assistant Professor of Department of Industrial and Business Management of Chang Gung University	Assistant Professor of Department of Industrial and Business Management, Chang Gung University
Director (Independent Director)	M.H. Yang	12/30/2009	12/30/2009 to 12/29/2013	12/30/2009	Ph.D. in Agricultural Economics, National Taiwan University; Director of the Bureau of Agriculture of Changhua County Government; Association Dean, College of Business, Feng Chia University	Association Dean, College of Business, Feng Chia University
Supervisor (Independent Supervisor)	S.C. Lin	06/26/2012	12/30/2009 to 12/29/2013	06/26/2012	Master of Applied Statistics of Fu Jen Catholic University; Accounting Director of Academia Sinica; Senior Executive Officer of Directorate General of Budget, Accounting and Statistics, Executive Yuan	Accountant Officer cum Chief Executive Officer of Directorate General of Budget, Accounting and Statistics, Executive Yuan
Supervisor Represented corporate shareholder: Tung-Kang District Fishermen's Association, Pingtung County	H.C. Lin	12/30/2009	12/30/2009 to 12/29/2013	12/30/2009	Department of Fishery Production, National Kaohsiung Marine University; Secretary-General of Tung-Kang District Fishermen's Association	Secretary-General of Tung-Kang District Fishermen's Association
Supervisor Represented corporate shareholder: Tou-Nan Township Farmers' Association, Yunlin County	Y.T. Chang	12/30/2009	12/30/2009 to 12/29/2013	12/30/2009	Department of Electrical Engineering, Da-Cheng Vocational High School; Secretary-General of Tou-Nan Township Farmers' Association	Secretary-General of Tou-Nan Township Farmers' Association
Supervisor (Independent Supervisor)	W.W. Yang	06/29/2011	12/30/2009 to 12/29/2013	06/29/2011	Ph.D. in Law, Duke University (U.S.); Associate Professor (full-time) Department of Law and School of Law, Kainan University	Associate Professor (full-time), Department of Law and School of Law, Kainan University; Chairperson of Hsing Yuan Power Corporation
Supervisor (Independent Supervisor)	S.C. Yang	Elected as the supervisor 12/30/2009 Elected as the Chief Supervisor 12/20/2011	12/30/2009 to 12/29/2013	12/30/2009	Master of Accounting, Tamkang University; Director of the Accounting Office, Council of Agriculture	Director of Accounting Office, Council of Agriculture

B. Profiles of Managers

December 31, 2012

Title	Name	Date appointer	Major experience (education)	Position in other companies
President	K.F. Chu	09/26/2011 (Retired on 01/01/2013)	Bachelor of Agricultural Economics, National Taiwan University; Manager of Farmers Bank of China	Chairperson of the Agricultural Finance Insurance Broker Co., Ltd.; Managing Director of the Agricultural Credit Guarantee Fund; Director of National Agricultural, Fishery and Finance Information Center
Vice President	C.N. Shen	05/26/2005	Executive Master of Business Administration (EMBA), National Chiayi University; Division Manager, Farmers Bank of China	-
Vice President	H.M. Yan	05/20/2010	School of Agricultural Economics, Kyushu University, Japan; Manager of the Farmers Bank of China	Director, Agricultural Finance Insurance Broker Co., Ltd.
S.V.P. & General Manager, Dept. of Business Management (S.V.P. & General Manager, Dept. of Business)	Y.H. Chiou	12/28/2012 (05/03/2011 to 12/28/2012)	Bachelor of Land Administration, National Chung Hsing University; Manager, Land Bank of Taiwan	Director, Agricultural Finance Insurance Broker Co., Ltd.
Acting Chief Auditor, Auditing Office, Board of Directors	C.Y. Lai	10/05/2011 to 12/28/2012	B.S. in Banking, Tamkang University; Auditor, Auditing Office of the Farmers Bank of China	-
S.V.P. & General Manager, Dept. of General Affairs Management (V.P. & General Manager of the Risk Management Office, Board of Directors)	Y.K. Hung	05/03/2011 to 12/28/2012	School of Statistics, National Chengchi University; Asst. Manager of the Planning Department, Farmers Bank of China	-
S.V.P. & General Manager Dept. of Business (S.V.P. & General Manager, Dept. of Specialized Financing)	H.T. Chen	05/03/2011	Credit Program of the Graduate School of International Business Management, Chinese Culture University; Department of Business, National Open University; Vice Manager of Review Department, Land Bank of Taiwan	-
S.V.P. & General Manager, Dept. of Treasure	S.C. Lai	09/17/2008	Bachelor of Business Administration, National Chengchi University; Senior Asst. Vice President, Taipei Fubon Bank	-
S.V.P. & General Manager, Information Management Office	M.S. Chen	05/26/2005	Bachelor of Computer Science, Feng Chia University; Senior Executive Officer of Fuhwa Commercial Bank	-
Risk Management Office V.P. & General Manager, Board of Directors (V.P. & General Manager of the Dept. of Business Management)	Y.L. Chiang	05/03/2011 (05/03/2011 to 12/28/2012)	School of Political Science, Chinese Culture University; Senior Administrator of the Audit Department, Financial Information Service Co., Ltd.	-
V.P. & General Manager, Dept. of Specialized Financing	C.J. Wen	05/03/2011	Bachelor of Public Finance, National Chung Hsing University; Asst. Manager, Tatung Branch of the Farmers Bank of China	-
V.P. & General Manager, Department of Trusts	S.H. Hsu	05/20/2010	Graduate school of Agricultural Economics, National Chung Hsing University; Manager of Hwa Tai Bank; Manager of the Bank of Panhsin	-
V.P. & General Manager of the Accounting Office	L.L. Yang	05/20/2010	Bachelor of Accounting, National Chung Hsing University; Specialist of the Accounting Office of the Farmers Bank of China; Assistant Vice President of the Agricultural Bank of Taiwan	Supervisor, Agricultural Finance Insurance Broker Co., Ltd.
V.P. & General Manager of the Preparatory Office of Taichung Branch	T.Y. Lin	10/12/2012 (12/20/2011 to 10/12/2012)	Master of Insurance, Feng Chia University; Asst. Manager, Class 1, Fengyuan Branch of the Land Bank of Taiwan	-
V.P. & General Manager of the Preparatory Office of Kaohsiung Branch	J.S. Jiang	10/26/2012 (07/17/2012 to 10/26/2012)	Institute of Natural Resources Management, National Taipei University; Assistant Manager of the Loan Service Center of Ta Chong Bank	-

C. Corporate Governance

1. Status of Corporate Governance and Divergences from the "Corporate Governance Practices of the Bank" and the Underlying Factors of its Divergence

December 31, 2012

Item	Status of Operations	Divergences from Corporate Governance Practices of the Banks and the Underlying Reasons of Divergences
(1) Equity structure and shareholder's equity (a) Procedure for processing shareholder suggestions or related disputes (b) ABT's understanding of the principal shareholders possessing actual control over the bank and the roster of decision-makers with the most controlling power over the principal shareholders (c) Procedure for establishing the risk control system and firewall between ABT and its affiliated corporations	(a) A designated person is appointed to attend to the shareholder suggestions or related disputes. (b) A designated person is appointed to control the roster of major shareholders and decision-makers with the most controlling power over the principal shareholders. (c) The personnel, assets, and financial management procedures between ABT and its affiliated corporations are clear and transparent and are executed in compliance with the related regulations of the internal control system.	None
(2) Composition and Responsibility of the Board of Directors (a) Status of Set-up of Independent Directors (b) Regular assessment of the certified public accountant independence	(a) Pursuant to the provisions defined in Article 17 of the Agricultural Finance Act, the number of directors as defined in the ABT Articles of Incorporation shall be elected through the shareholders meeting; moreover, it is imperative that the Board should contain at least two independent directors comprising at least one-third of the total number of seats in the Board of Directors. (b) ABT retains the services of a certified public accountant (CPA) every year; selection of the CPA is subject to the approval of the Board of Directors.	None
(3) Status of establishing channels for communication with the interest parties	The ABT website has offered the "Customers Opinion Box", the "Exchange Webpage for Farmers' and Fisheries Associations", and the "Liaison Webpage for Farmers' and Fisheries Associations" to the public for providing a smooth channel through which customers and interest parties may file complaints or institute communication and exchanges.	None
(4) Disclosure of information (a) Status of construction of the ABT website for disclosure of information concerning the financial operations and corporate governance of ABT (b) Other methods of information disclosure: construction of an English webpage, designation of a specific person in charge to attend to information collection and disclosure, implementation of the spokesperson system, posting of the investor conference on the ABT website.	(a) The Bank's website is http://www.agribank.com.tw . The Bank has appointed a dedicated crew to regularly maintain the website and post essential financial, business and corporate governance related information on the "Open Disclosure" page of the Bank's website within the required deadline (including information on the corporate governance structure and rules, equity structure, organizational structure and independence of the board of directors, responsibilities of board of directors and management executives, composition, responsibilities and independence of the supervisors, further educational pursuits of directors and supervisors, remunerations of directors and supervisors, loan-related information of interest parties, and disclosure of the capital adequacy status of the bank on the "Disclosure of Required Information" and the "Capital Adequacy and Risk Management" pages of the ABT website), and other significant events and information subject to open disclosure by law. (b) Information on annual reports, financial positions and operations, and other significant information of the ABT disclosure of which is required by law is available in the ABT website. In addition, to ensure the accuracy and time efficiency of all posted significant information, ABT appointed a spokesperson and a deputy spokesperson to represent the ABT in press and public relations related matters.	None
(5) Operating status of the bank's establishment of committees attending to nomination, remunerations or compensation, or other functional committees	To date, ABT has not established a committee to attend to remunerations or compensations or any other functional committee.	ABT may plan establishment of dedicated functional committees pursuant to the developmental requirements of the bank.



December 31, 2012

(6) Please specify the status of ABT corporate governance operations and inconsistency of existing operations with the "Corporate Governance Practice of the Bank" and reasons for inconsistency:
Regarding ABT corporate governance operations and the inconsistency of existing operations with the "Corporate Governance Practice of the Bank", please refer to the items 1-5.

(7) Other important information fostering an understanding of the status of corporate governance operations (e.g. employee benefits, employee welfare, investor relations, rights of interest parties, further education of directors and supervisors, implementation of risk management policies and risk assessment standards, implementation of customer policies, liability insurance policies acquired by ABT for its directors and supervisors, etc.)

- (a) In line with promulgated government policies, all policy-oriented special agricultural loans of ABT are created to aid the sound development of the credit departments of farmers' and fisheries associations, thereby fostering the prosperous development of the agricultural economics. In the future, the Bank will actively participate in public welfare activities, pay more attention to community affairs, and pay a serious regard to its social responsibilities, as well as endeavor to realize the corporate commitment of "giving back to the society from which one has benefited."
- (b) Further studies of directors and supervisors: Pursuant to the educational intent presented by ABT directors and supervisors, the ABT processed the registration for their respective further study applications on their behalf.

Name of director/ supervisor	Training institute	Class hours	Name of director/ supervisor	Training institute	Class hours
S.L. Liu	Council of Agriculture, Executive Yuan	6	H.M. Tsai	Taiwan Institute of Economic Research; Council for Economic Planning; Development, Central Bank of the R.O.C.	17
C.M. Hsu	-	-	R.T. Yeh	Taiwan Corporate Governance Association	12
S.C. Tsai	Council of Agriculture, Executive Yuan	-	T.K. Peng	National Chung Hsing University	6
Y.C. Chang	Securities & Futures Institute	12	C.C. Yo	-	-
C.H. Chen	National Training Institute for Farmers' Organizations, Securities & Futures Institute	13	M.H. Yang	Rural Economics Society of Taiwan	6
H.C. Hsiao	Taiwan Corporate Governance Association	-	S.C. Lin	-	-
Y.K. Lin	-	-	H.C. Lin	National Training Institute for Farmers' Organizations; Taiwan Provincial Fisher's Association	21
S.S. Lin	Taiwan Academy of Banking and Finance	32	Y.T. Chang	Central Deposit Insurance Corp.	7
C.L. Tsai	National Training Institute for Farmers' Organizations	16	W.W. Yang	-	-
M.T. Chao	National Training Institute for Farmers' Organizations (Information Innovation Camp)	5	S.C. Yang	Taiwan Academy of Banking and Finance	3
K.N. Ou	Kaohsiung City Farmers' Association	12	-	-	-

- (c) Attendance of directors and supervisors in the Board of Directors Meetings: The directors and supervisors of the board have attended the board of directors meeting in accordance with the Rules and Procedures of Board of Directors Meeting; attending directors and supervisors sign the meeting registration logbook to attest their presence in the meeting.
- (d) Implementation of risk management policies and risk assessment standards: The Bank has defined a comprehensive risk management policy to regulate the credit risk, market risk, and operational risk management procedures.
- (e) Implementation of consumer protection and customer service policies: The Bank has formulated the Consumer Protection Self-Evaluation Form to enhance the implementation of the consumer protection related operations and to periodically examine implementation of business operating procedures, thereby ensuring their compliance with the Consumer Protection Act and related regulations.
- (f) Recusal of directors from situations manifesting conflict of interests: On projects or endeavors where directors had conflicting interests with ABT, the director concerned had recused himself / herself from the deliberation and decision-making procedures of the Board.
- (g) Acquisition of liability insurance policies for directors and supervisors: No liability insurance policy for any ABT director or supervisor has been obtained.

(8) Where a corporate governance self-evaluation report has been prepared or services of a professional institution has been commissioned for the preparation of a corporate governance assessment report, said report shall contain a detailed account of the self-evaluation (or outsourcing assessment) results, primary deficiencies (or suggestions), and the pertinent corrective actions implemented: No corporate governance self-evaluation report has been prepared or published.

2. Status of Internal Control

(1) Statement on the Internal Control System Operations of the Agricultural Bank of Taiwan

On behalf of the Agricultural Bank of Taiwan, we hereby certify that from January 1, 2012 to December 31, 2012, the Bank has duly complied with the "Implementation Rules for the Internal Control and Internal Audit Systems of Financing Holding Companies and Banks" in establishing the internal control system and implementing the risk management procedures. The Bank has been audited by the independent auditors who regularly submit reports to the Boards of Directors and Supervisors (The Bank also engages in the securities business, and has conducted evaluation of the effectiveness of the design and implementation of its internal control system in accordance with the criteria described in the "Regulations Governing the Establishment of Internal Control Systems by Service Enterprises in Securities and Futures Markets", promulgated by the Securities and Futures Bureau, Financial Supervisory Commission). After prudent evaluation, the Bank's each department has implemented effective internal control and complied with related laws and regulations during the year to which this statement relates. (This Statement is a major part of the Bank's annual report and will be disclosed to the public. For any false statement or any act of concealment, the Bank shall be subject to the penalty of perjury of Articles 20, 32, 171 and 174 of the Securities Exchange Law.)

To : Council of Agriculture, Executive Yuan

Chairperson: S.L. Liu



(authorized signature)

President: S.L. Liu



(authorized signature)

Chief Auditor: Y.H. Chiou



(authorized signature)

Compliance Officer: C.N. Shen



(authorized signature)

March 5, 2013

(2) Audit Report of the Certified Public Accountant:



安侯建業聯合會計師事務所

KPMG

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Internet 網址 www.kpmg.com.tw

The Board of Directors
Agricultural Bank of Taiwan, Ltd.

We conducted our audits in accordance with the first paragraph of Article 28 of the Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries, promulgated by the Financial Supervisory Commission, Executive Yuan, Republic of China. It states that "If the annual financial report of a banking business is audited and certified by an accountant, the business should also delegate the accountant to conduct an audit on its internal control system. The accountant should also comment on the correctness of the report submitted to the competent authority for the banking business, the execution status of internal control system and compliance officer system, and the appropriateness of policies for loan loss reserves."

Chung Dan-Dan, Certified Public Accountant, KPMG Taiwan, has been delegated by the Agricultural Bank of Taiwan, Ltd. to conduct the audit affairs as mentioned above, and has submitted the report which has entailed the range, basis, procedure, and results of the audit as required by the first paragraph of Article 30 of the same law.

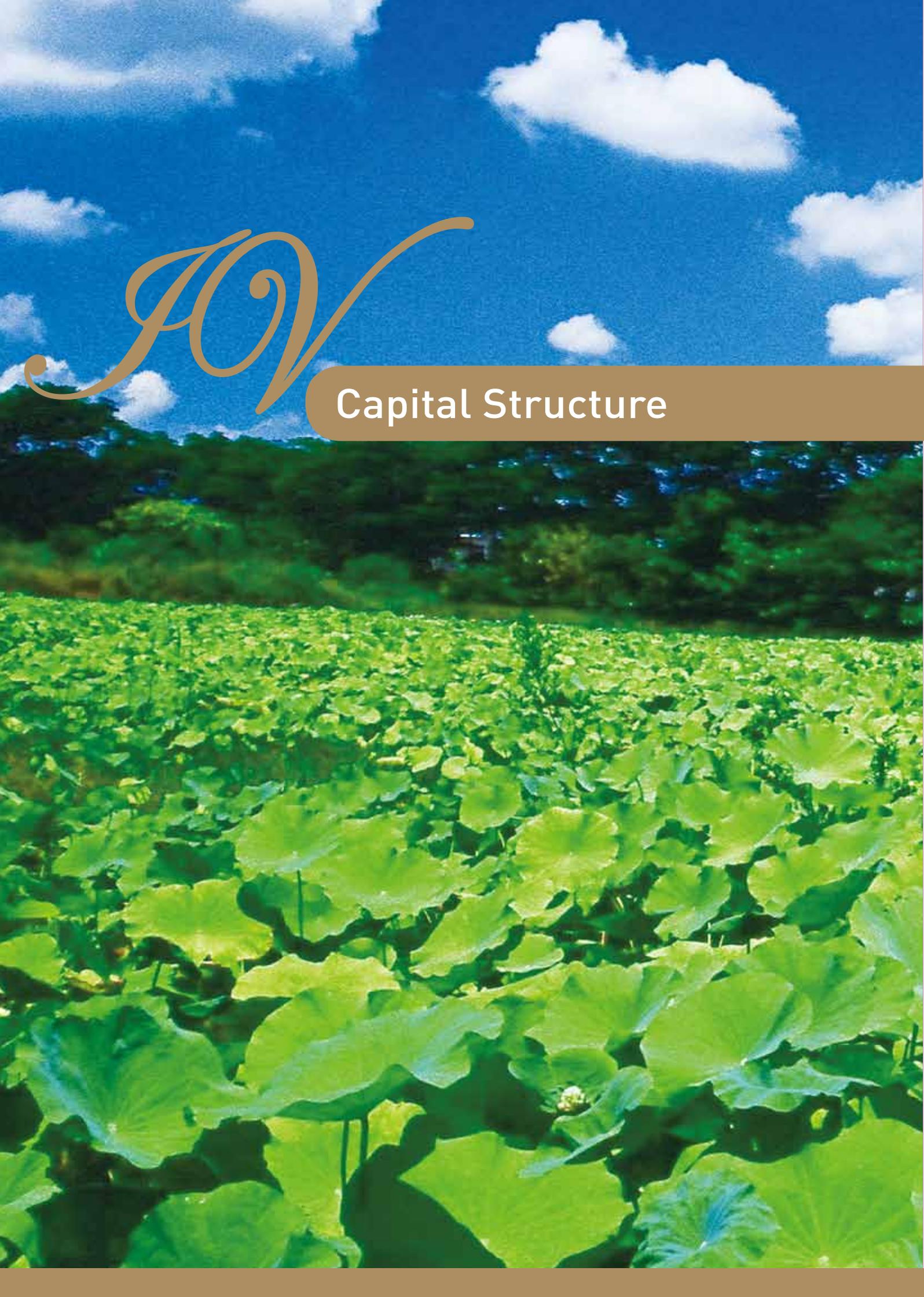
This report is for ABT's reference only. No other purpose or any other third parties are permitted to have this report, except the competent authorities.

To : Agricultural Bank of Taiwan

KPMG Taiwan
CPA : Chung Dan-Dan



April 16, 2013



ACW

Capital Structure

A. Sources of Equity Capital

1. Status of Corporate Governance and Divergences from the "Corporate Governance Practices of the Bank" and the Underlying Factors of its Divergence

December 31, 2012

Unit: in 1,000 shares; in NTD Thousand

Year / month	Issue price	Authorized Capital		Paid-in Capital		Remarks	
		Quantity of shares	Amount	Quantity of shares	Amount	Source of capital	Others
April 2005	10	2,000,000	20,000,000	2,000,000	20,000,000	Cash	None
July 2007	10	11,154	111,536	11,154	111,536	A resolution passed in the shareholders meeting held on 06/27/2007 approved the conversion of retained earnings to capital.	Registration amendment application was approved through the MOEA Letter with no. Ching-shou-shang-tzu-ti-09601192630 dated 08/16/2007.
July 2009	10	-1,011,154	-10,111,536	-1,011,154	-10,111,536	A resolution passed in the shareholders meeting held on 06/29/2009 approved a reduction of capital.	Registration amendment application for capital decrease and increase was approved through the MOEA Letter with no. Ching-shou-shang-tzu-ti-09801290140 dated 12/18/2009.
December 2009	10	1,000,000	10,000,000	1,000,000	10,000,000	A resolution passed in the shareholders meeting held on 06/29/2009 approved a capital increase.	
July 2010	10	8,014	80,139	8,014	80,139	A resolution passed in the shareholders meeting held on 06/24/2010 approved the conversion of retained earnings to capital.	Registration amendment application was approved through the MOEA Letter no. Ching-shou-shang-tzu-ti-09901194320 dated 08/27/2010.
July 2011	10	16,414	164,141	16,414	164,141	A resolution passed in the shareholders meeting held on 06/29/2011 approved the conversion of retained earnings to capital.	Registration amendment application was approved through the MOEA Letter with no. Ching-shou-shang-tzy-ti-10001206180 dated 09/06/2011.
July 2012	10	15,698	156,976	15,698	156,976	A resolution passed in the shareholders meeting held on 06/29/2012 approved the conversion of retained earnings to capital.	Registration amendment application was approved through the MOEA Letter with no. Ching-shou-shang-tzu-ti-10101164220 dated 08/17/2012.

December 31, 2012

Unit: share

Types of stock	Authorized Capital			Remarks
	Outstanding Shares	Unissued shares	Total	
Common Stock	1,590,125,600	-	1,590,125,600	Non-listed or OTC stock
Class A Preferred Stock	450,000,000	-	450,000,000	Non-listed or OTC stock

B. List of Major Shareholders

December 31, 2012

Unit: Share; %

Shareholder	Shareholding	Shares held	Percentage
Council of Agriculture, Executive Yuan		913,039,967 shares	(44.75%)
Taiwan Provincial Farmers' Association (including Supply Division)		78,050,110 shares	(3.83%)
Agricultural Credit Guarantee Fund		67,111,544 shares	(3.29%)
Tou-Nan Township Farmers' Association, Yunlin County		35,631,360 shares	(1.75%)
Shulin District Farmers' Association, New Taipei City		33,216,300 shares	(1.63%)
Panchiao District Farmers' Association, New Taipei City		24,210,945 shares	(1.19%)
Yung-Kang District Farmers' Association, Tainan City		22,026,515 shares	(1.08%)
Hsin-Chuang District Farmers' Association, New Taipei City		20,569,045 shares	(1.01%)
San-Chung District Farmers' Association, New Taipei City		19,397,304 shares	(0.95%)
Tali District Farmers' Association, Taichung City		17,595,597 shares	(0.86%)



Status of Operation



A. Principal Business

1. Financing major agricultural infrastructures.
2. Financing special agriculture case by the government.
3. Financing agriculture, forestry, fishery and livestock industries that are in line with policies of agriculture and fishery associations.
4. All operations mentioned in all paragraphs of Article 71 in Banking Law.
5. Other operations authorized by the central authorities.
6. Foreign exchange transaction authorized by the Central Bank.

B. Guidance, Audit, Performance Evaluation and Agricultural Loan Offerings to Credit Departments of the Farmers' and Fisheries Associations

1. General guidance services: The guidance service on the following matters is provided to the credit departments posting a NPL ratio lower than 15%:

- (1) Definition of regulations governing business operations; formulation of essential management systems and cost concepts for the enhancement of the establishment's operating performances.
- (2) Establishment of the internal control and internal audit systems.
- (3) Appropriation of deposit reserve and liquidity reserve.
- (4) Re-disposition of surplus and provision of financing.
- (5) Financing agriculture, forestry, fishery and livestock industries and consumer loans.
- (6) Processing of financial instrument exchange and fund remittances.
- (7) Processing of payment collection and disbursement payment for the national treasury and other financial institutions.
- (8) Implementation of corrective measures for deficiencies discovered during bank audit procedures.
- (9) Procedures for the reinforcement of the financial structure and upgrading of asset quality.
- (10) Processing of nonperforming loans and the collection of overdue accounts.
- (11) Institution of accounting, banking, and worksheet and report preparation procedures.
- (12) Creation of standardized forms and information systems for the enhancement of data sharing and statistical analysis.
- (13) Compilation of information updates on the business operations of the agricultural financial institutions and analysis of the fund requirements and rational allocation of resources in agricultural operations.
- (14) Employee training and introduction of new business.
- (15) Consultation service on related laws and regulations.
- (16) Other guidance related matters designated by the central competent authority.

2. Project Guidance Service: Service is provided to the credit departments having a NPL ratio exceeding 15% in an effort to assist these credit departments to reduce the NPL ratio. In addition to the matters covered by the general guidance services, the project guidance service also caters to the following matters:

- (1) Monitoring of the directions of business operations and provision of improvement advices.
- (2) Monitoring of deficiencies in business and financial operations and provision of improvement advices.
- (3) Supervision of and guidance on the creditor's rights.
- (4) Supervision of and guidance on the internal control and the internal audit systems.
- (5) Supervision of and guidance on appropriations of allowances for possible loses or write-off of amounts as bad debts.

- (6) Supervision of and guidance on banking and accounting procedures and the preparation of financial statements.
- (7) Supervision of and guidance on asset acquisition and disposition matters.
- (8) Supervision of and guidance on the review procedures of loans and investment projects and the management of assets and liabilities.
- (9) Attendance of meetings of the Boards of Directors and Supervisors and meetings of the loan review committee, and presenting opinions on meeting issues.
- (10) Imposing a deadline on the farmers' and fisheries associations to which the credit departments placed under restructuring belong for the presentation of their operating performance reports, financial positions, and other related financial reports.
- (11) Audit examination of related account books, documents and assets.
- (12) Other matters designated by the competent authorities.

3. Audit Examination of Business and Financial Operations:

In 2012, ABT has conducted 254 audit procedures on the business operations and financial status of the credit departments of farmers' and fisheries associations. The primary objective of the audit procedure was to determine whether corrective actions have been taken on the deficiencies discovered in the examination procedure and understand circumstances of the corrective actions. Audit reports were included in the quarterly financial reports forwarded to the competent authorities and related agencies. Moreover, audit procedures on the liquid assets had been implemented in compliance with the notices or requests of the respective local competent authorities.

4. Performance Evaluation:

Performance evaluation procedures were conducted on the credit departments of farmers' and fisheries associations pursuant to the Performance Evaluation Indicators and Standards for the Credit Departments of Farmers' and Fisheries Associations on the following six categories: capital adequacy, asset quality, internal management competence, profitability, liquidity, and growth. Evaluation findings were submitted to the information of the respective competent authorities and related agencies.

5. Other matters of guidance services:

- (1) In cooperation with 174 credit departments and their subordinate 221 business offices, we started handling Renminbi bills trading operations in July 2011 for the convenience of residents of Taiwan and China and to aid the sales of local farm and fishery products. As of the yearend of 2012, a total of 172 credit departments provide the exchange service of Renminbi bills, and Renminbi bills transaction amounted to around NT\$ 45.34 million. We also provide counseling service to 53 credit departments of farmers' & fisheries associations in the second phase and help them launch the Renminbi bills exchange service on January 21, 2013, thereby diversifying the banking services available to local residents; at the same time, we raised the income on the service fees of the credit departments of farmers' & fisheries associations.
- (2) For sponsoring the 6th Agricultural Golden Award of the Council of Agriculture, ABT actively took part in the preliminary planning meetings and the task force and review committee meetings, provided assistance in the study and amendment of operating procedures and assessment standards, and provided the guidance to the credit departments in filing their registrations. We also held an awarding ceremony and published a feature article of the award winners.
- (3) We provided counseling service to credit departments to handle the consolidated fund loan services commissioned by the Council of Indigenous Peoples. To expand the range of loan service, ten more farmers' associations participated in the program in 2012, namely, the Taimali Farmers' Association of Taitung County, the Chang-Pin Township Farmers' Association of Taitung County, the Kuan-Hsi Township Farmers' Association of Hsinchu County, the Chi-An Township Farmers' Association of Hualien County, the Hsin-Yi Township Farmers' Association of Nantou County, the Jen-Ai Township Farmers' Association of Nantou County, the Man-Chou Township Farmers' Association of Pingtung County, the Taitung Farmers' Association of Taitung County, the Tung-Ho Township Farmers' Association of Taitung County, and the Fu-Hsing Township Farmers' Association of Taoyuan County.

- (4) ABT served as the liaison window for the "preliminary negotiation talks of the Consumer Debt Clearance Regulations" between the credit departments and the banks and participated in the Consumer Debt Clearance Regulations Preliminary Negotiation Coordination Meeting of the Bankers Association of the R.O.C.
- (5) ABT compiled the "2011 Annual Business Operations Analysis of the Credit Departments of Nationwide Farmers' & Fisheries Associations." Copies were forwarded to the competent central authorities and related banking supervisory authorities (bodies) for reference information.

6. Business Liaison and Exchanges:

- (1) ABT held a total of 60 counseling office service review meetings in 2012. The participating counselors jointly discussed situations encountered during the counseling work and exchanged ideas on the subject; related matters were reported to the information of the competent central authorities. Furthermore, in January and June of 2012, we hosted two counseling service seminars together with the competent central authority. The counseling work related information relayed and ideas exchanged in the seminar served as reference information for future administration or supervisory procedures.
- (2) The 105 personnel training courses were provided to credit departments in 2012 and had attracted the participation of 4,260 trainees. The courses were mainly in the form of the following seminars: an orientation seminar on the Consumer Debt Clearance Regulations for credit departments of the farmers' & fisheries associations, an orientation on the laws and regulations governing credit information investigation and credit information investigation practices for small to medium enterprises, an orientation seminar on the Renminbi bills open trading operations of the credit departments of the farmers' and fisheries associations, an orientation seminar on the loan regulations and loan business practice of the credit departments of the farmers' and fisheries associations, an orientation seminar on the Renminbi bills open trading operations and transaction report procedures, a seminar on the credit information investigation operations of credit departments of farmers' & fisheries associations, an orientation seminar on trust transactions, insurance courses and other related subject matters.
- (3) In 2012, ABT assisted the Council of Agriculture, the Taiwan Academy of Banking and Finance, and the Taiwan Provincial Farmers' Association in entertaining 100 visiting guests consisting of delegates from the Central Bank of Indonesia, the All China Federation of Supply and Marketing Cooperatives, the Tianjin City Supply and Marketing Cooperatives, the Shanxi Province Supply and Marketing Cooperatives, and other related agencies, which was quite beneficial to the ABT's development of good relations with the sectors involved.



7. Policy-oriented Special Agricultural Loans:

- (1) In 2012, ABT processed a total of 23 loan related letters from farmers and responded to hundreds of phone information inquiries. In addition to helping farmers who are unable to pay the loan amortizations on schedule due to difficulties encountered in their operations process loan extension or moratorium applications, thus enabling them to solve their operating problems. ABT also proactively negotiated with borrowers for the resolution of loan application processing related disputes, thereby enabling farmers and fishermen to obtain the funds needed for their operations.
- (2) ABT appointed guiding officers to attend the various local agricultural operations related seminars, lectures, or training programs; such as, agricultural improvement stations, agricultural research institutes, sales and marketing seminars, employee training for farmers' and fisheries associations, etc. The seminars provided information and explanation of the agricultural policies of the government, thereby enabling fishermen and farmer organizations to understand the policies and to cooperate with the government in implementing matters and to achieve the objectives and the desired results of the policies.

C. Ratio of Business Assets and Earnings against Total Assets and / or Revenues and their Respective Change and Development Trends

1. Ratio of operating revenues against total revenues and trend of changes

Unit in NTD Thousand

Title	2012		2011	
	Amount	Percentage %	Amount	Percentage %
Total Revenue	12,155,347	100.00	13,502,367	100.00
Interest income	9,687,563	79.70	8,932,632	66.16
Service Fee	117,413	0.97	141,173	1.05
Gain on financial assets and liabilities at fair value through profit and loss	1,188,128	9.77	770,852	5.71
Realized gain on available-for-sale financial assets	261,147	2.15	541,807	4.01
Realized gain on held-to-maturity financial assets	-	-	549	-
Gain on Foreign Exchange	777,106	6.39	2,874,177	21.29
Gain on Reversal of Impairment Loss	-	-	3,469	0.02
Other non-interest gains (loss), net	123,990	1.02	237,708	1.76

Underlying factors of changes:

- (1) The interest income was increased, as compared to that of the previous year; the main reason behind the increase is the rise in interest on loans and deposits with other banks.
- (2) Gain on financial assets and liabilities at fair value through profit and loss increased, as compared to that of the previous year; the main reason is that an increase is noted in the gain on valuation of financial assets at fair value through income statement.
- (3) A decrease in realized gain on available-for-sale financial assets posted this year against the previous year total is a result of the reduction in the gain on the sale value of financial assets.
- (4) A decrease in the gain on foreign exchange posted this year against the previous year total is a result of the foreign exchange rate fluctuations experienced in the year.
- (5) For others, a decrease is noted comparing with that of the previous year; the underlying cause is that the gain on the non-active market debt instruments decreases.

(1) Distribution of deposits

Unit in NTD Thousand

Title	2012		2011	
	Amount	Percentage %	Amount	Percentage %
Total deposits	653,594,572	100.00	638,712,032	100.00
Current deposits	3,224,541	0.49	6,286,888	0.98
Time deposits	650,370,031	99.51	632,425,144	99.02

(2) Ratio of loans

Unit in NTD Thousand

Title	2012		2011	
	Amount	Percentage %	Amount	Percentage %
Total loans	194,760,469	100	169,223,406	100.00
Short-term loans	32,610,037	16.74	47,346,210	27.98
Medium-term loan	137,596,623	70.65	100,617,402	59.46
Long-term loans	23,526,791	12.08	19,979,724	11.81
Delinquent loans	1,027,018	0.53	1,280,070	0.75

(3) Ratio of major business assets again total assets

Unit in NTD Thousand

Title	2012.12.31		2011.12.31	
	Amount	Percentage %	Amount	Percentage %
Total assets	733,624,380	100.00	714,793,939	100.00
Cash and cash equivalents	1,461,718	0.20	3,275,093	0.46
Due from The Central Bank and other banks	366,870,741	50.01	374,739,396	52.43
Financial assets at fair value through income statement	13,360,086	1.82	20,148,487	2.82
Discounts and loans, net	192,472,198	26.24	167,639,200	23.45
Available-for-sale financial assets	119,244,471	16.25	108,544,028	15.19
Held-to-maturity financial assets	25,899,169	3.53	27,657,486	3.87
Other financial assets	10,274,298	1.40	8,963,326	1.25
Others	4,041,699	0.55	3,826,923	0.53

D. Market Analysis

1. Area of operations

The Agricultural Bank of Taiwan is the only officially authorized banking institution in the country that simultaneously functions as a professional agricultural bank and a commercial bank. Although the bank has opened only one branch bank in the country to date, it has established a province-wide agricultural loan service network through links with around 1,162 credit departments of farmers' and fisheries associations established in various localities, thereby enabling the bank to implement the policy of the financial support to the agricultural industry and to assist in fostering the stable development of the agricultural economy.

2. Future market supply-demand status and development

The domestic financial market is still in oversupply of banks; hence competition between banks has been quite stiff. To further aggravate the tension, banks could not look forward to the improvement of the low interest rate difference in the banking sector for the near future and thus, profit margins of banks would continue to be compressed. ABT accepts redeposits from the farmers' and fisheries associations and faces a huge pressure created by the massive funds redeposited into ABT. In addition to the financial operations under the principal guaranteed principle to activate the fund utilization, ABT also endeavored to spur the loan businesses. Furthermore, ABT provided the policy-oriented agricultural, forestry, fishery, and livestock farming loans, and aggressively participated in the

syndicated loan programs of other banking institutions. As regards the syndicated loan referrals of the credit departments of the farmers' & fisheries associations, although our loan operations merely constitute a small slice of the loan market pie, after the establishment of our two branch banks, we look forward to some significant growth in our loan operations, and the redeposits we receive from the credit departments of the farmers' & fisheries associations shall be used for the loan operations. The interest revenues shall likewise constitute a principal revenue source for the bank.

3. Factors beneficial and detrimental to future development outlook and countermeasures implemented

(1) Beneficial factors

- ① The government and the farmers' and fisheries associations are the major shareholders of ABT. The government holds 44.55% shares of the bank, and bank operations have been highly stable.
- ② The main official line of business of ABT include financing the major agricultural infrastructures, financing special agriculture cases by the government, and financing agriculture, forestry, fishery and livestock industries that are in line with policies of agriculture and fishery associations, thus clearly defining the market segregation of ABT. Hence, ABT has more opportunity than other banks in obtaining a greater slice of the agricultural loans pie.
- ③ ABT has consolidated the business of credit department of farmers' and fisheries associations, and thus, we may fully utilize their branch offices and human resources to expand the business transactions and channels of our new financial instruments for better combined results, thereby creating an important foundation for the future development of our business operations.
- ④ ABT is licensed to accept the massive fund deposits of the credit departments of farmers' and fisheries associations; hence, it holds a vast, highly liquid capital resource.
- ⑤ ABT distinguishes itself from other banks in the sense that it is a comprehensive and policy-implementing agricultural bank; that is, an agricultural bank and a commercial bank in one comprehensive system.

(2) Unfavorable Factors

- ① Re-deposits accepted from the credit departments of farmers' and fisheries associations are massive; thus, ABT faces the pressure of the interest burdens of these deposits.
- ② Corporations are used to directly soliciting capital through domestic and foreign loans; since ABT only maintains one place of business, it is difficult to expand the range of ABT loan services.
- ③ Financial holding corporations hold the advantage of a comprehensive financial instrument range and services, thereby creating a financing environment that caters to all financial requirements in one setting. This advantage is posing a serious threat to banks operating outside the umbrella of holding corporations.
- ④ Under an environment of rapidly escalating market risks and surplus money supply, financial instruments offering earnings higher than capital cost and stable returns are rather limited.
- ⑤ Overseas relocation of factories and manufacturing setups is a continuing trend, making the competition in the corporate loans market even tougher. The difficulty in finding new customers and the shrinking profit margin as a result of highly competitive market impose a heavy toll on profitability of corporate loans.

(3) Countermeasures

- ① Optimized the utilization of asset portfolio allocation is implemented to ameliorate company profits and maintain the momentum of our operations as coordinator of the government's agricultural policies.
- ② Consolidation of the product, marketing channel, and clientele resources of the credit departments of farmers' and fisheries associations to foster the optimal performance of ABT in the agricultural finance system.
- ③ Development of new and varied business lines to diverse the operating risks.
- ④ Sustained recruitment of promising professional employees to reinforce our human resource pool and enhance personnel performance.
- ⑤ Efficient utilization of public relations, media, and public welfare platforms for the construction of a positive professional image for ABT.

E. Overview of the Financial Instrument Research and Business Development Efforts

1. Principal financial instruments and new business departments, including scale of operations, launched in the past two years: none
2. Research and development expenditures and accomplishments of the past two years, and research and development projects of 2012:

Research and development expenses of ABT in the past two years amounted to NT\$720,000 for 2012 and NT\$600,000 for 2011, mainly constituted by expenses due to the employment of consultants for the construction of ABT's asset allocation and risk management system module. The consultants were employed to assess the credit risks of transaction counterparts, conduct a financial instrument valuation and create a risk assessment module and an asset allocation module. In 2013, ABT shall continue to update and maintain the aforementioned modules and shall finish construction of the pressure test module and the capital requirement module.

F. Short-term, Medium-term, and Long-term Development Projects

1. Short-term Projects

(1) Loans business

ABT shall continue to expand its loan business to ensure a stable source of revenue. The annual objective for loan business in 2013 is set at NT\$230 billion, and the strategies for implementation are as follows:

- ① Continued offering of policy-oriented special agricultural loans created in line with established government policies.
- ② Enhancement of business relations with other banks and expansion of the syndicated loan service.
- ③ Effective utilization of the local resources of farmers' and fisheries associations for expansion of the grass-root agricultural industry loan business and the regional loan services.
- ④ Proper management of Customer Relations.

(2) Investment business

① Investment in negotiable securities

The primary considerations of ABT's investment policy are security, liquidity, and profitability of the capital utilization. Moreover, ABT's investments in negotiable securities fully comply with the securities investment ceiling approved by the competent authority.

② Thrusts of Financial Operations

- A. Concentration of operating strategies on stable profit margins as primary consideration and capital gains as secondary consideration.
- B. Enhancement of investment risk management to ensure a stringent control over the risk exposure of financial instruments.
- C. Enhancement of internal control to ensure the timely adjustment of the credit line.
- D. Adjustment of the asset structure for reducing the interest rate risk.
- E. Construction of a core asset allocation program for the diversification of revenue sources.
- F. Underwriting of bond RP trading and reducing the cost of capital.

(3) Guidance services to credit departments of farmers' and fisheries associations

① The overdue loan ratio reduction goal for all credit departments in year 2013

The goal is to reduce the overdue loan ratio of all credit departments to below 1.5% by yearend of 2013.

- ② Implementation of the annual financial evaluation procedure and performance assessment procedure on 302 credit department offices.

- ③ Processing and Management of the Agricultural Development Fund Loan

ABT accepted the commission to manage the agricultural development fund loan and assisted in implementing the agricultural policies. Moreover, ABT provides counseling service to the credit departments to help them process the policy-oriented project loans, thereby achieving the goal of 2013 policy-oriented special agricultural loans of the agricultural authorities.
 - ④ Organization of training courses for the credit department personnel

For 2013, ABT plans to hold around 30 seminars for the credit departments of the farmers' & fisheries associations on the following subject matters: internal control operations, preliminary credit information investigation, processing of deposit transaction related consumer disputes, the Personal Information Protection Act, advanced course in credit information investigation (corporate loans), processing of loan transaction related consumer disputes, real estate valuation procedures, advance course in loan collection practices, trust and insurance services.
 - ⑤ Presenting recommendations to and coordination with the competent authority for amendment of the agricultural finance related laws

Recommendations for the amendment of agricultural finance related laws pursuant to the actual circumstances of guidance operations and compiled credit department reports were proposed to the competent authority. Moreover, operations were adjusted in line with the related regulatory amendments to bolster the operation stability of the credit departments and the business development.
 - ⑥ Amendment of guidance regulations

Guidance operations are evaluated periodically to gather opinions of the competent authority, credit departments, and related institutions on the matter. Data gathered serve as basis for the amendment of the ABT guidance regulations for the enhancement of the quality of guidance operations and providing appropriate responses to credit department requirements.
 - ⑦ Compilation of the "Guidance Operations Plan for Credit Departments" and the "Plan of Operations for the Trust Programs of the Agricultural Development Fund".
 - ⑧ Implementation of mutual support fund operations

ABT processed the budget allocations of the mutual support fund and provided financial support to the credit departments.
 - ⑨ The suggestions and feedbacks of the credit departments collected every month were studied for the formulation of response actions, which are then presented to the Bureau of Agricultural Finance for supervision and guidance reference.
 - ⑩ Counseling Service on the Consumer Debt Clearance Act related matters of the credit departments.
 - ⑪ Assumption of the loan interest moratorium subsidy processing bank for the Typhoon Morakot disaster victims and processing of related matters.
 - ⑫ In line with the promotion campaign of the agricultural finance policy, ABT assisted in the organization of the 7th Agricultural Golden Award related activities.
 - ⑬ Counseling service was provided for the reestablishment of sound credit department operations

ABT provided business recommendations and increased the counseling service frequency to reestablish the credit departments of the farmers' & fisheries associations and to assist in the development of their business operations.
- (4) Trust businesses
- ① Upon acceptance of an application, the farmers' & fisheries associations shall inform the customer of the trust-related operations and process a real estate development trust in coordination with the procedures of the business units and construction financing projects of and the farmers' & fisheries associations to enable the customer to complete the construction project, thereby enabling the protection of the creditor rights, management of the dedicated trust account for specified deposit use purpose, increment of current deposit, and enhancement of the new business knowledge of the employees of the farmers' & fisheries associations. These efforts aim to bring ABT's trust operations within the reach of all farmers' & fisheries associations, thereby boosting the inclinations of farmers' & fisheries associations to process the loan applications and in turn, increasing the processing fee revenue.

- ② ABT processed the traded price trust of real estates and movable properties for the business units and the customers of the farmers' & fisheries associations to ensure the security of property trading and mitigation of transaction risks, thereby boosting the growth of current deposit and loans and increasing the processing fee revenue.
- ③ ABT processed the property rights trust operations in coordination with the procedures and loan packages of the business units and the farmers' & fisheries associations to encourage employees of the farmers' & fisheries associations to use our trust instruments, thereby increasing the processing fee revenues of ABT.
- (5) Insurance agency
It is projected that in year 2013, the insurance business performance (total insurance premium revenues) would reach around NT\$ 5.7 billion.
- (6) Credit card
In an effort to diversify the financial services of the company, ABT shall consolidate related resources of the farmers' and fisheries associations and the recreational and tourism industry to foster the economic development of farming and fishing villages.
- (7) Expansion of the ABT core banking system
In response to the gradual launching of new businesses, ABT shall continue to add new operating functions to its core banking system, thus enabling system to cope with the rapid growth of business operations in the following years and to meet management efficiency requirements. Actions taken included the installation of information system for Trade Finance Operations and enhancement of the various businesses commissioned by the farmers' and fisheries associations.
- (8) Expansion of the business network platform commissioned to the farmers' and fisheries association
Scope of the present acceptance network platform has been extended to cater to the new acceptance services added into regular operations, thus making it possible to provide the farmers' and fisheries associations with faster, more thorough, and more accurate services. Moreover, ABT shall continuously develop more business cooperative ties with collection agencies to provide finer quality services to the farmers' and fisheries, upgrade the competitive power of the farmers' and fisheries associations, and at the same time, increase earnings through processing fee revenues.



(9) Enhancement of remote backup service and security measures

Construction of the ABT core banking system was completed on May 3, 2009, and remote backup service drills were completed in 2011 and 2012. In order to cater to the new establishment of two bank branches, the control operations and emergency backup and the security measures of the computer center mainframe system, application program amendment management, and online data and file updating system are implemented according to the ABT's regulations governing the security control operations and in line with the implementation of ABT's "Regulations on Computer and Information Operations Security Management" and "Essential Security Information of Computer and Information Operations".

(10) Participation in the operations of the National Agriculture, Fishery, and Finance Information Center

In an effort to promote the shared use of the farmers' and fisheries association information, ABT, the competent authority, and the information sharing centers jointly organized the National Agriculture, Fishery, and Finance Information Center to take charge of the construction of a "shared bookkeeping system for the farmers' and fisheries associations". In the future, ABT shall assist the related agencies in the formulation and evaluation of system development and its construction operations.

2. Medium and Long-term Projects:

(1) Loans business

ABT has annually adjusted the loan structure to enhance the stability of profits. Furthermore, we have strengthened processing of agriculture related financing and regular loan businesses. Moreover, we shall continue to participate in the syndicated loan system of other banks and strengthen the loan business jointly transacted with the credit departments of the farmers' and fisheries associations. We set the 2013 goal for loan businesses at NT\$230 billion and hope to reach a goal of NT\$260 billion in year 2014. We also hope to see a stable growth in loan business in the subsequent years.

(2) Investment business

① Sound asset structure and balanced development of business operations

In coordination with the establishment of our two branch banks, ABT endeavored to expand the loan business and maintain a stable loan business development strategy. In an effort to boost the business performance and effectively manage the cash position to generate income from which. Moreover, in addition to the continuous participation in the syndicated loan packages of other banks, we also processed the loans referred program from the farmers' and fisheries associations under the "Syndicated Loan Operation Plan of ABT and the Farmers' and Fisheries Associations" to foster the growth of the bank's loan transaction volume and the loan-to-deposit ratio. ABT's mid-term goal is to bolster loan transaction, redeposits to the Central Bank of the R.O.C., and ratio of financial operations against deposits to 30%, 30%, and 40%, respectively. The long-term goal of the plan is to achieve the 40%, 30%, and 30% ratios, respectively, thereby enabling the stable and sound development of our business operations.

② Flexible adjustment of financial operating strategies and development of sound investment portfolio

A. Moderate adjustment of the investment profile and effective control of interest rate risks

In light of the current trends in the general financial environment and security, liquidity, and revenue requirements of our capital utilization endeavors, stock acquisitions, fixed income instruments and foreign bonds were acquired at appropriate periods to hedge investment risks and foster stability of investment portfolio.

B. Weigh and evaluate the market trends and gradually build the bond position.

ABT evaluate the trend of the interest rate market and build the bond position upon the sign of a rising trend in the interest rate. As regards the corporate bond position, corporate bonds or bank debentures department shall be acquired through the primary and secondary markets according to the allocation plan.

C. Stock dividends constitute the primary source of stock investment revenues; capital gains constitute the secondary source

Capacity for financial trend prediction and flexibility of operations shall be enhanced to establish an investment setup mainly relying on stock dividends as the primary revenue source and capital gains as the secondary source.

D. Acquisition of sound foreign bonds at appropriate periods

ABT assesses the prices of international bond and securities markets, and seek to acquire sound foreign treasury bonds or debentures issued or guaranteed by foreign governments or financial institutions with excellent credit rating. Furthermore, ABT shall establish the position on the US dollar combined commodities when appropriate, thereby maintaining a rational investment income.

③ Diversification of profit sources and reduction of the earning volatility

A. In order to cater to the import and export fund requirements of our loan account holders, ABT plans to establish an overseas department in 2015 to expand the revenue sources.

B. ABT processed the traded price trust of real estates and movable properties for the business units and the customers of the farmers' & fisheries associations to boost the growth of current deposit and loans and to increase the bank's processing fee revenues.

(3) Fostering the upgrade of the competitive power of the credit departments

Under the directions of the competent authority and assistance of ABT, the credit departments were able to reduce the ratio of their overdue loans and increase the loan-to-deposit ratio and operating balances. A significant improvement was noted in the overall operating performance. In the future, we shall continue all guidance operations and study methods by which we may aid the credit departments in enhancing their competitive powers and maintaining the development of their operations under the highly competitive financial environment of today, thereby continuing to provide services to farmers and fishermen.

(4) Implementation of the information sharing system

ABT has a well-established core banking system; however, we shall continue to plan an exchange platform for agricultural finance information and a capital clearing system to aid the National Agriculture, Fishery, and Finance Information Center in running its related system integration operations. Moreover, ABT shall endeavor to push forward assumption of the credit department reserve fund withdrawal & deposit procedures currently implemented through the Taiwan Cooperative Bank. Through the integration of the credit department information systems, we shall gradually integrate our own operations and realize the substantial integration of the cash flow, product flow, and information flow of the agricultural finance system.

(5) Employment of the extended counter and application for operating licenses for additional branches that will cater to the needs of the farmers' and fisheries associations

ABT opened two additional bank branches in Taichung and Kaohsiung in 2012; we now have three business offices. Concurrently, ABT is still working jointly with farmers' and fisheries associations in implementing the extended counter concept. Through the cooperative arrangements with regional representative farmers' and fisheries associations, we have expanded the scale of our operations and enhanced the quality of services. In the future, ABT shall, upon the business operation needs, establish more business offices for the service of farmers' and fisheries associations and realize the duties delegated by the parent group. Also, ABT shall strengthen the review procedures of loan applications above a certain loan amount and guide the credit departments so they may expedite the improvement of their asset quality and effectively promote the policy-oriented agricultural project loans, thereby enhancing the implementation efficiency of the respective statutory missions. These measures shall consequently bring about a stable growth in agricultural banking operations, moderately expand the scale of operations, reduce the operating costs, bolster the capacity to pay the redeposit interest, and foster the balanced regional development of the agricultural finance system.



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Financial Summary

A. Condensed Balance Sheet and Income Statement

Condensed Balance Sheet

Unit in NTD Thousand

Entries	Year	Financial Information of Past Five Years				
		Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2008
Cash and cash equivalents						
Deposits Transferred To Central Bank and dues from banks		368,332,459	378,014,489	353,862,248	284,680,378	158,921,321
Financial assets at fair value through income statement		13,360,086	20,148,487	21,590,038	25,312,657	27,713,152
Available-for-sale financial assets		119,244,471	108,544,028	103,209,920	126,481,473	41,108,103
Discounted and loans		192,472,198	167,639,200	152,379,008	111,824,062	85,825,362
Receivables		3,845,543	3,643,786	3,750,747	3,712,445	3,147,305
Held-to-maturity financial assets		25,899,169	27,657,486	42,855,110	52,297,516	114,072,613
Equity investment under equity method		77,825	60,572	32,644	15,167	8,553
Fixed assets		85,361	89,170	110,300	67,005	68,907
Other financial assets		10,274,298	8,963,326	8,727,547	5,655,357	8,647,892
Other assets		32,970	33,395	23,449	20,533	32,358
Total assets		733,624,380	714,793,939	686,541,011	610,066,593	439,545,566
Due to Central Bank and banks		12,785,612	19,474	19,037	20,517	20,965
Deposits and remittances		653,594,572	638,712,032	620,203,085	557,526,671	383,355,134
Financial liabilities at fair value through income statement		1,896,611	1,977,112	1,949,371	1,951,189	1,883,480
Bill and bonds sold under repurchase agreements		32,798,224	47,161,845	37,320,361	25,008,336	41,053,812
Accrued pension liabilities		36,801	31,061	28,650	23,787	16,958
Bank debentures payable		5,800,000	800,000	800,000	800,000	-
Other financial liabilities		1,933,483	2,236,404	2,403,589	2,395,067	2,410,207
Other Liabilities		1,259,493	937,838	1,583,193	1,042,089	703,406
Total liabilities	Before appropriation	710,104,796	691,875,766	664,307,286	588,767,656	429,443,962
	After appropriation	-	692,227,441	664,732,521	588,992,718	429,443,962
Capital stock		20,401,256	20,244,280	20,080,139	20,000,000	20,111,536
Retained earnings	Before appropriation	2,210,387	2,165,944	1,677,428	508,669	(10,727,368)
	After appropriation	-	1,657,293	1,088,052	203,468	(10,727,368)
Unrealized gains of financial instruments		907,941	507,949	476,158	790,268	717,436
Total shareholder's equity	Before appropriation	23,519,584	22,918,173	22,233,725	21,298,937	10,101,604
	After appropriation	-	22,566,498	21,808,490	21,073,875	10,101,604

Note: The foregoing financial information are audited and certified by the CPA.

Condensed Income Statement

Unit in NTD Thousand

Entries	Year	Financial Information of Past Five Years				
		2012	2011	2010	2009	2008
Interest revenue, net		1,052,162	996,144	1,367,462	1,765,508	518,176
Non-interest revenue, net		806,927	850,051	1,272,494	132,968	(9,529,465)
Bad debts expense		741,486	524,245	540,000	200,000	500,000
Operating expense		553,019	517,997	490,938	483,869	461,057
Net income before tax of operating departments		564,584	803,953	1,609,018	1,214,607	(9,972,346)
Net Income		553,094	847,751	1,473,960	1,124,501	(10,008,804)
Earnings per share		0.27	0.46	0.88	1.08	(4.98)

Note : The foregoing financial information are audited and certified by the CPA.

Certified Public Accountants and their Opinions on Financial Status (2008-2012)

Year	Name of CPA Firm	Name of Independent Auditor	Auditor's Opinion
2012	KPMG Taiwan	Chung Dan-Dan	Unqualified opinion
2011	KPMG Taiwan	Chung Dan-Dan	Unqualified opinion
2010	KPMG Taiwan	Chung Dan-Dan	Unqualified opinion
2009	KPMG Taiwan	Chung Dan-Dan	Unqualified opinion
2008	KPMG Taiwan	Chung Dan-Dan	Modified unqualified opinion

B. Annual Financial Analysis (2008-2012)

Financial Analysis

Entries (Note 4)	Year	Analysis of the Finances of Years 2008 to 2012				
		2012	2011	2010	2009	2008
Operating Capacity	Loan-to-deposit Ratio (%)	29.80	26.49	24.75	20.16	22.53
	NPL Ratio (%)	1.30	0.76	0.83	0.87	0.82
	Ratio of interest payments against annual average deposit balance (%)	1.26	1.20	1.03	1.04	2.31
	Ratio of interest revenue against annual average loan balance (%)	1.76	1.53	1.45	1.57	3.23
	Total assets turnover rate (times)	0.003	0.003	0.004	0.003	(0.02)
	Average operating revenue per employee (in NTD thousand)	10,623.36	10,989.26	16,397.24	13,092.94	(63,459.78)
	Average earnings per employee (in NTD thousand)	3,160.54	5,046.14	9,155.03	7,755.18	(70,484.54)
Profitability	Return rate of Tier 1 capital (%)	3.49	5.30	11.95	10.54	(80.12)
	Return rate of assets (%)	0.08	0.12	0.23	0.21	(2.28)
	Return rate of shareholder equity (%)	2.38	3.76	6.77	7.16	(69.83)
	Net income rate (%)	29.75	45.92	55.83	59.23	(Note 1)
	Earnings per share (in NTD)	0.27	0.46	0.88	1.08	(4.98)

Entries (Note 4)		Year	Analysis of the Finances of Years 2008 to 2012				
			2012	2011	2010	2009	2008
Financial structure	Ratio of liabilities against total assets (%)	96.79	96.79	96.76	96.51	97.70	
	Ratio of fixed assets against shareholder equity (%)	0.36	0.39	0.50	0.31	0.68	
Growth rate	Growth rate of assets (%)	2.63	4.12	12.54	38.79	(0.05)	
	Growth rate of profitability (%)	(29.77)	(50.03)	32.47	112.18	(6,213.58)	
Cash Flow	Ratio of cash flow (%) (Note 2)	17.90	5.62	15.88	14.94	-	
	Cash flow adequacy ratio (%) (Note 3)	1,934.81	1,241.81	1,092.86	97.44	-	
	Cash flow satisfied ratio (%)	(30.75)	(9.40)	(7.69)	(2.33)	1.49	
Ratio of liquid reserves (%)		62.08	59.33	61.58	61.57	35.57	
Total secured loans to related parties (in NTD thousand)		227,235	230,586	597,914	238,834	254,597	
Ratio of total secured loans to related parties against total loans (%)		0.11	0.12	0.35	0.19	0.29	
Scale of Operations	Market share of assets (%)	1.94	2.01	1.94	1.82	1.41	
	Equity market share (%)	0.94	1.00	0.99	1.01	0.52	
	Deposit market share (%)	2.36	2.47	2.42	2.29	1.74	
	Loan market share (%)	0.90	0.84	0.77	0.60	0.49	

1. The increment in deposit and loan ratio vis-à-vis the previous year ratio is mainly due to an increase in total loans.
2. The drop in the earnings per employee vis-à-vis the previous year average is mainly due to the drop in net income after tax.
3. The drop in profitability vis-à-vis the previous year profitability is mainly due to the drop in gains and losses incurred before and after taxes.
4. The drop in the growth rate of assets vis-à-vis the previous year rate is mainly due to the sluggish growth in the deposits transferred from other banks.
5. The drop in the growth rate of profitability posted vis-à-vis the previous year rate is mainly due to the reduction in the gains and losses incurred before taxes.

Note 1: Gains (loss) after taxes and net revenue declared were negative; hence, they were excluded from the analysis.

Note 2: Net cash flow of the operating activities of 2008 reflect the net outflow; since the respective ratios were negative, they were excluded from calculations.

Note 3: Business operations of ABT officially commenced in May 2005; since no five-year period span could be assessed in 2008, this ratio is not applicable.

Note 4: Computation equations employed for the financial analysis entries:

1. Operating Capacity

- (1) Loan-to-deposit ratio = total loans / total deposits
- (2) NPL Ratio = total non-performing loans / total loans
- (3) Ratio of interest expense against annual average deposit balance = total interest expense / annual average deposit balance
- (4) Ratio of interest revenue against annual average loan balance = total interest revenue / annual average loan balance
- (5) Total assets turnover rate = net revenue / total assets
- (6) Average operating revenue per employee = net revenue / total number of employees
- (7) Average earnings per employee = net income after tax / total number of employees

2. Profitability

- (1) Return rate of Tier 1 capital = gains or loss before tax / average total of tier 1 capital
- (2) Return rate of assets = gains or loss after tax / average total assets
- (3) Return rate of shareholder equity = gains or loss after tax / average net shareholder equity applied into cooperatives, credit departments of farmers' and fisheries associations, and trust investment companies.
- (4) Net income rate = gains or loss after tax / net revenue
- (5) Earnings per share = (net income after tax - dividends of preferred stocks) / weighted average of issued shares

3. Financial structure

- (1) Ratio of liabilities against assets = total liabilities / total assets
- (2) Ratio of fixed assets against net equity = current year net fixed assets value / net value of shareholder equity

4. Growth rate

- (1) Growth rate of assets = (current year total assets - previous year total assets) / previous year total assets
- (2) Growth rate of profitability = (current year gains [loss] before tax - previous year gains or loss before tax) / previous year gains or loss before tax

5. Cash flow

- (1) Cash flow ratio = net cash flow for operations / (loans and overdrafts from banks + commercial paper payable)
- (2) Net cash flow adequacy ratio = net cash flow for the operations of the past five years / of the past five years
- (3) Cash flow adequacy ratio = net cash flow for operations / net cash flow for investments

6. Ratio of liquid reserves = Central Bank regulated current assets / liabilities of liquid reserves for appropriation

7. Scale of operations

- (1) Market share of assets = total assets / total assets of financial institutions capable of operating deposits and loans
- (2) Market share of net value = net equity / net equity of financial institutions capable of operating deposits and loans
- (3) Deposit market share = total loans / total deposits of financial institutions capable of operating deposits and loans
- (4) Market share of loans = total loans / total loans of financial institutions capable of operating deposits and loans
- (5) Financial institutions capable of operating deposits and loans, including the local banks, branches of foreign banks in Taiwan, credit cooperatives, credit departments of farmers' association and fishermen's association, and trust investment companies.

Capital Adequacy

Unit in NTD Thousand

Entries		year	Capital Adequacy Rate of the Past Three Years (note)			
			2012	2011	2010	
Regulatory Capital	Tier 1 Capital	Common equity	15,901,256	15,744,280	15,580,139	
		Non-cumulative perpetual preferred stock	-	-	-	
		Non-cumulative subordinated bonds no maturity	-	-	-	
		Capital Collected in advance	-	-	-	
		Capital reserve (except from appreciation of fixed asset)	-	-	-	
		Statutory surplus reserve	1,132,152	793,051	203,468	
		Special reserve	525,141	525,141	-	
		Accumulated profit	525,968	847,751	1,473,960	
		Minority equity	-	-	-	
		Other shareholder's equity	(9)	(101,228)	(100,334)	
		Less: Good will	-	-	-	
		Less: Unamortized loss from disposal of non-performing assets	-	-	-	
		Less: Accumulated loss	-	-	-	
		Capital deduction items	1,635,268	1,863,190	2,781,408	
	Total Tier 1 Capital	16,449,240	15,945,806	14,375,825		
	Tier 2 Capital	Cumulative perpetual preferred stock	4,500,000	4,500,000	4,500,000	
		Cumulative perpetual subordinated debts	-	-	-	
		Fixed asset appreciation surplus	-	-	-	
		45% of Unrealized gains on available-for-sale financial assets	408,577	273,265	259,422	
		Convertible debts	-	-	-	
		Operational reserves and loan-less provision	-	753,105	788,705	
		Long-term subordinated debts	5,880,000	1,400,000	1,920,000	
		Non-perpetual preferred stock	-	-	-	
		Total of non-cumulative perpetual preferred stock and non-cumulative perpetual subordinated bonds exceeding 15% of the total Tier 1 capital	-	-	-	
		Less: Accumulated loss	-	-	-	
		Capital deduction items	1,635,268	1,863,190	2,781,408	
		Total Tier 2 Capital	9,153,309	5,063,180	4,686,719	
		Tier 3 Capital	Short-term subordinated bonds	-	-	-
			Non-perpetual preferred stock	-	-	-
	Total Tier 3 Capital	-	-	-		
	Regulatory capital		25,602,549	21,008,986	19,062,544	
	Total weighted risk assets	Credit risk	Standardized approach	212,348,199	175,733,370	149,567,542
Internal rating based approach			-	-	-	
Asset securitization			8,280,995	3,822,486	5,928,889	
Operational risk		Basic Indicator Approach	2,555,675	2,538,463	2,510,425	
		Standardized approach / optional standardized approach	-	-	-	
		Advanced measurement approach	-	-	-	
Market risk		standardized approach	17,440,925	4,832,350	7,862,650	
		Internal model approach	-	-	-	
Total risk weighted assets		240,625,794	186,926,669	165,869,506		
Capital adequacy ratio		10.64%	11.24%	11.49%		
Ratio of Tier 1 capital to risk weighted assets		6.84%	8.53%	8.67%		
Ratio of Tier 2 capital to risk weighted assets		3.80%	2.71%	2.83%		
Ratio of Tier 3 capital to risk weighted assets		-	-	-		
Ratio of common equity to total assets		2.17%	2.20%	2.27%		

Note: Capital adequacy ratio equations employed are as shown below:

1. Eligible capital = Tier 1 capital + Tier 2 capital + Tier 3 capital
2. Total risk weighted assets = credit-risk weighted assets + capital requirements of (operational risk + market risk) x 12.5.
3. Capital adequacy ratio = owned capital / total risk weighted assets
4. Ratio of Tier 1 capital to risk weighted assets = Tier 1 capital / total risk weighted assets
5. Ratio of Tier 2 capital to risk weighted assets = Tier 2 capital / total risk weighted assets
6. Ratio of Tier 3 capital to risk weighted assets = Tier 3 capital / total risk weighted assets
7. Ratio of common shares to total assets = common shares / total assets

C. The Supervisor's Evaluation Report of the 2012 Financial Statements

Supervisor's Report

We have examined the Agricultural Bank of Taiwan's 2012 (January 1, 2012~December 31, 2012) financial statements (balance sheets, statements of income, statements of changes in stockholder's equity and statements of cash flows), as well as the Bank's 2012 business report and proposal for earnings distribution in the second-term 22nd supervisor's meeting held on April 17, 2013 and second-term 23rd supervisor's meeting held on May 21, 2013 and did not find any nonconformity. The aforementioned financial statements were presented to us by the Bank's Board of Directors and have been audited by Chung Dan-Dan, Certified Public Accountant, KPMG Taiwan.

To
2013 General Shareholder's Meeting

Agricultural Bank of Taiwan

Resident Supervisor : Yang, Shun-Cheng



(authorized signature)

Supervisor : Chang, Yo-Ze



(authorized signature)

Supervisor : Lin, Han-Chou



(authorized signature)

Supervisor : Yang, Wei-Wen



(authorized signature)

Supervisor : Lin, Shi-Jie



(authorized signature)

May 21, 2013

D. The CPA's Audit Report of the 2012 Financial Statements



安侯建業聯合會計師事務所

KPMG

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Independent Auditor's Report

The Board of Directors

Agricultural Bank of Taiwan, Ltd.

We have audited the accompanying balance sheets of Agricultural Bank of Taiwan, Ltd. as of December 31, 2012 and 2011, and the related statements of income, changes in stockholder's equity, and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the "Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants" and the auditing standards generally accepted in the Republic of China. Those regulations and standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Agricultural Bank of Taiwan, Ltd. as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended, in conformity with the related financial accounting standards of the "Business Entity Accounting Law", the "Regulation on Handling Business Entity Accounting", and the general accepted accounting principles in the Republic of China.

Taipei, Taiwan, R.O.C.

April 16, 2013



Note to Readers

The accompanying financial statements are intended only to present the financial position, results of operation and cash flows in accordance with the accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures, and practices to audit such financial statements are those generally accepted and applied in the Republic of China.

The auditor's report and the accompanying financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of, the English and Chinese language auditor's report and financial statements, the Chinese version shall prevail.


 (English Translation of Financial Report Originally Issued in Chinese)
 AGRICULTURAL BANK OF TAIWAN, LTD.
 BALANCE SHEETS
 DECEMBER 31, 2012 AND 2011
 (Amounts Expressed in Thousands of New Taiwan Dollars)

ASSETS	December 31, 2012	December 31, 2011	Variance %
	Amount	Amount	
Cash and cash equivalents (Note 4)	\$ 1,461,718	3,275,093	(55)
Deposits with the Central Bank and call loans to banks (Note 5)	366,870,741	374,739,396	(2)
Financial assets measured at fair value through profit or loss, net (Notes 2 and 6)	13,360,086	20,148,487	(34)
Receivables, net (Note 7)	3,845,543	3,643,786	6
Discounts and loans, net (Note 8)	192,472,198	167,639,200	15
Available-for-sale financial assets, net (Notes 2 and 9)	119,244,471	108,544,028	10
Held-to-maturity financial assets, net (Notes 2 and 10)	25,899,169	27,657,486	(6)
Investments under the equity method, net (Notes 2 and 11)	77,825	60,572	28
Debts investment with no active market (Notes 2 and 12)	10,272,362	8,957,998	15
Other financial assets, net	1,936	5,328	(64)
Property and equipment, net (Notes 2 and 13)	85,361	89,170	(4)
Refundable deposits	18,051	16,889	7
Other assets	14,919	16,506	(10)
TOTAL ASSETS	\$ 733,624,380	714,793,939	3
LIABILITIES AND STOCKHOLDER'S EQUITY	December 31, 2012	December 31, 2011	Variance %
	Amount	Amount	
Liabilities			
Deposits from the Central Bank and other banks	\$ 12,785,612	19,474	65,555
Financial liabilities measured at fair value through profit or loss (Note 6)	1,896,611	1,977,112	(4)
Bills and bonds sold under repurchase agreements (Notes 2 and 14)	32,798,224	47,161,845	(30)
Payables (Note 15)	1,020,107	795,708	28
Deposits and remittances (Note 16)	653,594,572	638,712,032	2
Financial bonds payable (Note 17)	5,800,000	800,000	625
Accrued pension liabilities (Notes 2 and 19)	36,801	31,061	18
Other financial liabilities (Note 18)	1,933,483	2,236,404	(14)
Other liabilities	239,386	142,130	68
Total Liabilities	710,104,796	691,875,766	3
Stockholder's Equity			
Capital stock (Note 21)			
Common stock	15,901,256	15,744,280	1
Preferred stock	4,500,000	4,500,000	-
Retained earnings			
Legal reserve	1,132,152	793,052	43
Special reserve	525,141	525,141	-
Undistributed earnings (Note 20)	553,094	847,751	(35)
Others			
Unrealized gain and loss on available-for-sale financial assets	907,941	507,949	79
Total Stockholder's Equity	23,519,584	22,918,173	3
Significant Commitments and Contingencies			
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	\$ 733,624,380	714,793,939	3

(English Translation of Financial Report Originally Issued in Chinese)
AGRICULTURAL BANK OF TAIWAN, LTD.
STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
 (Amounts Expressed in Thousands of New Taiwan Dollars, Except for Share Data)

	For the years ended December 31,		Variance %	
	2012	2011		
Interest revenue	\$ 9,687,563	8,932,632	8	
Less: Interest expense (Note 2)	<u>8,635,401</u>	<u>7,936,488</u>	9	
Net interest income	1,052,162	996,144	6	
Non-interest income, net				
Commissions and handling fee, net (Note 2)	16,322	70,330	(77)	
Gains (losses) on financial assets or liabilities measured at fair value through profit or loss	1,753,651	(377,041)	565	
Realized gains on available-for-sale financial assets	205,531	259,233	(21)	
Realized gains on held-to-maturity financial assets	-	549	(100)	
Investment income recognized under the equity method (Note 2 and 11)	17,253	27,928	(38)	
Foreign exchange (losses) gains	(1,190,274)	666,386	(279)	
(Losses) gains from reversal of impairment losses (Note 2)	(94,392)	3,469	(2,821)	
Others non-interest income, net	<u>98,836</u>	<u>199,197</u>	(50)	
Sub-total	<u>806,927</u>	<u>850,051</u>	(5)	
Net revenue	<u>1,859,089</u>	<u>1,846,195</u>	1	
Bad debt expenses (Notes 2 and 8)	741,486	524,245	41	
Operating expenses				
Personnel expenses	242,062	229,146	6	
Depreciation and amortization expenses	26,677	28,961	(8)	
Other selling and administrative expenses	<u>284,280</u>	<u>259,890</u>	9	
Total operating expenses	<u>553,019</u>	<u>517,997</u>	7	
Earnings from continuing operations before income tax	564,584	803,953	(30)	
Income tax expenses (revenues) (Notes 2 and 20)	<u>11,490</u>	<u>(43,798)</u>	126	
Net income	<u>\$ 553,094</u>	<u>847,751</u>	(35)	
	Before tax	After tax	Before tax	After tax
Basic earnings per share (in dollars) (Notes 2 and 22)	<u>\$ 0.28</u>	<u>0.27</u>	<u>0.44</u>	<u>0.46</u>
Basic earnings per share (in dollars) - retroactively adjusted (Notes 2 and 22)			<u>0.43</u>	<u>0.46</u>
Diluted earnings per share (in dollars) (Notes 2 and 22)	<u>\$ 0.28</u>	<u>0.27</u>	<u>0.40</u>	<u>0.42</u>
Diluted earnings per share (in dollars) - retroactively adjusted (Notes 2 and 22)			<u>0.39</u>	<u>0.41</u>

(English Translation of Financial Report Originally Issued In Chinese)
 AGRICULTURAL BANK TAIWAN, LTD.
 STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY

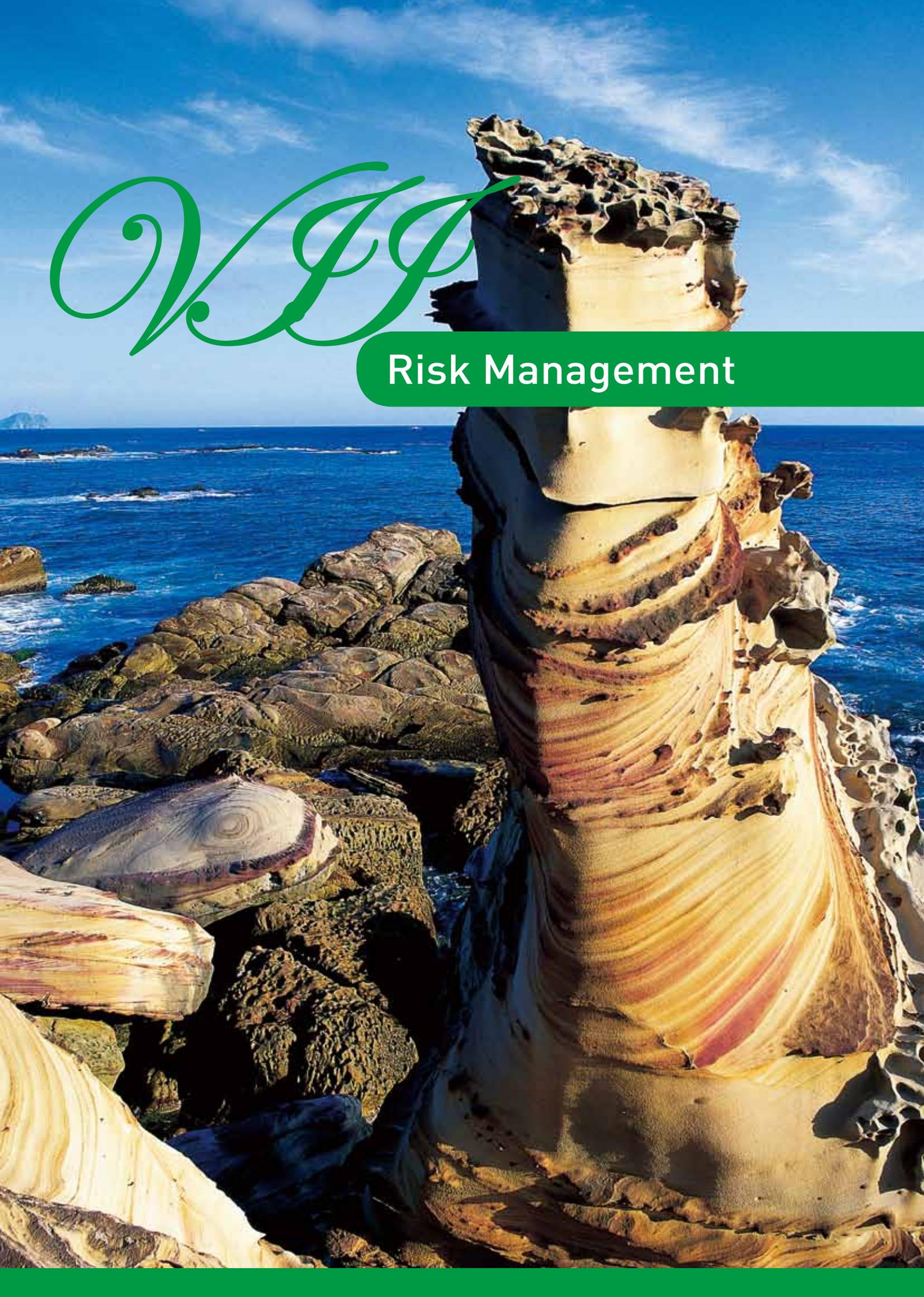
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
 (Amounts Expressed in Thousands of New Taiwan Dollars)

	Capital stock		Retained earnings			Unrealized gains and losses on financial assets	Total
	Common stock	Preferred stock	Legal reserve	Special reserve	Undistributed earnings		
Balance - January 1, 2011	\$ 15,580,139	4,500,000	203,468	-	1,473,960	476,158	22,233,725
Appropriation and distribution of 2010 earnings							
Legal reserve	-	-	589,584	-	(589,584)	-	-
Special reserve	-	-	-	295,000	(295,000)	-	-
Common stock-cash dividends	-	-	-	-	(210,332)	-	(210,332)
Preferred stock-cash dividends	-	-	-	-	(106,650)	-	(106,650)
Capital increase out of unappropriated earnings	164,141	-	-	-	(164,141)	-	-
Contribution to mutual support fund	-	-	-	-	(30,070)	-	(30,070)
Promotion and assistance fee on various Farmers' and Fishery Association	-	-	-	-	(78,183)	-	(78,183)
Changes in unrealized gains and losses on available-for-sale financial assets	-	-	-	-	-	31,791	31,791
Transferred from reserve for trading losses	-	-	-	230,141	-	-	230,141
Net income for the year ended December 31, 2011	-	-	-	-	847,751	-	847,751
Balance - December 31, 2011	15,744,280	4,500,000	793,052	525,141	847,751	507,949	22,918,173
Appropriation of 2011 earnings:							
Legal reserve	-	-	339,100	-	(339,100)	-	-
Common stock-cash dividends	-	-	-	-	(141,699)	-	(141,699)
Preferred stock-cash dividends	-	-	-	-	(116,550)	-	(116,550)
Common stock-stock dividends	156,976	-	-	-	(156,976)	-	-
Contribution to mutual support fund	-	-	-	-	(25,952)	-	(25,952)
Promotion and assistance fee on various Farmers' and Fishery Association	-	-	-	-	(67,474)	-	(67,474)
Changes in unrealized gains and losses on available-for-sale financial assets	-	-	-	-	-	399,992	399,992
Net income for the year ended December 31, 2012	-	-	-	-	553,094	-	553,094
Balance - December 31, 2012	\$ 15,901,256	4,500,000	1,132,152	525,141	553,094	907,941	23,519,584

(English Translation of Financial Report Originally Issued in Chinese)
AGRICULTURAL BANK OF TAIWAN, LTD.
STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
 (Amounts Expressed in Thousands of New Taiwan Dollars)

	For the years ended December 31,	
	2012	2011
Cash flows from operating activities:		
Net income	\$ 553,094	847,751
Adjustment items:		
Depreciation	26,490	28,909
Amortization	4,524	4,555
Provision of bad debt expenses	713,486	497,245
Provision for guarantee reserve	28,000	27,000
Amortization of premiums (discounts) on financial assets	726,037	588,478
Investment income recognized under the equity method	(17,253)	(27,928)
Losses on disposal and retirement of fixed assets	-	469
Gains on disposal of investments	(195,585)	(281,406)
Impairment losses on financial assets	94,392	-
Reversal of impairment losses on financial assets	-	(3,469)
Amortization of unrealized gains and losses on financial assets	332	(1,917)
Net changes of operating assets and liabilities:		
Net changes of operating assets:		
Decrease in financial assets held for trading	6,788,401	1,441,551
(Increase) decrease in receivables	(208,607)	106,961
Decrease in other financial assets	1,475	147
Net changes of operating liabilities:		
Increase (decrease) in financial liabilities held for trading	(80,501)	27,741
Increase (decrease) in payables	224,399	(451,137)
Increase in accrued pension liabilities	5,740	2,411
Net cash provided by operating activities	<u>8,664,424</u>	<u>2,807,361</u>
Cash flows from investing activities:		
Purchase of available-for-sale financial assets	(38,175,917)	(42,029,628)
Proceeds from disposition of available-for-sale financial assets	25,881,597	32,306,663
Repayment of shares from cancellation of capital stock of available-for-sale financial assets	-	7,000
Proceeds received from available-for-sale financial assets	1,320,000	3,883,879
Purchase of debts investment with no active market	(4,171,125)	(5,341,775)
Proceeds from disposition of debt instruments with no active market	1,986,730	4,371,041
Proceeds received from debts investments with no active market	886,390	656,869
Purchase of held-to-maturity financial assets	(32,701,029)	(10,027,297)
Proceeds received from held-to-maturity financial assets	34,491,680	25,280,943
Proceeds received from financial assets measured at costs	-	250,000
Purchase of fixed assets	(22,681)	(8,247)
Increase in guarantee deposits paid	(1,162)	(2,132)
Purchase of intangible assets	(3,072)	(12,310)
(Increase) decrease in due from the Central Bank and call loans to banks	7,868,655	(23,424,027)
Increase in discounts and loans	(25,537,717)	(15,784,437)
(Increase) decrease in other assets	135	(60)
Net cash used by investing activities	<u>(28,177,516)</u>	<u>(29,873,518)</u>
Cash flows from financing activities:		
Issuance of financial debentures	\$ 5,000,000	-
Increase (decrease) in bills and bonds sold under repurchase agreements	(14,363,621)	9,841,484
Decrease in other financial liabilities	(302,921)	(167,185)
Increase in other liabilities	43,304	5,853
Cash dividends	(258,249)	(316,982)
Provision for promotion and assistance fee on various Farmers' and Fishery Association	(67,474)	(78,183)
Increase in deposits from the Central Bank and other banks	12,766,138	437
Increase in deposits and remittances	14,882,540	18,508,947
Net cash provided by financing activities	<u>17,699,717</u>	<u>27,794,371</u>
Net (decrease) increase in cash and cash equivalents	(1,813,375)	728,214
Cash and cash equivalents, beginning of the year	<u>3,275,093</u>	<u>2,546,879</u>
Cash and cash equivalents, end of the period	<u>\$ 1,461,718</u>	<u>3,275,093</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	\$ 8,580,265	7,825,263
Income tax	\$ 11,490	-
Non-cash investing and financing activities:		
Capital increase out of unappropriated earnings	\$ 156,976	-
Special reserve transferred from reserve for trading losses	\$ -	230,141
Surplus provision for mutual support fund (recognized as other liabilities)	\$ 25,952	30,070

A scenic coastal landscape featuring a prominent, layered rock formation in the foreground, with a blue ocean and sky in the background. The rock formation is a tall, cylindrical stack of light-colored, horizontally layered rock, possibly sandstone or limestone, showing signs of weathering and erosion. The layers are distinct and vary in color from light beige to reddish-brown. The rock is situated on a rocky shore with other smaller rock formations and a blue ocean in the background. The sky is a clear, bright blue with some light clouds. The overall scene is a natural, rugged coastline.

WPP

Risk Management

A. Credit Risk Management

1. Credit Risk Management System

2012

Item	Description
Credit risk management strategies, objectives, policies and implementation procedures	<ol style="list-style-type: none"> 1. Credit risk management strategies, objectives, and policies <ol style="list-style-type: none"> (1) Pursuant to ABT loan policies, investment policies, operating strategies, and business plans, ABT is required to comply with Basel Capital Accord and regulations of the respective competent authorities, and at the same time, ensure the capital utilization performance and the asset quality of the bank, and thus, ABT periodically modify its credit risk management strategies to ensure appropriate measures. (2) ABT developed a sound credit risk control mechanism to enable the effective identification, measurement, supervision, and control of credit risks, thereby allowing ABT to find a balance between the standard of acceptable risks and the standard of anticipated returns. (3) The respective departments processing credit risk related operations shall assess the possible credit risk loss probability that a particular loan, investment, or transaction account may produce and the severity of the probable losses. Moreover, departments shall institute the appropriate credit risk management countermeasures, such as risk hedging, risk transfers, risk control, and risk assumption actions. 2. Credit risk management policy implementation procedure <ol style="list-style-type: none"> (1) Prior to processing existing and new types of business operations, the respective departments shall understand the credit risks involved in such endeavors, or through the loan, investment, or transaction processing procedure, identify all credit risk factors, such as characteristics of the borrowers. Moreover, through an understanding of factors, such as, the types of loan services, fund borrowers, objectives of loans, loan payment sources, loan amortization records, and specification of the loan agreements and financial standing of borrowers, or the effects of changes in the overall markets, ABT gained an understanding of the possible impacts of ABT's risk exposures. Furthermore, ABT shall assess the risk offsetting tools, such as collaterals and guarantees, and study the changes in the risk status of other possible future borrowers, bond issuers, or transaction counterparties. In addition, aside from a study of individual transaction risks, the ABT shall weigh the composite risks of loan accounts and investment portfolios. (2) ABT established a credit risk monitoring and control system through which ABT monitored and controlled the credit risks of individual loan accounts and loan packages. The monitoring and control system shall cover credit line management, loan management after release of loans, management of collaterals, and management of the asset quality.
Organization and structure of the credit risk management	<ol style="list-style-type: none"> 1. The Board of Directors defines the credit risk management regulations and significant loan policies, verifies effectiveness of credit risk management operations, and regularly conducts evaluation and review procedures pursuant to the overall operating strategies and business operation environment of the bank. 2. The senior management level is responsible for the implementation of the credit risk management policies and frameworks resolved by the Board of Directors and the supervision and monitoring of management procedures to ensure propriety of operations, as well as coordination of all interdepartmental credit risk related matters. 3. In compliance with the credit risk policies of the Board of Directors, the Risk Management Committee controls the credit risk management mechanism and deliberates on the formulation and amendment of credit risk related criteria, including provisions on risk indicators and assessment procedures. 4. The Credit Review Committee and the credit review team: The credit review team of the ABT's operation department serves as the working staff of authorized officers of each respective department. Moreover, the head office has established its own Credit Review Committee and credit review team; the latter serves as the office staff of the president and the Board of Directors for the review of cases requiring approval authorizations above the vice president level. The team is organized under the purpose of strengthening credit review capacity of the bank. On the other hand, the Credit Review Committee is composed of nine members, four from the senior management of ABT – that is, the president, business division vice president, and department heads – and five independent credit review committee members. The committee is responsible for review of the loan accounts requiring the approval authorization of the Board of Directors and the investment cases which are subject to the regulations governing the ABT's investment in negotiable securities, thereby enhancing the review function of the bank. 5. The Risk Management Office is a department dedicatedly established for risk management related operations. It is responsible for the planning, institution, and integration of all ABT credit risk management related operations, the implementation of overall credit risk management monitoring work, the regular compilation of ABT credit risk related information for the information of the Board of Directors and the Risk Management Committee, and the processing of credit risk Capital Requirement and risk information disclosure regulated by the competent authorities. 6. The Operation Department is responsible for the identification, evaluation and assessment of risks and the implementation of the appropriate risk countermeasures. The Operation Department executes all daily operations and credit risk management endeavors in accordance with the credit verification, loan approval, and credit risk management regulations and procedures of the bank. It is also responsible for submitting related reports to the in-charge departments on business matters or the Risk Management Office.
Scope and Features of the credit risk reporting and assessment system	In addition to preparing the required risk management statistics reports pursuant to the competent authority requirements, ABT also periodically compiles information on the credit risk position, credit line utilization, credit rating distribution, and loans categorized by industries for the information of the senior management level, the Risk Management Committee and the Board of Directors.
Policies on credit risk hedging or risk mitigation and the strategies and procedures for monitoring the effectiveness of hedging and risk mitigation instruments	The Bank regulates the line of credit granted to the same individuals, same related parties, same affiliate or group enterprises, financial holding companies, and credit quota of loans issued to the same industries in an effort to reduce the credit risk exposure of the bank. Moreover, providing that endeavors shall not affect the business development, ABT utilizes mortgaged collaterals, guaranties of credit assurance institutions, net value settlements, and credit derivatives as instruments for risk mitigation. Furthermore, ABT continue the credit line management, released loan management, mortgaged collateral management, and asset quality management operations to maintain control over the effectiveness of ABT risk mitigation instruments.
Procedure for Regulatory Capital Requirement	ABT adopts the standardized approach to credit risk for calculating capital charges.

2. Risk Exposure and Capital Requirement after Risk Mitigation under the Standardized Approach

December 31, 2012

Unit in NTD Thousand

Type of exposure	Exposure after risk reduction	Capital Requirement
Sovereign	445	7
Public sector other than the Central Government	58,719,430	939,551
Banks (including multilateral development banks)	75,554,197	3,017,165
Corporations (including securities and insurance companies)	160,187,838	10,910,819
Retail	17,542,532	1,371,860
Residential mortgages	677,310	40,261
Equity	1,347,180	323,323
Other assets	5,273,670	384,910
Total	319,302,602	16,987,856

B. Asset Securitization Risk Management

1. Asset Securitization Risk Management System

2012

Item	Description
Management strategies and procedures for asset securitization	1. ABT is not an originating bank of asset securitization commodities and thus, related operations are merely in the form of investments. 2. ABT's investments in asset securitization commodities, and the related management strategies and procedures, are implemented according to ABT's investment policies, the regulations governing the authorization of investments in negotiable securities, the regulations governing the authorization of investments in foreign currency assets, and the regulations governing risk limits, and other related company regulations.
Asset securitization management organization and structure	ABT is not an originating bank of asset securitization commodities. All probable consequential risks of investments in asset securitization commodities (including credit risks, market risks, and operating risks) are processed and instituted according to the respective established risk management the organization and framework.
Scope and features of the asset securitization reporting and assessment system	The Risk Management Office prepares a monthly risk management statistics report, periodic information updates on the changes in the credit ratings of the asset securitization commodities on which ABT has investments and the ratio of every particular asset securitization commodity against ABT's total investments. Moreover, it identifies asset securitization commodities whose credit ratings are likely to be downgraded for proper tracking and control.
The risk hedging or mitigation policies on asset securitization and the strategies and implementation procedures for ensuring the sustained effectiveness of risk hedging and mitigation instruments	ABT is not an originating bank of capitalized security commodities; hence, ABT defined the standard credit rating limitations and investment limits for investments in asset securitization commodities. Moreover, ABT regularly keeps track of the changes in the credit ratings of asset securitization commodities in an effort to mitigate possible risks of its investments in asset securitization commodities.
Procedure for Regulatory Capital Requirement	ABT adopts the standardized approach to securitization for calculating capital charges.

2. Status of asset securitization: none

3. Asset securitization risk exposure and capital requirement

December 31, 2012

Unit in NTD Thousand

Type of exposure	Non-originating Bank		Originating Bank					Capital requirement before securitization
	Exposures to purchased or held asset securitization	Capital Charge	Risk Exposure				Asset-backed commercial papers	
			Non asset-backed commercial papers		with position	without position		
			Traditional	Synthetic				
		with position	without position	with position	without position			
40%	6,850,549	219,218	-	-	-	-	-	-
50%	225,486	9,019	-	-	-	-	-	-
100%	4,356	348	-	-	-	-	-	-
225%	2,410,523	433,894	-	-	-	-	-	-
Capital deduction items	2,404,357	-	-	-	-	-	-	-
Total	11,895,271	662,479	-	-	-	-	-	-

C. Operational Risk Management

1. Operational Risk Management System

2012

Item	Description
Strategies and procedures for operating risks management	<ol style="list-style-type: none"> The respective departments of ABT implement appropriate countermeasures, such as hedging, transfer or offsetting, control, or acceptance, on the various probable risk incidents of daily operating activities and management procedures and conduct a comprehensive assessment of their respective rates of occurrence and severity of impacts to mitigate occurrence rates of substantial losses and events. Procedures for the operational risk management include identification, assessment, control and reporting procedures. In consideration of the internal and external factors, such as, nature of businesses, personnel, systems and operational environments, a risk self-assessment procedure is implemented based on the primary operating activities or products for the identification of the various operating risks involved in the daily operating activities and management procedures. Moreover, ABT conducts an analysis of causes, event classification, and impact outcomes to understand operational risk incidents, and at the same time establishes a reporting system for operating risk incidents and a database for operating risk losses to enhance the operational risk assessment capacity of the bank. Furthermore, a regular compilation and analysis of the various operational risk management procedure implementation conditions are conducted, and findings reports are submitted to the information of the senior management, the Risk Management Committee, and the Board of Directors. Related reports are periodically disclosed pursuant to the regulations of the competent authorities.
Operating risk management organization and structure	<ol style="list-style-type: none"> The Board of Directors is the final decision-making body on matters of operational risk management. Pursuant to the overall operational strategies and operational environment of ABT, the Board of Directors approves the management procedures and significant policies governing operational risks, monitors the effective implementation of operational risk management systems, and conducts regular evaluation procedures on the matters. The senior management level is responsible for the following: supervision of the implementation of operational risk management criteria and systems; ensuring that the respective management levels understand their respective roles and responsibilities in the management of operational risks; examination of internal and external reports to determine their compliance with the related regulations on operational risk management; and coordination of interdepartmental communications on operational risk related management operations. The Risk Management Committee implements a control over the operational risk management systems of ABT and deliberates on the related operational risk management criteria of the bank, including the formulation and amendment of risk indicators and assessment procedures, pursuant to the resolved operational risk management policies of the Board of Directors. The staff members of the respective divisions of ABT are obliged to observe the related regulations governing operational risks and to actively understand and control the operation risks involved in the matters and operations assigned to their responsibility. Moreover, staff members shall attend to all consequential operational risks immediately and report matters to the designated authorities as regulated. The Risk Management Office is responsible for the following: formulation of the operational risk management strategies and procedures; design and introduction of operational risk identification procedures; management systems of assessment, control, and reporting procedures; and establishment and centralization of the operational risk loss events database of the company.
Scope and features of the operating risk reporting and assessment system	ABT has established a reporting system and a loss events database for operational risk related incidents. Moreover, it has implemented self-assessment procedures on operational risks through the systematic self-determination and self-assessment of operational risks conducted by the respective divisions on the business and operational procedures they are implementing on existing businesses. Furthermore, ABT has formulated the necessary corrective actions to enhance risk control measures. All assessment results obtained are compiled into reports and submitted to the information of the Risk Management Committee and the Board of Directors.
The risk hedging or mitigation policies on operating risks, and strategies and implementation procedures for ensuring the sustained effectiveness of risk hedging and mitigation instruments	ABT established the sound criteria for operations and stringent internal control and external audit procedures for the mitigation of operational risks, and pursuant to completed control and audit reports, formulate the necessary corrective actions. Moreover, ABT avails of insurance protection and meticulously selects insurance outsourcing contractors for its risk transfer and offsetting pursuits. ABT continues examination, modification, and enhancement of its operational risk management procedures to achieve a higher level of efficiency in its operations.
Procedure for Regulatory Capital Requirement	ABT adopts the basic indicator approach to operational risk for calculating capital charges.

2. Capital Requirement for Operational Risk

December 31, 2012

Unit in NTD Thousand

Year	Gross profit	Capital Requirement
2012	1,649,128	
2011	1,383,747	
2010	1,056,212	
Total		204,454

D. Market Risk Management

1. Market Risk Management System

2012

Item	Description
Management strategies and procedures for market risks	<ol style="list-style-type: none"> 1. ABT implements appropriate countermeasures, such as risk hedging, risk transfer, risk control, and risk acceptance, on the various market risks to which daily operating activities and management procedures are exposed pursuant to the occurrence rates and severity of the risks. For instance, ABT has regulated that the bank shall not process a particular type of transaction, closing a position, or sale, or shall see to the transfer of a portion or the entirety of a particular risk to a third party through swaps, offsets or other methods. ABT has defined credit line for commodities, stop loss or stop privilege systems, and over limit processing procedures to ensure an effective control of market risks. 2. The market risk management procedures of ABT include the identification, evaluation, assessment, monitoring, and reporting of risks. ABT needs to effectively identify the interest rates for traded products or transaction matters, stock prices, foreign exchange and commodity transaction prices, and other key risk factors. A uniform price assessment system has been used for an accurate evaluation of the incomes and losses of positions. Assessment procedures such as statistical analysis procedures and sensitivity analysis procedures have been established. Complete risk monitoring procedures have been defined and upon the discovery of over exposures and other risk management deficiencies or other special circumstances, matters are reported immediately. At the same time, we monitor general and specific transaction procedures, including transactions of the Finance Department and financial instruments, to determine whether changes of positions, changes in gains and loss, modes of transaction, and matters of transactions comply with regulations and are conducted within the authorized limits and scopes. Furthermore, through an internal reporting system, the Finance Department and the Risk Management Office regularly furnish a report to the information of the senior management level, the Risk Management Committee, and the Board of Directors.
Market risk management organization and structure	<ol style="list-style-type: none"> 1. Pursuant to the overall operating strategies and operating environment of ABT, the Board of Directors decides on management procedures and significant policies governing market risks to ensure the effective operation of market risk systems and conducts regular evaluation procedures on the matters. 2. The senior management level is responsible for the following: implementation of market risk related management policies and structures of the Board of Directors; monitoring and inspection of appropriateness of the respective management procedures; and coordination of interdepartmental communications on market risk related management operations. 3. The Assets and Liabilities Management Committee is composed of the president, the executive vice president, and the heads of the Finance Department, the Business Development Department, and the Risk Management Office; the president serves as the meeting convener. The Committee is responsible for review of ABT's policies governing deposits, loans, foreign exchange, and capital market transactions, sensitivity ratios of interest rates, distribution of principal assets and liabilities upon maturity, and other significant policies. 4. The Investment Review Committee is composed of the president, the executive vice president, and the heads of the Business Development Department, Risk Management office, Accounting Office, and Finance Department; the president serves as the meeting convener. The Committee is responsible for review of the ABT's investments in beneficiary securities, asset-based securities, foreign currency assets, convertible bond asset swap, credit-linked notes (CLN), and structural instruments of recombination of standard contracts and credit-linked notes or other financial instrument packages, and other investments in negotiable securities. 5. The Risk Management Committee controls the market risk management systems and reviews market risk related regulations, including the formulation and amendment of risk indicators and assessment procedures pursuant to the market risk management policies of the Board of Directors. 6. The Finance Department is responsible for the following: implementation of risk identification, evaluation, and assessment (both quantitative and non-quantitative) procedures; institution of the appropriate risk countermeasures (including risk hedging, risk transfer or offsetting, risk control, and risk acceptance), observance of the related ABT regulations on market risk management; implementation of department management, active monitoring of the different quota assignments, and presentation of related reports to senior management or the Risk Management Office as regulated. 7. The Risk Management Office is specifically responsible for the following: management of overall market risks of ABT; compilation, monitoring, and disclosure of ABT's market risk information and policy implementation conditions; presentation of regular reports to the Risk Management Committee and the Board of Directors; and implementation of capital requirements for market risks and disclosure of risk related information as regulated by the competent authorities.
Scope and features of the market risk reporting and assessment system	<ol style="list-style-type: none"> 1. The Finance Department prepares a daily or regular transaction information report to the heads of the respective departments as regulated. Moreover, it ensures accuracy and validity of the information therein contained. Moreover, the Finance Department shall immediately report deficiencies noted such as credit line exceeded or other irregularities. 2. The Risk Management Office regularly prepares a report on the market risk management operations of ABT for the information of the Risk Management Committee and the Board of Directors. The reports normally contain information on the market risk position of ABT, risk standards, profit or loss status, credit line utilization and compliances to market risk related management regulations. 3. In the event of significant market changes, the Finance Department shall immediately prepare the related report to minimize market risks and reduce possible company losses or disadvantages it may impose on the reputation of the bank.
The risk hedging or mitigation policies on market risks and strategies and implementation procedures for ensuring the sustained effectiveness of risk hedging and mitigation instruments	<ol style="list-style-type: none"> 1. The present risk hedging transactions of ABT are mainly used to hedge risks from foreign exchange and interest rate fluctuations of foreign currency assets and securities investments. Hedging instruments used are primarily swap contracts of financial derivatives. In assessment of changes in risk hedging gains and losses, ABT evaluates the financial derivatives of hedging transactions pursuant to their assessed market values at least twice a month; related reports are forwarded to the approval of senior management. 2. ABT has defined management regulations for investments in negotiable securities businesses and has established a rational stop-loss system to intensify ABT's decision-making capacity on domestic security investments and to enable the proper adjustment of investment packages, thereby reducing risks of ABT investments in domestic securities. 3. For the enhancement of interest rate risk management operations, ABT conducts a routine analysis on the gap position and ratios of interest-rate-sensitive assets and liabilities (including deposits, loans, short-term investments, and borrowings) to reduce the interest rate risk.
Procedure for Regulatory Capital Requirement	ABT adopts the standardized approach to market risk for calculating capital charges.



2. Capital Requirement for Market Risk

December 31, 2012

Unit in NTD Thousand

Type of risk	Capital Requirement
Interest rate risk	1,387,114
Equity Security Risk	8,160
Foreign exchange risk	-
Commodity risk	-
Options by Simple Method	-
Total	1,395,274

E. Liquidity Risk Management

1. Analysis of the Structure of Maturity (NTD)

December 31, 2012

Unit in NTD Thousand

	Total	Amount in days to maturity				
		1~30 days	31~90 days	91~180 days	181days~1 year	181days~1 year
Primary capital inflow upon maturity	\$ 736,303,441	116,234,416	113,860,026	111,752,311	119,788,890	274,667,798
Primary capital outflow upon maturity	859,844,191	98,106,906	225,108,076	189,211,111	303,510,426	43,907,672
Maturity Gap	(123,540,750)	18,127,510	(111,248,050)	(77,458,800)	(183,721,536)	230,760,126

2. Analysis of the structure of maturity (USD)

December 31, 2012

Unit in USD Thousand

	Total	Amount in days to maturity				
		1~30 days	31~90 days	91~180 days	181days~1 year	181days~1 year
Primary capital inflow upon maturity	\$ 11	11	-	-	-	-
Primary capital inflow upon maturity	-	-	-	-	-	-
Maturity Gap	11	11	-	-	-	-