

2011

Annual Report



2011 Annual Report

 Agricultural Bank of Taiwan

Agricultural Bank of Taiwan





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I Message to Shareholders

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Gaining a strong uplifting boost in 2010, the global economy gradually made inroads towards recovery in 2011. At the same time as they shoulder the burden of massive treasury bond issuances and high unemployment rates, many leading developed nations had to contend with the pummels of natural and external financial disasters; such as, the earthquake and tsunami disaster that hit Japan on March 11, the European debt crisis, the downgrade of credit ratings of the United States and European nations, etc. These combined incidents led to a consequential weakening of the global economy. In Taiwan, the economy slowly picked up in response to the global recovery trend. The stock market crash triggered by the European debt crisis had greatly reduced private sector wealth; moreover, many corporations had resorted to manpower downsizing or imposing force leaves without pay. Hence, for 2011, the Directorate General of Budget, Accounting and Statistics (DGBAS) posted a national economic growth rate of 4.04%, which fell short of the 4.92% projections.

Wading through a troubled 2011, international institutions had predicted that it would probably take at least a year for the global economy to recover from its crisis. Global Insight predicted in its January issue that the global economic growth rate for 2012 would decline from 3.0% of year 2011 to 2.7%. The international economy is still faced with a multitude of uncertainties, and it is apparent that the sovereign debt problem of European nations continue to burden the EC economic performance. Moreover, the hidden financial problems of the United States, the weakening of economic growth trends in China, and the unpredictably fluctuating unstable oil prices in the Middle East are causing the global economic growth risks to soar. As for the domestic economy of Taiwan, limited by the weak economic performance of the European Community and the United States, and the sluggish growth trends in China and other emerging markets, room for Taiwan's export growth may be sadly affected; consequently, consumer and investment momentum took on a sluggish pace. The DGBAS projections posted a domestic economic growth of 3.85% for 2012.

Agricultural Bank of Taiwan (ABT) accepts redeposits of farmers' and fisheries associations pursuant to the laws.



Mr.S.L. Liu (Chairperson)

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. 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 department 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. The branches shall serve as cornerstones of perpetual operations and business development. Furthermore, we plan to sign credit card affiliations with the trade to consolidate resources of both associations in building up the image of agricultural banking services and promoting sales and marketing of farm and fishery products. In addition to the foregoing measures, in the hope of accomplishing the various legal obligations of ABT, we shall continue to assist the National Agriculture, Fishery, and Finance Information Center in integrating its systems for the optimization of the distribution channel value of the agricultural banking system, counseling of the business and financial operations of the credit departments of farmers and fisheries associations, development of new types of financial instruments and a management system for the joint marketing with farmers' and fisheries associations and customer relation oriented operations. In 2011, ABT posted a net profit before tax of NT\$804 million. We shall continue to promote all business operations, and at the same time strengthen business integration and assist farmers' and fisheries associations in expanding their business operations. It is hoped that ABT may be able to continue working together with farmers' and fisheries associations in forging a mutual benefiting environment, and that we may retain the continued encouragement and support of our shareholders.



K.F. Chu (President)

A. Business Report 2011

1. Operating Results

1. Deposits

Balance of deposits as of yearend of 2011 amounted to NT\$638,712,032,000, an increase of NT\$18,508,947,000 or 2.98% over the 2010 yearend balance; deposits of farmers' and fisheries associations amounted to NT\$627,187,214,000, or 98.19% of total deposits, and current deposits amounted to NT\$6,286,888,000, or 0.98% of total deposit.

2. Loans

- Total loans as of yearend of 2011 amounted to NT\$169,223,406,000, an increase of NT\$15,753,647,000, or 10.26% over the 2010 yearend balance; wherein the agricultural loan amounted to NT\$6,056,067,000, or 3.58% of total loans, and regular loans amounted to NT\$ 163,167,339,000, or 96.42% of total loans.
- Total syndicated loans processed and managed with the farmers' and fisheries associations as of yearend of 2011 amounted to NT\$27,057,220,000, including syndicated loans to county and city governments and regular syndicated loans. A total of 177 farmers' and fisheries associations participated in the loan syndication; total loan exposure of other syndication participants amounted to NT\$13,157,050,000 (or 48.63%), whereas, our bank's exposure in the loan syndication amounted to NT\$13,900,170,000 (or 51.37%).

2. Budget execution and operating performance of 2011 net profit before tax

1. Budget Execution

The profit before tax of year 2011 amounted to NT\$803,953,000; against the originally estimated target of NT\$1,000,000,000, a goal achievement rate of 80.40% was attained.

2. Operating Performance

The CPA-audited net income for year 2011 amounted to NT\$1,846,195,000; divided into net income from interest earnings amounting NT\$996,144,000 and net income from extra interest earnings amounting NT\$ 850,051,000.

3. Achievements in guidance the credit departments of the farmers' and fisheries associations in 2011

1. Operation related information of the credit departments of farmers' and fisheries associations in 2011 are provided below:

Item	Year	2011	2010	Difference
Total Deposits		1,526,828,473	1,499,982,861	26,845,612
Total Loans		766,373,058	742,682,270	23,690,788
Amount of NPL		17,085,085	23,417,585	-6,332,500
Revenue		4,825,228	3,487,154	1,338,074
Net Value		99,465,149	95,242,541	4,222,608
Loan-to-Deposit Ratio		46.97%	46.62%	0.35%
NPL Ratio		2.23%	3.15%	-0.92%
Capital Adequacy Ratio		13.25%	12.86%	0.39%
Number of associations with NPL ratio higher than 15%		16	25	-9

2. General and project guidance business: In 2011, ABT conducted 3,875 general guidance sessions and 2,142 project guidance sessions, or a combined total of 6,017 sessions. In addition, ABT attended 519 business meetings of the credit departments of farmers' and fisheries associations, 181 liaison meetings with other agencies, and held 162 guidance sessions with farmers, fishery, and farming enterprises.

3. Allocations for policy-oriented special agricultural loans in 2011 was initially set at NT\$30 Billion; however, in September, following the additional budget allocation of NT\$10 Billion of the Council of Agriculture, the actual maximum loan allocation amounted to NT\$40 Billion. Loans processed in the year amounted to NT\$38.068 billion, or a realization rate of 95.17%.

4. Financial operation audit and performance evaluation: In coordination with the requirement of local competent authorities, ABT conducted 119 reviews (business inspections) of the inspection deficiency rectification procedures of the credit departments and 172 audits (including audit of the liquid assets) on the financing operations of the credit departments. In addition, in the credit department performance evaluation conducted in 2010, 301 copies of the performance evaluation reports were prepared.
5. A total of ninety-three seminars and insurance-related training courses were provided, such as, the “credit verification seminar on the credit departments of farmers’ and fisheries associations”, the “joint symposium on the financial operations of farmers’ and fisheries associations”, the “seminar on NPL collection operations”, the “seminar on the deposits, loans, and agricultural project loans of the re-established credit department in the Taichung and Changhua regions”, the “seminar on the Renminbi exchange transactions and transaction reporting procedures”, the “seminar for newly appointed secretary-general of farmers’ and fisheries associations”, the “training program on the credit verification/loan procedures of the credit departments of farmers’ and fisheries associations”, and the “orientation on trust business operations”, etc.
6. For co-sponsoring the 5th 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, provided the guidance to the credit departments in filing their registrations, and assisted in participation in the 5th Agricultural Golden Award Ceremony and New Developed Business Launch Party.
7. In compliance with the instruction letter of the Council of Agriculture and in coordination with the related regulations promulgated by the Financial Supervisory Commission of the Executive Yuan, we amended the Guidelines for the Farmers’ and Fisheries Association Credit Departments in Management of Deposit Accounts Manifesting Probable Illegal Transactions or Irregularities in Transactions in January and July of 2011, and in September of the same year published the Criteria for the Safety and Maintenance Operations of Farmers’ and Fisheries Association Credit Departments. In December, we revised the Current (Savings) Deposit Account Agreement of the Farmers’ and Fisheries Associations (including the provisions governing the ATM card) and defined the Criteria of Operations for the Redepositing of Farmer and Fisheries Association Credit Department Surplus Funds into Domestic Banking Institutions Other than the Agricultural Bank of Taiwan. Directives were issued to all related credit departments for due compliance.
8. We revised our Regulations Governing the Income, Disbursement, Custody and Utilization of the Mutual-Supporting Fund and defined the Guidelines for the Financial Support Application and Audit Procedures of Credit Departments to benefit the financial support application requirements of credit departments suffering faulty operations and to coordinate operations with the amended provisions of the Agricultural Finance Act. Moreover, we revised the Operating Guidelines for the Processing of the Financing Procedures of the Credit Departments of Farmers’ and Fisheries Associations and the Regulations Governing the Authorization of Investments in Negotiable Securities to cope with the special circumstances of the emergency fund need of the credit departments due to the irregular withdrawals of depositors. All finalized amendments had been submitted to the information of the Council of Agriculture.

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\$600,000 as the R&D expenditure.

B. Summary of the 2012 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 2012 (year-end balance)

Deposits : NT\$ 650,000,000,000 (annual average business volume of NT\$643,000,000,000)
 Loans : NT\$ 220,000,000,000 (annual average business volume of NT\$199,816,000,000)
 Net profit before tax : NT\$400,000,000

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 redepósitos 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 and establishment of branches in Taichung and Kaohsiung to enable services to closely suit requirements of the credit departments of farmers and fisheries associations, thereby enhancing quality of services. The branches shall serve as the cornerstones for the sustainable operations and business developments of ABT.
8. 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.
9. 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)

H.M. Yan (Executive Vice President)



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II Company Profile

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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 2011, ABT posted a total assets valued at NT\$714.8 Billion and had a net capital of NT\$20.2 billion; ratio of government capital was 44.66%, whereas that of farmers' and fisheries association fund was 55.31%.

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 1,161 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 2011, AFIB posted a paid-in capital of NT\$29.5 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.



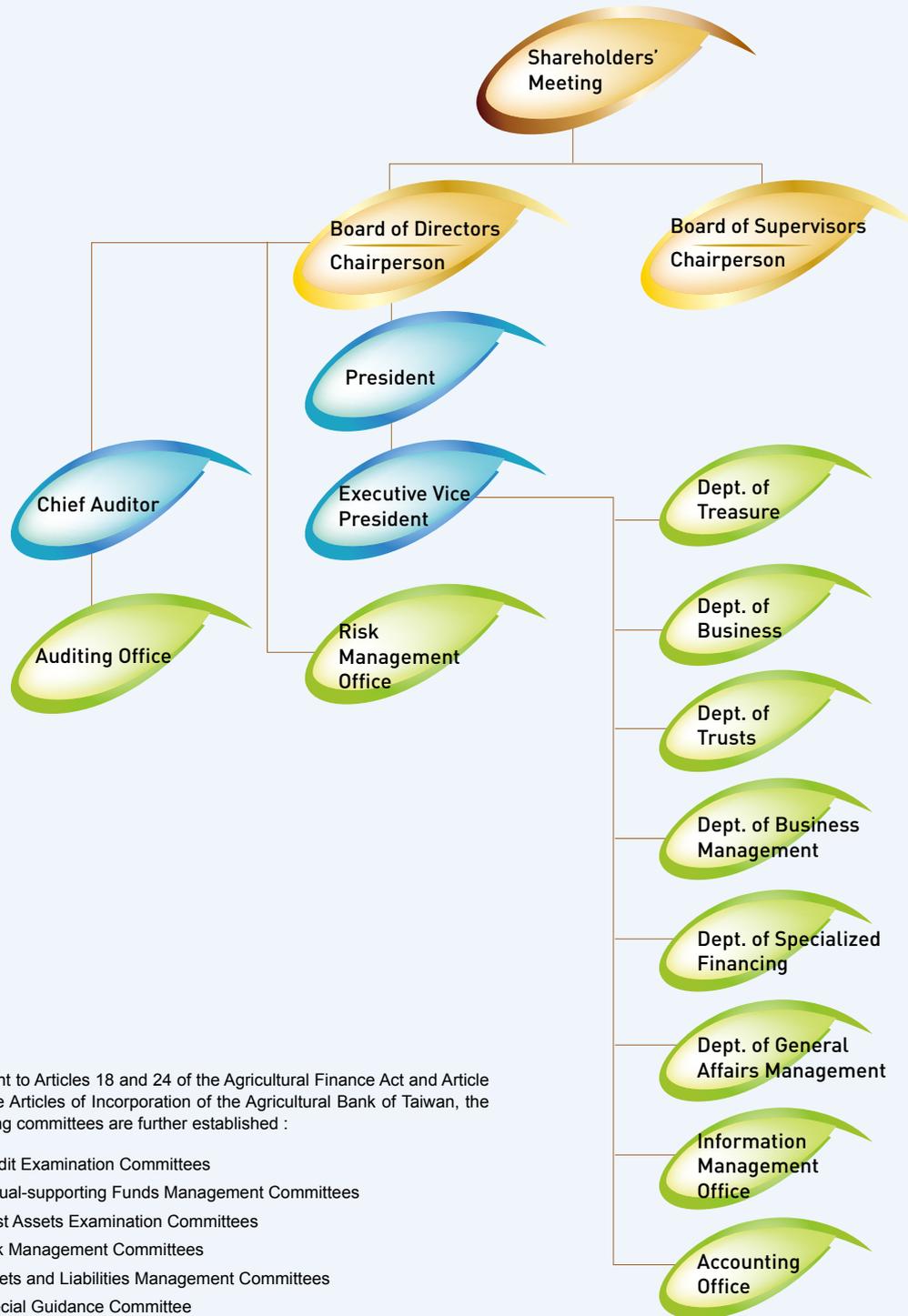
● In the front row from left

| Mr.C.M. Hsu (Director of the Board) | Mr.S.C. Tsai (Director of the Board) | Mr.S.C. Yang (Supervisor)
 | Mr.S.L. Liu (Chairperson) | Mr.C.C. Yo (Director of the Board) | Mr.Y.C. Chang (Director of the Board)
 | Mr.C.H. Chen (Director of the Board)

● In the back row from left

| Mr.K.F. Chu (President) | 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.R.T. Yeh (Director of the Board) | Ms.H.C. Xiao (Director of the Board)
 | Mr.W.W. Yang (Supervisor) | Mr.Y.T. Chang (Supervisor) | Mr.C.L. Tsai (Director of the Board) | Mr. H.C. Lin (Supervisor)
 | Mr.K.N. Ou (Director of the Board)

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'D 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 fishermen's 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		2010	2011	As of March. 5, 2012
Number of employees	Full-time employees	149	159	166
	Contract employees	12	9	9
	Total	161	168	175
Average age		41.4	41.8	41.5
Average years of service		4.5	5.5	5.7
Educational attainment of employees	Doctorate degree	0	0	0
	Master degree	48	54	55
	Bachelor degree	109	110	116
	Senior high school graduate	4	4	4



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III Corporate Governance Report

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A. Directors and Supervisors

December 31, 2011

Title	Name	Date of Appointment (inauguration)	Term	Date of Initial Appointment/Election	Significant experiences and educational attainment	Positions held in other banks and companies
Chairman 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; Chairman 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	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	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	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: 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	ZSecretary-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, 2011

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)	R.T. Yeh	12/30/2009	12/30/2009 to 12/29/2013	12/30/2009	Master 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)	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 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
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
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, 2011

Title	Name	Date appointer	Major experience (education)	Position in other companies
President	S.H. Su	08/12/2008 (retired 09/01/2011)	Bachelor of Business Administration, Feng Chia University; Chairperson, King's Town Bank; Chief Secretary to the Board of Directors, Taiwan Business Bank.	Chairperson, Agricultural Finance Insurance Broker Co., Ltd.; Managing Director of the Agricultural Credit Guarantee Fund; Director, National Agricultural, Fishery and Finance Information Center
President (Vice President)	K.F. Chu	09/26/2011 (02/24/2006 to 09/25/2011)	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

Title	Name	Date appointer	Major experience (education)	Position in other companies
Executive Vice President	C.N. Shen	05/26/2005	Executive Master of Business Administration (EMBA), National Chiayi University; Division Manager, Farmers Bank of China	-
Executive Vice President (Chief Auditor, Auditing Office, Board of Directors)	H.M. Yan	05/20/2010 (05/26/2005 to 05/19/2010)	School of Agricultural Economics, Kyushu University, Japan; Manager of the Farmers Bank of China	Director, Agricultural Finance Insurance Broker Co., Ltd.
Acting Chief Auditor, Auditing Office, Board of Directors	C.Y. Lai	10/05/2011	B.S. in Banking, Tamkang University; Auditor, Auditing Office of the Farmers Bank of China	-
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 (05/20/2010 to 05/02/2011)	School of Political Science, Chinese Culture University; Senior Administrator of the Audit Department, Financial Information Service Co., Ltd.	-
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 (05/20/2010 to 05/02/2011)	School of Statistics, National Chengchi University; Asst. Manager of the Planning Department, Farmers Bank of China	-
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.
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	-
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	-
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 Dept. of Business (S.V.P. & General Manager, Dept. of Specialized Financing)	H.T. Chen	05/03/2011 (05/20/2010 to 05/02/2011)	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 Business Management (S.V.P. & General Manager, Dept. of Business)	Y.H. Chiou	05/03/2011 (05/04/2005 to 05/02/2011)	Bachelor of Land Administration, National Chung Hsing University; Manager, Land Bank of Taiwan	Director, Agricultural Finance Insurance Broker Co., Ltd.
V.P. & General Manager of the Preparatory Office of Taichung Branch	T.Y. Lin	12/20/2011	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	T.C. Lin	12/20/2011	Bachelor of Public Finance, Feng Chia University; Director, Secretary, and Secretary-General of the Credit Department of Shalu Township Farmers' Association of Taichung County	-

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, 2011

Item	Status of Operations	Divergences from Corporate Governance Practices of the Banks and the Underlying Reasons of Divergences
<p>(1) Equity structure and shareholders' equity</p> <p>(a) Procedure for processing shareholder suggestions or related disputes</p> <p>(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</p> <p>(c) Procedure for establishing the risk control system and firewall between ABT and its affiliated corporations</p>	<p>(a) A designated person is appointed to attend to the shareholder suggestions or related disputes.</p> <p>(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.</p> <p>(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.</p>	None
<p>(2) Composition and Responsibility of the Board of Directors</p> <p>(a) Status of Set-up of Independent Directors</p> <p>(b) Regular assessment of the certified public accountant independence</p>	<p>(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.</p> <p>(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.</p>	None
<p>(3) Status of establishing channels for communication with the interest parties</p>	<p>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.</p>	None
<p>(4) Disclosure of information</p> <p>(a) Status of construction of the ABT website for disclosure of information concerning the financial operations and corporate governance of ABT</p> <p>(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.</p>	<p>(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 “and the “Capital Adequacy and Risk Management” pages of the ABT website), and other significant events and information subject to open disclosure by law.</p> <p>(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.</p>	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.
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(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	5	C.T. Yu	Central Bank of R.O.C.	3
T.Y. Yang	Taiwan Corporate Governance Association	3	R.T. Yeh	Taiwan Corporate Governance Association	3
C.M. Hsu	-	-	Y. Lu	-	-
S.C. Tsai	Council of Agriculture, Executive Yuan	5	C.C. Yo	-	-
Y.C. Chang	Council of Agriculture, Executive Yuan	5	M.H. Yang	Taiwan Academy of Banking and Finance	6
C.H. Chen	Taiwan Academy of Banking and Finance	5	C.F. Liu	-	-
H.C. Hsiao	Taiwan Corporate Governance Association	3	H.C. Lin	Council of Agriculture, Executive Yuan.	12
S.S. Lin	Taiwan Academy of Banking and Finance	34	Y.T. Chang	National Training Institute for Farmers' Organizations	5
C.L. Tsai	National Training Institute for Farmers' Organizations and Taichung County Farmers' Association	34	L.F. Lei	-	-
M.T. Chao	National Training Institute for Farmers' Organizations	5	W.W. Yang	Taiwan Corporate Governance Association	3
K.N. Ou	National Training Institute for Farmers' Organizations	6	S.C. Yang	Securities & Futures Institute	3

- (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, 2011 to December 31, 2011, 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: K.F. Chu



(authorized signature)

Chief Auditor: C.Y. Lai (Acting)



(authorized signature)

Compliance Officer: C.N. Shen



(authorized signature)

March 5, 2012

(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 17, 2012



IV Capital Structure

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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, 2011

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-tzu-ti-10001206180 dated 09/06/2011.

December 31, 2011

Unit: share

Types of stock	Authorized Capital			Remarks
	Outstanding Shares	Unissued shares	Total	
Common Stock	1,574,428,000	-	1,574,428,000	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, 2011

Unit: Share; %

Shareholding	Shareholder	Shares held	Percentage
	Council of Agriculture, Executive Yuan	904,026,462 shares	(44.66%)
	Taiwan Provincial Farmers' Association (including Supply Division)	77,834,900 shares	(3.84%)
	Agricultural Credit Guarantee Fund	66,942,719 shares	(3.31%)
	Tou-Nan Township Farmers' Association, Yunlin County	35,501,728 shares	(1.75%)
	Shulin District Farmers' Association, New Taipei City	33,033,878 shares	(1.63%)
	Panchiao District Farmers' Association, New Taipei City	23,971,936 shares	(1.18%)
	Yung-Kang District Farmers' Association, Tainan City	21,937,900 shares	(1.08%)
	Hsin-Chuang District Farmers' Association, New Taipei City	20,365,988 shares	(1.01%)
	San-Chung District Farmers' Association, New Taipei City	19,290,776 shares	(0.95%)
	Luchou District Farmers' Association, New Taipei City	17,399,523 shares	(0.86%)



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V Status of Operation

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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 establishments' 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 losses 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 2011, ABT has conducted 291 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 2011, proposals for the amendment of the following laws and regulations were presented to the respective competent authorities and related agencies for record purposes: a) Standards of the Credit Departments of Farmers' and Fisheries Associations for Determining Loans and Limits for Granting to Association Members and Non-Members; b) Regulations Governing the Operations of Financing and Redepositing of Farmer and Fisheries Association Credit Department Surplus Funds; c) Regulations Governing the Employment and Dismissal of the Credit Department Directors of Farmers' and Fisheries Associations; d) Regulations Governing the Management of Operations of Credit Departments of Farmers' and Fisheries Associations; e) Agricultural Finance Act; f) Regulations Governing the Assessment of Farmers' Associations; g) Regulations Governing the Management of Various Risk Control Ratios of Credit Departments of Farmers' and Fisheries Associations; and h) Selection Regulations for the Commissioned Bank of the Local Government Treasury.
- (2) The Bank provided the guidance service to the Lin-Pien District Farmers' Association which establishment was approved in 2010. A Proposal for the 2011 Subsidized Guidance Plan of the Agricultural Bank of Taiwan for Newly Established Credit Departments was presented to the Council of Agriculture for the subsidy of the information and peripheral equipment required in the procurement operations, so as to construct a suitable operating structure, thereby alleviating the organization cost and expense outlays during the establishment of the credit department and bolstering success of future business operations.
- (3) The Bank assisted in the implementation of the 2011 Retired Farmers Life Quality Improvement Plan of the Council of Agriculture promulgated in line with the agricultural policies of the government. Under the assistance of the ABT, our subsidiary, Agricultural Finance Insurance Broker Co., Ltd., provided the guidance evaluation and information assistance services to 30 farmers' associations having financial planning information consultation windows.
- (4) Guidance services were provided to the credit departments for the commencement of their Renminbi currency exchange operation on July 27, 2011. The currency exchange service was offered for the convenience of Chinese and Taiwanese citizens and in assistance to the product sales and marketing operations of agricultural and aquatic products. As of yearend of 2011, around 170 credit departments offered Renminbi currency exchange services; exchange transactions have reached a total value of NT\$20.93 million.
- (5) In 2011, ABT assisted 43 credit departments to promote the Smart Pay debit card service.
- (6) ABT continued its guidance services to credit departments to provide the comprehensive fund loan business of the Council of Indigenous Peoples of the Executive Yuan, thereby expanding the range of loan coverage. As of the yearend of 2011, seven farmers' associations have participated in the program; that is, the farmers' associations of the Townships of Chi-An, Man-Chou, Jen-Ai, Hsin-Yi, Taimali, Chang-Pin, and Kuan-Hsi.
- (7) ABT serves as the business liaison window between the credit departments and the banks in the preliminary negotiations on the debt clearance provisions for consumers. ABT attended the liaison meeting of the Bankers Association for the preliminary negotiations on the debt clearance provisions for consumers.
- (8) ABT compiled the Analysis Report of the 2010 Business Operations of Credit Departments of Nationwide Farmers' and Fisheries Associations; copies of the report were furnished to the central competent authority and related financial supervision agencies (institutions) for record purposes.

6. Business Liaison and Exchanges:

- (1) In 2011, ABT organized five sessions of the Joint Seminar on Financial Business Operations for Farmers' and Fisheries Associations and one session of the Seminar for Newly Appointed Secretary-General of Farmers' and Fisheries Associations to foster business liaison and exchanges between the Secretary-General of farmers' and fisheries associations and ABT. 365 persons from the central and local government agencies and the farmers' and fisheries associations attended the seminars, and 222 persons of which are Secretaries-General.
- (2) In 2011, ABT conducted a total of 60 review sessions on the guidance procedures of guidance offices. The guiding officers discussed conditions encountered in their guidance work and exchanged opinions. A report of related matters was furnished to the central competent authority for record purposes. Moreover, the central competent authority organized two seminars on guidance procedures in January and June, respectively, of 2011. The seminar provided a channel for the communication and sharing of opinions on guidance operations; opinions were compiled for reference of future administration or monitoring endeavors.
- (3) ABT provided the credit department employee training sessions in 2011, such as, "credit verification seminar on the credit departments of farmers' and fisheries associations", "seminar on NPL collection operations", "seminar on the Renminbi exchange transactions and transaction reporting procedures", "training program on the credit verification/loan procedures of the credit departments of farmers' and fisheries associations", "orientation on trust business operations", etc. A total of 87 sessions were organized with a total of 4,629 person-times.
- (4) In 2011, ABT assisted the Council of Agriculture, the Taiwan Academy of Banking and Finance, and the Taiwan Provincial Farmers' Association in entertaining visiting delegates of the Farmers' Cooperative Bank of Thailand, the Kasetsart University of Thailand, Rural Credit Cooperative and Rural Cooperative Bank of Hunan Province in China, All China Federation of Supply and Marketing Cooperatives, and regional farmers' associations. The interaction with the 300 visiting delegates provided ABT excellent opportunities for establishing new bonds.



7. Policy-oriented Special Agricultural Loans:

- (1) In 2011, ABT processed a total of twenty 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	2011		2010	
	Amount	Percentage %	Amount	Percentage %
Total Revenue	13,502,367	100.00	11,941,862	100.00
Interest income	8,932,632	66.16	7,719,420	64.65
Service Fee	141,173	1.05	112,287	0.94
Gain on financial assets and liabilities at fair value through profit and loss	770,852	5.71	1,734,482	14.52
Realized gain on available-for-sale financial assets	541,807	4.01	1,451,065	12.15
Realized gain on held-to-maturity financial assets	549	-	-	-
Gain on Foreign Exchange	2,874,177	21.29	689,341	5.77
Gain on Reversal of Impairment Loss	3,469	0.02	174,730	1.46
Other non-interest gains (loss), net	237,708	1.76	60,537	0.51

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 the Central Bank.
- (2) Gain on financial assets and liabilities at fair value through profit and loss decreased, as compared to that of the previous year; the main reason is that a decrease is noted in the fair value included in the financial asset assessment.
- (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) An increase 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, an increase is noted comparing with that of the previous year; the underlying cause is that the gain on the non-active market debt instruments increases.

2. Distribution of Business

(1) Distribution of deposits

Unit in NTD thousand

Title	2011		2010	
	Amount	Percentage %	Amount	Percentage %
Total deposits	638,712,032	100.00	620,203,085	100.00
Current deposits	6,286,888	0.98	3,297,558	0.53
Time deposits	632,425,144	99.02	616,905,527	99.47

(2) Ratio of loans

Unit in NTD thousand

Title	2011		2010	
	Amount	Percentage %	Amount	Percentage %
Total loans	169,223,406	100.00	153,469,759	100.00
Short-term loans	47,346,210	27.98	43,552,043	28.38
Medium-term loan	100,617,402	59.46	90,811,639	59.17
Long-term loans	19,979,724	11.81	17,834,875	11.62
Delinquent loans	1,280,070	0.75	1,271,202	0.83

(3) Ratio of major business assets again total assets

Unit in NTD Thousand

Title	2011.12.31		2010.12.31	
	Amount	Percentage %	Amount	Percentage %
Total assets	714,793,939	100.00	686,541,011	100.00
Cash and cash equivalents	3,275,093	0.46	2,546,879	0.37
Due from The Central Bank and other banks	374,739,396	52.43	351,315,369	51.17
Financial assets at fair value through income statement	20,148,487	2.82	21,590,038	3.14
Discounts and loans, net	167,639,200	23.45	152,379,008	22.20
Available-for-sale financial assets	108,544,028	15.19	103,209,920	15.03
Held-to-maturity financial assets	27,657,486	3.87	42,855,110	6.24
Other financial assets	8,963,326	1.25	8,727,547	1.28
Others	3,826,923	0.53	3,917,140	0.57

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 1,161 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 banking industry of Taiwan is currently manifesting an overbanking situation in the country. According to the statistics of the Financial Supervisory Commission, as of December 31, 2011, the thirty-seven banking institutions in the country had established a total of 3,359 branches, causing business competition among banks to soar. Moreover, since no improvement is expected of the low interest difference banking environment in the near future, profit margins of banks are seriously shrunk. For our part, ABT has gathered massive deposits from farmers' and fisheries associations in the country, a situation that has laid heavy financial pressures on the bank.

In light of which, the bank has utilized these funds and generate profits pursuant to the principal-guaranteed principle. ABT has also endeavored to bolster loans business operations. In addition to the policy-based loans to agricultural, forestry, fishery and livestock farming operations, ABT also aggressively participated in syndicated loan pools of other banks and established syndicated loans with the credit departments of farmers' and fisheries associations on their referral cases. To date, ABT occupies a low market share in the loans market; however, as we are currently planning to open two branches, we look forward to making leaping inroads into the loan market. These two branches shall open significant markets for the deposits accepted from the credit departments of farmers' and fisheries associations. In the future, the interest earnings from these loan shall serve as a primary source of revenues for ABT.

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 diversify 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 2011:

Research and development expenses of ABT in the past two years amounted to NT\$600,000 for 2011 and NT\$900,000 for 2010, 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 2012, 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 loans in 2012 is set at NT\$220 billion, and the bank is hoping to reach the optimal goal of NT\$230 billion with the implementation of the following strategies:

- 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. Enhancement of investment risk management to ensure a stringent control over the risk exposure of financial instruments.
- B. Enhancement of internal control to ensure the timely adjustment of the credit line.
- C. Concentration of operating strategies on stable profit margins as primary consideration and capital gains as secondary consideration.
- 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. Enhancement of the RP business of securities for reducing the capital cost.

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

① The overdue loan ratio reduction goal for all credit departments in year 2012

The goal is to reduce the overdue loan ratio of all credit departments to below 2% by yearend of 2012.

② Achievement of the budget goal for policy-oriented special agricultural loans set by the agricultural administration authority for 2012.

③ Implementation of the annual financial evaluation procedure and performance assessment procedure on 302 credit department offices.

④ Organization of training courses for the credit department personnel

In 2012, ABT plans to hold around 30 sessions of secretary-general symposiums and business seminars on credit verification, syndicated loans, policy-oriented special agricultural loans, collection and clearance of overdue loans, financial management, trust service, and insurance.

⑤ Aggressive implementation of related policy-oriented special agricultural loans

Agricultural Development Fund loans, loans for small landowner farming programs, and startup loans for farms were aggressive implemented for the realization of policy objectives.

⑥ 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.

⑦ 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.

- ⑧ Compilation of the “Guidance Operations Plan for Credit Departments” and the “Plan of Operations for the Trust Programs of the Agricultural Development Fund”.
 - ⑨ The company shall allocate the annual budget program for the mutual-supporting fund and provide financial support to credit departments.
 - ⑩ 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.
 - ⑪ Counseling Service on the Consumer Debt Clearance Act related matters of the credit departments.
 - ⑫ Assumption of the loan interest moratorium subsidy processing bank for the Typhoon Morakot disaster victims and processing of related matters.
 - ⑬ Sustained assistance to the credit departments in processing Renminbi cash currency exchange business.
 - ⑭ Organization of the 6th Agricultural Golden Award selection procedure and awarding ceremony.
 - ⑮ Provision of guidance service to the farmers’ and fisheries associations applying for the reestablishment of credit departments, thereby providing more convenient and sound financial services to the local farmers and fishermen.
- (4) Trust businesses
- ① Real Estate Trust:
ABT’s trust department provides land trust and builder trust services for the construction loans of ABT and the farmers’ and fisheries associations. The department aims to strengthen the creditor right safeguards and foster completion of construction projects. Moreover, it assists the farmers’ and fisheries associations in undertaking the individual housing loan business, and through which increase revenues.
 - ② Monetary Trust:
This type of business not only designs the various money trust instruments for the farmers’ and fisheries association customers, but also provides trust services to customers of Farmland Bank or land buying (selling) farmers to reduce transaction risks.
 - ③ Negotiable Securities Trust:
Related trust services are provided to assist the farmers’ and fisheries association customers in their property planning requirements.
- (5) Insurance agency
- Agricultural Finance Insurance Broker Co., Ltd. (AFIB) shall seek to establish partnerships with more property and life insurance companies and launch more property and life insurance products to assist the farmers’ and fisheries associations in developing their financial insurance business. The operating policy of the company is to develop customized insurance products and provide customized services to its customers.
- (6) Application for the establishment of local business branches
- In an effort to assist the credit departments of farmers’ and fisheries associations in promoting business operations, ABT plans to establish branches at suitable locations in Taichung and Kaohsiung. The branches shall foster the balanced development of regions in the agricultural finance system.
- (7) Credit card
- In an effort to diversify the financial services of the company, ABT has applied for the processing of credit card bill acceptance service. ABT shall sign strategic alliances with credit card issuing banks for the issuance of affiliate credit cards of the agricultural finance system. 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.
- (8) 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 equipment and institution of the applied system ramifications for the establishment of the two new branches, the installation of a credit card system for the ABT credit card issuance business, modifications for the linking of ABT operations with the IFRS international accounting system, and enhancement of the various businesses commissioned by the farmers’ and fisheries associations.
- (9) 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 fishermen, upgrade the competitive

power of the farmers' and fisheries associations, and at the same time, increase earnings through processing fee revenues.

(10) 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. 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".

(11) 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 2012 goal for loan businesses at NT\$220 billion and hope to reach a goal of NT\$260 billion in year 2013. 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 the future, efforts shall be dedicated in the expansion of loan business (farming, forestry, fishery, livestock, and other policy-oriented special agricultural loans) for the development of established branches. Loan strategy shall employ the principle of stable profitability; moreover, we shall aggressively promote corporate loans mainly to state enterprises, traditional enterprises with sound profitability, and leading enterprises of industries with sound rating. Medium-term goals of loans, transfer deposits to Central Bank and ratio of financial operations against deposits are set at 30%, 30%, and 40%, respectively. Long-term goals are respectively set at 40%, 30%, and 30%. Operations are aimed to ensure the sound development of business operations.

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

A. Development of diversified investment portfolio

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. Asset allocation concentrated on the absolute return and gradual establishment of the bond position

Where an appreciation in the treasury interest rate to the interest rate set by the company is expected, establishment shall be gradually implemented according to the allocation plan. The objective is to use the turnover rate to increase inventory revenues of bonds having the same maturity periods. On the matter of corporate bonds and financial debentures, asset allocation shall further cater to the requirements of the absolute return, thereby buying bonds through the average balanced pricing approach without aggressively buying/selling bonds at the price trend turning point.

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

Prices of international bond and securities markets shall be monitored. Whenever circumstances allow the revenue rate of foreign financial instruments to exceed the revenue rate of domestic financial instruments after hedging costs are deducted, ABT shall seek to acquire sound foreign treasury bonds or debentures or guarantees issued by foreign banks.

③ Diversification of profit sources and reduction of the earning volatility

A. In line with the establishment of the international services department, foreign exchange transaction volume shall be increased to develop more revenue sources.

B. Aggressive enhancement of NT Dollar bond transactions for wider profit margins.

(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 was founded upon the mutual aid cooperation principles of the farmers' and fisheries associations. To date, a single business office not only affects the quality of service but also increases operating costs, a factor that is unfavorable to the development of agricultural finance operations. At present, ABT shall work with the farmers' and fisheries associations to employ the extended platform concept and shall forge cooperative alliances with regional representative farmers' and fisheries associations, thereby upgrading quality of services through a business expansion model. In 2012, ABT will open branches in Taichung and Kaohsiung and shall implement missions designated by the regulatory organizations of the credit departments. We shall enhance examination of loan applications exceeding the set ceilings and provide guidance to the credit departments to accelerate their efforts in upgrading quality of their assets. We shall strive to effectively promote policy-oriented special agricultural loans, thereby upgrading the efficiency of our regulatory duty performance. ABT can foster the stable growth of agricultural banking operations and expand the scale of operations, thereby reducing operating costs and bolstering the bank's capacity to pay for transfer deposit interest payments. We aim to raise transfer deposit interest rates to increase revenues of the credit departments and foster the balance of regional development of the agricultural finance system.





VI Financial Summary

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A. Condensed Balance Sheet and Income Statement

Condensed Balance Sheet

Unit in NTD Thousand

Entries	Year	Financial Information of Past Five Years				
		Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2007
Cash and cash equivalents;		378,014,489	353,862,248	284,680,378	158,921,321	166,975,436
Deposits Transferred To Central Bank and dues from banks		20,148,487	21,590,038	25,312,657	27,713,152	944,206
Financial assets at fair value through income statement		108,544,028	103,209,920	126,481,473	41,108,103	59,183,370
Available-for-sale financial assets		167,639,200	152,379,008	111,824,062	85,825,362	42,267,185
Discounted and loans		3,643,786	3,750,747	3,712,445	3,147,305	3,356,162
Receivables		27,657,486	42,855,110	52,297,516	114,072,613	157,242,273
Held-to-maturity financial assets		60,572	32,644	15,167	8,553	4,021
Equity investment under equity method		89,170	110,300	67,005	68,907	80,874
Fixed assets		8,963,326	8,727,547	5,655,357	8,647,892	9,677,896
Other financial assets		33,395	23,449	20,533	32,358	28,009
Other assets		714,793,939	686,541,011	610,066,593	439,545,566	439,759,432
Total assets		19,474	19,037	20,517	20,965	20,000
Due to Central Bank and banks		638,712,032	620,203,085	557,526,671	383,355,134	392,010,677
Deposits and remittances		1,977,112	1,949,371	1,951,189	1,883,480	86,800
Financial liabilities at fair value through income statement		47,161,845	37,320,361	25,008,336	41,053,812	25,573,918
Bill and bonds sold under repurchase agreements		31,061	28,650	23,787	16,958	12,118
Accrued pension liabilities		800,000	800,000	800,000	-	-
Bank debentures payable		2,236,404	2,403,589	2,395,067	2,410,207	2,645,177
Other financial liabilities		937,838	1,583,193	1,042,089	703,406	848,163
Total liabilities	Before appropriation	691,875,766	664,307,286	588,767,656	429,443,962	421,196,853
	After appropriation	-	664,732,521	588,992,718	429,443,962	421,196,853
Capital stock		20,244,280	20,080,139	20,000,000	20,111,536	20,111,536
Retained earnings	Before appropriation	2,165,944	1,677,428	508,669	(10,727,368)	206,126
	After appropriation	-	1,088,052	203,468	(10,727,368)	206,126
Unrealized gains of financial instruments		507,949	476,158	790,268	717,436	(1,755,083)
Total shareholders' equity	Before appropriation	22,918,173	22,233,725	21,298,937	10,101,604	18,562,579
	After appropriation	-	21,808,490	21,073,875	10,101,604	18,562,579

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				
		2011	2010	2009	2008	2007
Interest revenue, net		996,144	1,367,462	1,765,508	518,176	816,876
Non-interest revenue, net		850,051	1,272,494	132,968	(9,529,465)	(165,560)
Bad debts expense		524,245	540,000	200,000	500,000	31,400
Operating expense		517,997	490,938	483,869	461,057	456,798
Net income before tax of operating departments		803,953	1,609,018	1,214,607	(9,972,346)	163,118
Net Income		847,751	1,473,960	1,124,501	(10,008,804)	118,646
Earnings per share		0.46	0.88	1.08	(4.98)	0.06

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

Certified Public Accountants and their Opinions on Financial Status (2007 – 2011)

Year	Name of CPA Firm	Name of Independent Auditor	Auditor's 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
2007	SOLOMON & Co., CPAs	Y.J. Huang	Modified unqualified opinion

B. Annual Financial Analysis (2007 – 2011)

Financial Analysis

Entries (Note 4)	Year	Analysis of the Finances of Years 2007 to 2011				
		2011	2010	2009	2008	2007
Operating Capacity	Loan-to-deposit Ratio (%)	26.49	24.75	20.16	22.53	10.80
	NPL Ratio (%)	0.76	0.83	0.87	0.82	0.005
	Ratio of interest payments against annual average deposit balance (%)	1.20	1.03	1.04	2.31	2.16
	Ratio of interest revenue against annual average loan balance (%)	1.53	1.45	1.57	3.23	3.18
	Total assets turnover rate (times)	0.003	0.004	0.003	(0.02)	0.001
	Average operating revenue per employee (in NTD thousand)	10,989.26	16,397.24	13,092.94	(63,459.78)	4,554.66
	Average earnings per employee (in NTD thousand)	5,046.14	9,155.03	7,755.18	(70,484.54)	829.69
Profitability	Return rate of Tier 1 capital (%)	5.30	11.95	10.54	(80.12)	0.93
	Return rate of assets (%)	0.12	0.23	0.21	(2.28)	0.03
	Return rate of shareholder equity (%)	3.76	6.77	7.16	(69.83)	0.61
	Net income rate (%)	45.92	55.83	59.23	(Note 1)	18.22
	Earnings per share (in NTD)	0.46	0.88	1.08	(4.98)	0.06
Financial structure	Ratio of liabilities against total assets (%)	96.79	96.76	96.51	97.70	95.78
	Ratio of fixed assets against shareholder equity (%)	0.39	0.50	0.31	0.68	0.44

Entries (Note 4)		Year		Analysis of the Finances of Years 2007 to 2011				
				2011	2010	2009	2008	2007
Growth rate	Growth rate of assets (%)	4.12	12.54	38.79	(0.05)	24.62		
	Growth rate of profitability (%)	(50.03)	32.47	112.18	(6,213.58)	5.58		
Cash Flow	Ratio of cash flow (%) (Note 2)	5.62	15.88	14.94	-	-		
	Cash flow adequacy ratio (%) (Note 3)	1,710.89	1,092.86	97.44	-	-		
	Cash flow satisfied ratio (%)	(9.40)	(7.69)	(2.33)	1.49	1.93		
Ratio of liquid reserves (%)		59.33	61.58	61.57	35.57	56.31		
Total secured loans to related parties (NTD1,000)		230,586	597,914	238,834	254,597	181,566		
Ratio of total secured loans to related parties against total loans (%)		0.12	0.35	0.19	0.29	0.42		
Scale of Operations	Market share of assets (%)	2.01	1.94	1.82	1.41	1.44		
	Equity market share (%)	1.00	0.99	1.01	0.52	0.96		
	Deposit market share (%)	2.47	2.42	2.29	1.74	1.85		
	Loan market share (%)	0.84	0.77	0.60	0.49	0.23		

- The increment in deposit and loan ratio vis-à-vis the previous year ratio is mainly due to an increase in total loans.
- The drop in the average operating revenue per employee vis-à-vis the previous year average is mainly due to the drop in the net income.
- 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.
- 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.
- 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.
- 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 2007 and 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 2007 and 2008, this ratio is not applicable.

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

1. Operating Capacity

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

2. Profitability

- Return rate of Tier 1 capital = gains or loss before tax / average total of tier 1 capital
- Return rate of assets = gains or loss after tax / average total assets
- 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.
- Net income rate = gains or loss after tax / net revenue
- Earnings per share = (net income after tax - dividends of preferred stocks) / weighted average of issued shares

3. Financial structure

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

4. Growth rate

- Growth rate of assets = (current year total assets - previous year total assets) / previous year total assets
- 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

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

- Market share of assets = total assets / total assets of financial institutions capable of operating deposits and loans
- Market share of net value = net equity / net equity of financial institutions capable of operating deposits and loans
- Deposit market share = total loans / total deposits of financial institutions capable of operating deposits and loans
- Market share of loans = total loans / total loans of financial institutions capable of operating deposits and loans
- 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)		
			2011	2010	2009
Equity Capital	Tier 1 Capital	Common shares	15,744,280	15,580,139	15,500,000
		Non-cumulative perpetual preferred shares	-	-	-
		Non-cumulative subordinated bonds no maturity	-	-	-
		Prepaid capital investment	-	-	-
		Capital reserve (except from appreciation of fixed asset)	-	-	-
		Legal reserve	793,051	203,468	-
		Special reserve	525,141	-	-
		Accumulated surplus	847,751	1,473,960	508,669
		Minority equity	-	-	-
		Other shareholder's equity	(101,228)	(100,334)	(127,804)
		Less: Good will	-	-	-
		Less: Unamortized loss from disposal of non-performing assets	-	-	-
		Less: Accumulated loss	-	-	-
		Capital deduction items	1,863,190	2,781,408	3,325,716
	Total Tier 1 Capital	15,945,806	14,375,825	12,555,148	
	Tier 2 Capital	Cumulative perpetual preferred shares	4,500,000	4,500,000	4,500,000
		Cumulative subordinated bonds no maturity dates	-	-	-
		Fixed asset appreciation surplus	-	-	-
		45% of Unrealized gains on available-for-sale financial assets	273,265	259,422	413,133
		Convertible bonds	-	-	-
		Operating reserve and allowances for doubtful accounts	753,105	788,705	255,845
		Long-term subordinated bonds	1,400,000	1,920,000	2,440,000
		Non-perpetual preferred shares	-	-	-
		Total of non-cumulative perpetual preferred shares and non-cumulative subordinated bonds without maturity dates exceeding 15% of the total Tier 1 capital	-	-	-
		Less: Accumulated loss	-	-	-
		Capital deduction items	1,863,190	2,781,408	3,325,716
		Total Tier 2 Capital	5,063,180	4,686,719	4,283,261
Tier 3 Capital		Short-term subordinated bonds	-	-	-
	Non-perpetual preferred shares	-	-	-	
	Total Tier 3 Capital	-	-	-	
Equity capital		21,008,986	16,838,409	19,062,544	
Total weighted risk assets	Credit risk	Standardized approach	175,733,370	149,567,542	121,643,732
		Internal rating based approach	-	-	-
		Asset securitization	3,822,486	5,928,889	8,992,634
	Operational risk	Basic Indicator Approach	2,538,463	2,510,425	2,294,558
		Standardized approach / optional standardized approach	-	-	-
		Advanced measurement approach	-	-	-
	Market risk	standardized approach	4,832,350	7,862,650	14,194,193
		Internal model approach	-	-	-
Total risk weighted assets		186,926,669	165,869,506	147,125,117	
Capital adequacy ratio		11.24%	11.49%	11.44%	
Ratio of Tier 1 capital to risk weighted assets		8.53%	8.67%	8.53%	
Ratio of Tier 2 capital to risk weighted assets		2.71%	2.83%	2.91%	
Ratio of Tier 3 capital to risk weighted assets		-	-	-	
Ratio of common shares to total assets		2.20%	2.27%	2.54%	

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) × 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 2011 Financial Statements

Supervisors' Report

We have examined the Agricultural Bank of Taiwan's 2011 (January 1, 2011 ~ December 31, 2011) financial statements balance sheets, statements of income, statements of changes in stockholders' equity and statements of cash flows), as well as the Bank's 2011 business report and proposal for earnings distribution in the second-term fourteenth supervisors' meeting held on April 17, 2012 and second-term fifteenth supervisors' meeting held on May 15, 2012 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
2012 General Shareholders' 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)

May 15, 2012

D. The CPA's Audit Report of the 2011 Financial Statements



安侯建業聯合會計師事務所

KPMG

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Independent Auditors' 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, 2011 and 2010, and the related statements of income, changes in stockholders' 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, 2011 and 2010, 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 17, 2012

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 auditors' 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 auditors' report and financial statements, the Chinese version shall prevail.

(English Translation of Financial Report Originally Issued in Chinese)
AGRICULTURAL BANK OF QIWAN, LTD.
BALANCE SHEETS

DECEMBER 31, 2011 AND 2010

(Amounts Expressed in Thousands of New Taiwan Dollars)

ASSETS	December 31, 2011	December 31, 2010	Variance %
	Amount	Amount	
Cash and cash equivalents (Note (4))	\$3,275,093	2,546,879	29
Deposits with the Central Bank and call loans to banks (Note (5))	374,739,396	351,315,369	7
Financial assets measured at fair value through profit or loss (Notes (2) and (6))	20,148,487	21,590,038	(7)
Receivables, net (Note (7))	3,643,786	3,750,747	(3)
Discounts and loans, net (Note (8))	167,639,200	152,379,008	10
Available-for-sale financial assets, net (Notes (2) and (9))	108,544,028	103,209,920	5
Held-to-maturity financial assets, net (Notes (2) and (10))	27,657,486	42,855,110	(35)
Investments under the equity method, net (Notes (2) and (11))	60,572	32,644	86
Financial assets measured at cost (Notes (2) and (12))	-	250,000	(100)
Debt instruments with no active market (Notes (2) and (13))	8,957,998	8,472,072	6
Other financial assets, net	5,328	5,475	(3)
Property and equipment, net (Notes (2) and (14))	89,170	110,300	(19)
Refundable deposits	16,889	14,757	14
Other assets	16,506	8,692	90
TOTAL ASSETS	\$ 714,793,939	686,541,011	4
LIABILITIES AND STOCKHOLDERS' EQUITY	December 31, 2011	December 31, 2010	Variance %
	Amount	Amount	
Liabilities			
Deposits from the Central Bank and other banks	\$19,474	19,037	2
Financial liabilities measured at fair value through profit or loss (Note 6)	1,977,112	1,949,371	1
Bills and bonds sold under repurchase agreements (Notes (2) and (15))	47,161,845	37,320,361	26
Payables (Note (16))	795,708	1,246,845	(36)
Deposits and remittances (Note (17))	638,712,032	620,203,085	3
Financial bonds payable (Note (18))	800,000	800,000	-
Accrued pension liabilities (Notes (2) and (20))	31,061	28,650	8
Other financial liabilities (Note (19))	2,236,404	2,403,589	(7)
Other liabilities	142,130	336,348	(58)
Total Liabilities	691,875,766	664,307,286	4
Stockholders' Equity			
Capital stock (Note (22))			
Common stock	15,744,280	15,580,139	1
Preferred stock	4,500,000	4,500,000	-
Retained earnings			
Legal reserve	793,052	203,468	290
Special reserve	525,141	-	-
Undistributed earnings (Note (21))	847,751	1,473,960	(42)
Others			
Unrealized gain and loss on financial assets	507,949	476,158	7
Total Stockholders' Equity	22,918,173	22,233,725	3
Significant Commitments and Contingencies			
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 714,793,939	686,541,011	4

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

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
 (Amounts Expressed in Thousands of New Taiwan Dollars, Except for Share Data)

	For the years ended December 31,		Variance	
	2011	2010	%	
Interest revenue	\$8,932,632	7,719,420	16	
Less: Interest expense (Note (2))	7,936,488	6,351,958	25	
Net interest income	996,144	1,367,462	(27)	
Non-interest income, net				
Commissions and handling fee, net (Note (2))	70,330	56,121	25	
(Losses) gains from financial assets or liabilities measured at fair value through profit or loss	(377,041)	1,587,627	(124)	
Realized gains on available-for-sale financial assets	259,233	1,443,114	(82)	
Realized gains (losses) on held-to-maturity financial assets	549	(12,245)	104	
Investment income recognized under the equity method (Notes (2) and (11))	27,928	17,477	60	
Foreign exchange gains (losses)	666,386	(1,972,474)	134	
Reversal of impairment losses (Note (2))	3,469	174,730	(98)	
Others non-interest income (loss), net	199,197	(21,856)	1,011	
Sub-total	850,051	1,272,494	(33)	
Net revenue	1,846,195	2,639,956	(30)	
Bad debt expenses (Notes (2) and (8))	524,245	540,000	(3)	
Operating expenses				
Personnel expenses	229,146	263,758	(13)	
Depreciation and amortization expenses	28,961	23,275	24	
Other selling and administrative expenses	259,890	203,905	27	
Total operating expenses	517,997	490,938	6	
Earnings from continuing operations before income tax	803,953	1,609,018	(50)	
Income tax (revenues) expenses (Notes (2) and (21))	(43,798)	135,058	(132)	
Net income	\$847,751	1,473,960	(42)	
	Before tax	After tax	Before tax	After tax
Basic earnings per share (in dollars) (Notes (2) and (23))	\$ 0.44	0.46	0.96	0.88
Basic earnings per share (in dollars) - retroactively adjusted (Notes (2) and (23))			0.95	0.87
Diluted earnings per share (in dollars) (Notes (2) and (23))	\$ 0.40	0.42	0.80	0.73
Diluted earnings per share (in dollars) - retroactively adjusted (Notes (2) and (23))			0.79	0.72


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

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
 (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, 2010	\$15,500,000	4,500,000	-	-	508,669	790,268	21,298,937
Appropriation and distribution of 2009 earnings							
Legal reserve	-	-	203,468	-	(203,468)	-	-
Common stock dividends	-	-	-	-	(186,001)	-	(186,001)
Preferred stock dividends	-	-	-	-	(6,935)	-	(6,935)
Capital increase out of unappropriated earnings	80,139	-	-	-	(80,139)	-	-
Contribution to mutual support fund	-	-	-	-	(32,126)	-	(32,126)
Changes in unrealized gains and losses on financial assets	-	-	-	-	-	(314,110)	(314,110)
Net income for the year ended December 31, 2010	-	-	-	-	1,473,960	-	1,473,960
Balance - December 31, 2010	15,580,139	4,500,000	203,468	-	1,473,960	476,158	22,233,725
Appropriation of 2010 earnings:							
Legal reserve	-	-	589,584	-	(589,584)	-	-
Special reserve	-	-	-	295,000	(295,000)	-	-
Common stock dividends	-	-	-	-	(210,332)	-	(210,332)
Preferred stock 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 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	<u>\$ 15,744,280</u>	<u>4,500,000</u>	<u>793,052</u>	<u>525,141</u>	<u>847,751</u>	<u>507,949</u>	<u>22,918,173</u>

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

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
 (Amounts Expressed in Thousands of New Taiwan Dollars)

	For the years ended December 31,	
	2011	2010
Cash flows from operating activities:		
Net income	\$847,751	1,473,960
Adjustment items:		
Depreciation	28,909	25,250
Amortization	4,555	2,500
Provision of bad debt expenses	497,245	540,000
Provision for securities trading losses reserve	-	45,217
Provision for guarantee reserve	27,000	-
Amortization of premiums (discounts) on financial assets	588,478	1,674,904
Investment income recognized under the equity method	(27,928)	(17,477)
Losses on disposal and retirement of fixed assets	469	-
Gains on disposal of investments	(281,406)	(1,323,702)
Reversal of impairment losses on financial assets	[3,469]	[174,730]
Amortization of unrealized gains and losses on financial assets	(1,917)	(3,320)
Net changes of operating assets and liabilities:		
Net changes of operating assets:		
Decrease in financial assets measured at fair value through profit or loss	1,441,551	3,722,619
(Increase) decrease in receivables	106,961	(38,302)
(Increase) decrease in other financial assets	147	(2,000)
Net changes of operating liabilities:		
Increase (decrease) in financial liabilities measured at fair value through profit or loss	27,741	(1,818)
Increase (decrease) in payables	(451,137)	504,623
Increase in accrued pension liabilities	2,411	4,863
Net cash provided by operating activities	2,807,361	6,432,587
Cash flows from investing activities:		
Purchase of available-for-sale financial assets	(42,029,628)	(61,182,273)
Proceeds from disposition of available-for-sale financial assets	32,306,663	82,106,960
Repayment of shares from cancellation of capital stock of available-for-sale financial assets	7,000	7,818
Proceeds received from available-for-sale financial assets	3,883,879	1,549,344
Purchase of debt instruments with no active market	(5,341,775)	(4,537,531)
Proceeds from disposition of debt instruments with no active market	4,371,041	-
Proceeds received from debt instruments with no active market	656,869	1,501,946
Purchase of held-to-maturity financial assets	(10,027,297)	(21,672,060)
Proceeds from disposition of held-to-maturity financial assets	-	21,487,755
Proceeds received from held-to-maturity financial assets	25,280,943	9,894,548
Proceeds received from financial assets measured at costs	250,000	-
Purchase of fixed assets	(8,247)	(68,545)
Increase in guarantee deposits paid	(2,132)	(107)
Purchase of intangible assets	(12,310)	(5,371)
Increase in due from the Central Bank and call loans to banks	(23,424,027)	(71,676,191)
Increase in discounts and loans	(15,784,437)	(41,094,946)
(Increase) decrease in other assets	(60)	62
Net cash used by investing activities	(29,873,518)	(83,688,591)
Cash flows from financing activities:		
Increase in bills and bonds sold under repurchase agreements	9,841,484	12,312,025
Increase (decrease) in other financial liabilities	(167,185)	8,522
Increase (decrease) in other liabilities	5,853	(40,862)
Cash dividends	(316,982)	(192,936)
Provision for promotion and assistance fee on various Farmers' and Fishery Association	(78,183)	-
(Increase) decrease in deposits from the Central Bank and other banks	437	(1,480)
Increase in deposits and remittances	18,508,947	62,676,414
Net cash provided by financing activities	27,794,371	74,761,683
Net increase (decrease) in cash and cash equivalents	728,214	(2,494,321)
Cash and cash equivalents, beginning of the year	2,546,879	5,041,200
Cash and cash equivalents, end of the period	\$ 3,275,093	2,546,879
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	\$ 7,825,263	6,277,449
Income taxes	\$ -	135,058
Non-cash investing and financing activities:		
Special reserve transferred from reserve for trading losses	\$ 230,141	-
Surplus provision for mutual support fund (recognized as other liabilities)	\$ 30,070	32,126



履

VII Risk Management

程

A. Credit Risk Management

1. Credit Risk Management System

2011

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	<p>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.</p>
Policies on credit risk hedging or risk mitigation and the strategies and procedures for monitoring the effectiveness of hedging and risk mitigation instruments	<p>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.</p>
Procedure for Regulatory Capital Requirement	<p>ABT adopts the standardized approach to credit risk for calculating capital charges.</p>

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

December 31, 2011

Unit in NTD Thousand

Type of exposure	Exposure after risk reduction	Capital Requirement
Sovereign	411,843,291	7
Public sector other than the Central Government	70,121,495	1,121,944
Banks (including multilateral development banks)	68,036,419	2,718,168
Corporations (including securities and insurance companies)	125,231,172	8,480,320
Retail	11,705,583	908,215
Residential mortgages	739,215	33,681
Equity	739,261	177,423
Other assets	8,236,747	618,911
Total	696,653,183	14,058,670

B. Asset Securitization Risk Management

1. Asset Securitization Risk Management System

2011

Item	Description
Management strategies and procedures for asset securitization	<ol style="list-style-type: none"> 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, 2011

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		Synthetic			
			with position	without position	with position	without position		
20%	5,322,149	85,154	-	-	-	-	-	-
50%	793,535	31,741	-	-	-	-	-	-
100%	2,361,288	188,903	-	-	-	-	-	-
Capital deduction items	2,802,045	-	-	-	-	-	-	-
Total	11,279,017	305,798	-	-	-	-	-	-

C. Operational Risk Management

1. Operational Risk Management System

2011

Item	Description
Strategies and procedures for operating risks management	<ol style="list-style-type: none"> 1. 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. 2. 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"> 1. 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. 2. 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. 3. 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. 4. 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. 5. 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	<p>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.</p>
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	<p>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.</p>
Procedure for Regulatory Capital Requirement	<p>ABT adopts the basic indicator approach to operational risk for calculating capital charges.</p>

2. Capital Requirement for Operational Risk

December 31, 2011

Unit in NTD Thousand

Year	Gross profit	Capital Requirement
2011	1,383,747	
2010	1,056,212	
2009	1,621,575	
Total		203,077

D. Market Risk Management

1. Market Risk Management System

2011

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.

<p>Market risk management organization and structure</p>	<p>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.</p> <p>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.</p>
<p>Scope and features of the market risk reporting and assessment system</p>	<p>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.</p> <p>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.</p> <p>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.</p>
<p>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</p>	<p>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.</p> <p>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.</p> <p>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.</p>
<p>Procedure for Regulatory Capital Requirement</p>	<p>ABT adopts the standardized approach to market risk for calculating capital charges.</p>





2. Capital Requirement for Market Risk

December 31, 2011

Unit in NTD Thousand

Type of risk	Capital Requirement
Interest rate risk	377,026
Equity Security Risk	9,562
Foreign exchange risk	-
Commodity risk	-
Options by Simple Method	-
Total	386,588

E. Liquidity Risk Management

1. Analysis of the Structure of Maturity (NTD)

December 31, 2011

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	\$689,459,195	117,380,867	112,013,581	79,885,462	142,337,649	237,841,636
Primary capital outflow upon maturity	792,365,215	92,142,994	196,718,116	172,740,326	294,466,020	36,297,759
Maturity Gap	(102,906,020)	25,237,873	(84,704,535)	(92,854,864)	(152,128,371)	201,543,877

2. Analysis of the structure of maturity (USD)

December 31, 2011

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	\$11	11	-	-	-	-
Primary capital inflow upon maturity	-	-	-	-	-	-
Maturity Gap	11	11	-	-	-	-



Agricultural Bank of Taiwan



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