

2009

Annual Report

Agricultural Bank of Taiwan



Agricultural Bank of Taiwan
2009 Annual Report
June 2010



Agricultural Bank of Taiwan

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Name: Chung Dan-Dan

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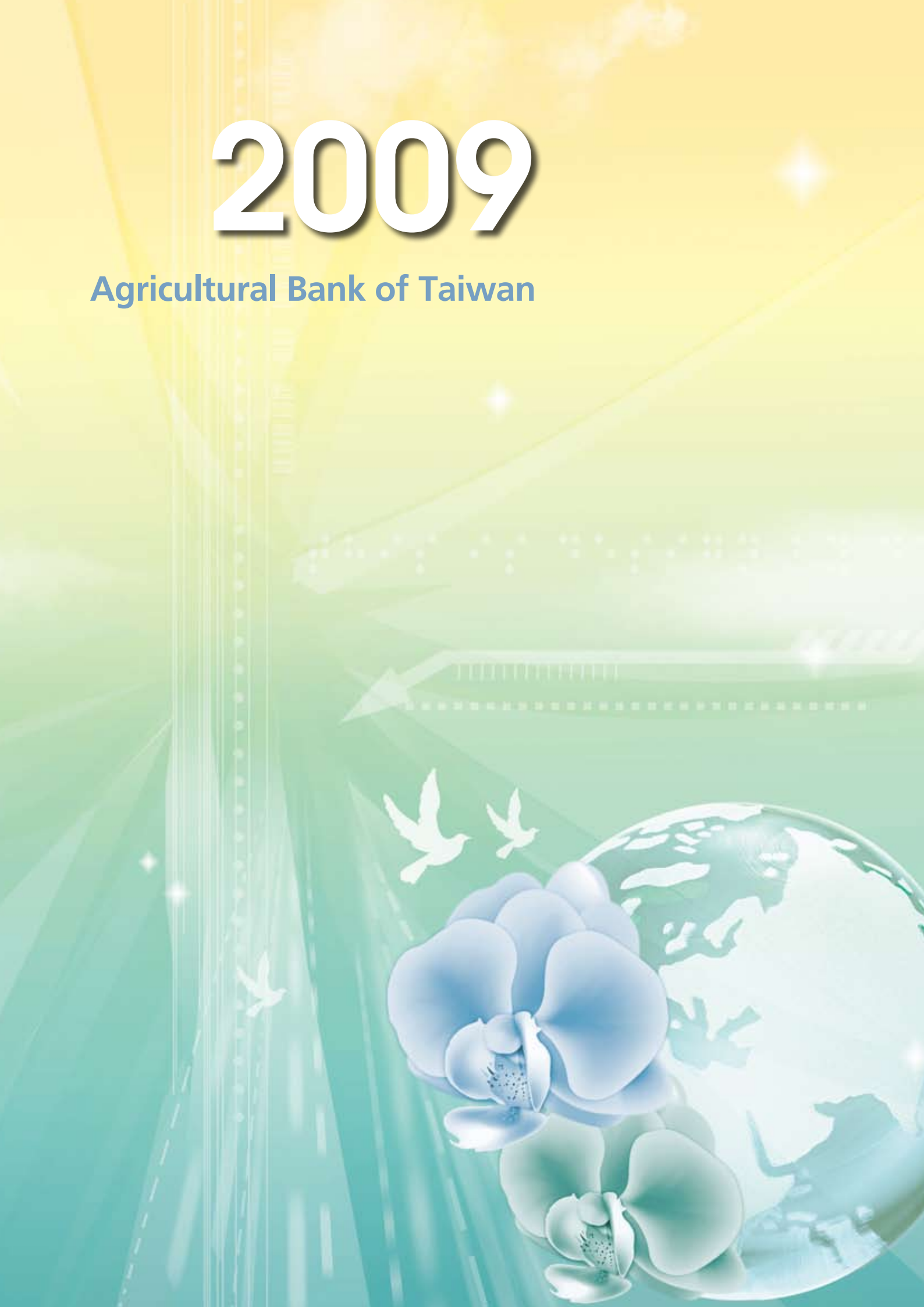
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2009

Agricultural Bank of Taiwan



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I 、 Message to Shareholders



Message to Shareholders

The global economy in 2009 was still mired in the lingering impact of the financial storm. With global demand slowing down, world trade volume plummeted. As governments around the world resorted to all kinds of financial and monetary means to stimulate the economy, the world industrial production rebounded nicely. With businesses taking actions to boost their inventories, the global economy saw stronger than expected recovery starting from Q3. Asia in particular showed faster pace of recovery. The world seemed to have weathered the storm and was on a slow path to recovery. Domestically, benefitted from the strong rebound of emerging economies in Asia, private consumption rose along with the stellar performance of the stock markets, which in turn produced the wealth effect. According to the Directorate General of Budget, Accounting and Statistics (DGBAS), our economic growth rate in 2009 was -1.91%, better than the original forecast of -2.53%.

Looking into 2010, the International Monetary Fund (IMF), World Bank and the United Nations all predict that the global economy would pull out of recession in 2010 to turn out positive growth of 2.5% to 4%. The emerging economies are expected to outperform the advanced nations. China and India in particular would experience high economic growth of 10% and 7.7% respectively for the year. However the European sovereign debt crisis, persistent high unemployment in leading countries, and the trends of rising crude oil and raw material prices fueled by the gradual pickup of the international economy will probably prompt governments to end the market rescue programs sooner than expected. These are the uncertainty factors that might impact the strength of the global economic recovery. In Taiwan, spurred by a stabilizing world economy, steady growth of domestic investment and private consumption, the DGBAS forecasts our economic growth to reach 6.14% in 2010.

The Bank takes in redeposits from farmers' and fishermen's associations as required by law. However in the midst of persistent lax money supply on the market, the continuing pool of enormous amount of



Mr. S.L. Liu (Chairman)

redeposits accepted by the Bank has created significant burden on the bank operation. In the efforts to effectively channel the funds, we step up internal management of investment operations, avoid over-concentration in terms of investment product and associated risk, strengthen the identification of risk factors, elevate the level of authority for investment approval, adopt flexible asset-allocation strategy, enhance the operation of bond investment, and adjust our asset structure to lower interest rate risk and pursue steady development. In our lending business, we target primarily government agencies and state-run enterprises representing lower risk weighting to better manage our credit risk and give priority to policy-based agricultural loans, financing major government projects, syndicated loans, and financing medium and large-sized enterprises. We join forces with farmers' and fishermen's associations in launching a NT\$10 billion syndicated loan program with the aims to enhance the competitive edge of the credit departments of farmers' and fishermen's associations and help improve their loan portfolio. This is a win-win strategy that will benefit the farmers and fishermen, farmers' and fishermen's associations, and the Bank. In our agency business, to help retain demand deposits, increase the risk-free fee income and develop new clientele, the Bank has made the expansion of agency business as its primary target. The Bank also vigorously enters master agreement on collection and payment services with farmers' and fishermen's associations. Under that contractual framework, the Bank is responsible for soliciting the business of domestic agencies, organizations, and companies, signing collection and payment service contract with them and then subcontracting the business to farmers' and fishermen's associations so that more farmers and fishermen will use the service of farmers' and fishermen's associations to pay their household bills. This will help bring more retail customers to farmers' and fishermen's associations and increase the fee income of the Bank as well as farmers' and fishermen's associations. On other fronts, we will continue to develop new revenue streams and cut costs, assist the "National Agricultural, Fishery and Financial Information Center" in system integration to put into effect the channel value of the agricultural finance system, provide guidance to the credit departments of farmers' and fishermen's associations in business and financial operations, develop new financial products and sell the products in joint efforts with farmers' and fishermen's associations, and focus on customer



Mr. S.H. Su (President)

relationship management in the efforts to achieve the statutory assignments of the Bank. Thanks to the strong support of the Council of Agriculture and farmers' and fishermen's associations, the Bank was able to raise NT\$10 billion for capital increase on December 7, 2009, and recorded a pre-tax income of NT\$1,215 million in 2009, the best performance in the history of the Bank. The Bank will continue to promote its businesses while stepping up business integration to help farmers' and fishermen's associations develop and grow. While we aspire to work closely with farmers' and fishermen's associations to create a new horizon of mutual benefits and prosperity, we look forward to your continuing encouragement and support for the sustained operation of the Bank.

A. Business Report 2009

1. Operating Results

(1) Deposits

As of December 31, 2009, we had deposit balance amounting to NT\$557,526,671,000, an increase of NT\$174,171,537,000 or 45.43% from the same period of 2008. Redeposits from farmers' and fishermen's associations totaled NT\$549,414,065,000, accounting for 98.54% of total deposits, and current account deposits totaled NT\$2,767,649,000 or 0.50% of the total deposits.

(2) Loans

- a. As of December 31, 2009, we had loan balance amounting to NT\$ 112,374,813,000, an increase of NT\$25,998,051,000 or 30.10% from the same period of 2008. Agricultural loans totaled NT\$12,595,859,000, accounting for 11.21% of total loans, and general loans totaled NT\$99,778,954,000, accounting for 88.79% of total loans
- b. The Bank has acted as the leading bank and managing bank of the consortium comprising farmers' and fishermen's associations in processing syndicated loans totaling NT\$ 16,750,962,000 to county and city governments and general borrowers. There are 47 farmers' and fishermen's associations participating in the consortium that contributed in total NT\$1,708,126,000 (10.20%) to the syndicated loans. The Bank supplied NT\$15,042,836,000 for the loans (89.80%).

2. Budget execution and operating performance

(1) Budget Execution

The Bank recorded income before tax in the amount of NT\$1,214,607,000 in 2009 or an attainment rate of 12,146.07% based on the approved budget target of NT\$0,000,000.

(2) Operating Performance

The Bank's CPA-audited net income in 2009 amounted to NT\$1,898,400, of which, net interest income accounted for NT\$1,765,508,000 and net non-interest income amounted to NT\$132,968,000.

3. Achievements in supervising the credit departments of farmers' and fishermen's associations in 2009

(1) The operating results of credit departments of farmers' and fishermen's associations in 2009 are as follows:

December 31, 2009

Unit: in NTD thousand

Title	Year	2009	2008	Change	
				Amount	Percentage
Total deposits		1,439,837,708	1,366,385,646	73,452,062	5.38%
Total loans		721,702,292	736,938,912	-15,236,620	-2.07%
Amount of NPL		31,884,094	38,006,467	-6,122,373	-16.11%
Net Income		3,116,684	3,815,085	-698,401	-18.31%
Loan/Deposit ratio		47.28%	51.02%	-3.74%	
NPL ratio		4.42%	5.16%	-0.74%	
Capital adequacy ratio		12.46%	12.41%	0.05%	
Number of credit departments with NPL ratio higher than 15%		32	36	-4	

- (2) General and project guidance: In 2009, the Bank provided general guidance 3,848 times and project guidance 2,662 times, totaling 6,510 times. In addition, the Bank attended 996 business meetings held by the credit departments of farmers' and fishermen's associations, 153 liaison meetings with other agencies, and provided guidance to farmers, fishermen and farming enterprises 76 times.
- (3) Assistance to the credit departments of farmers' and fishermen's associations in making policy-based loans: In 2009, special loans under the agricultural policy of the Agricultural Development Fund were budgeted at NT\$50,000,000,000. The actual target amounted to NT\$37,200,000,000 after deducting the retainage in the amount of NT\$12,800,000,000. The actual amount of loans extended under this category for the whole year amounted to NT\$36,934,000 after, or at the execution rate of 99.28%.
- (4) Business and financial audit and performance evaluation: The Bank has conducted 139 business audits and 121 financial audits (including the audit of cashable assets) on credit departments. The Bank also completed 289 evaluation reports on the 2008 performance evaluation of the credit departments.
- (5) In 2009, the Bank provided guidance to 12 farmers' associations with credit department newly established in 2008, including Sheng Gang Hsiang, Fengyuan City, Changhua City, Fengyuan Hsiang, Fangyuan Hsiang, Nanshi Hsiang, Neimeng Hsiang, Pingtung County, Fanliao District, Chutian Hsiang, Wangdang Hsiang, and Chang Chi Hsiang Farmers' Associations. The Bank also assisted the competent authority in subsidizing the procurement of computer, computer peripheral, IT security and business equipment by credit departments for their business needs.
- (6) The Bank provided guidance to credit departments of farmers' and fishermen's associations in offering the consumption coupon acceptance service, which helped increase the service fee income of farmers' and fishermen's associations by NT\$25,510,000.
- (7) To lessen the impact of Typhoon Morakot on the loan business of the credit departments of farmers' and fishermen's associations, the Bank assisted the competent authority in drafting the Measures for Subsidizing Financial Institutions with Total Destruction or Loss of Collateral in Disaster-Hit Areas.
- (8) In 2009, the Bank held a conference on "Global Trends of Grain Development" and 57 sessions of seminar on "Consumption Coupon Acceptance Operation" for the employees of credit departments, in which 4,790 people attended.

4. Research and Development

The Bank's research and development program is designed to strengthen the planning for asset allocation and the know-how on risk management and entails mainly engaging consultants to help construct the asset allocation and risk management system modules. The program includes the construction of counterparty risk assessment, product valuation and risk assessment module, asset duration allocation module, VaR control module, stress test and scenario analysis module, and risk management system. The Bank has earmarked NT\$900,000 for R&D expenditure.

B. Summary of 2010 Business Plan

1. Corporate Policy

The Bank shall comply with governmental policy in serving as a superior agency to the credit departments of all farmers' and fishermen's associations by providing them with assistance to establish viable internal systems, improve the quality of credit, vitalize the organization in operation, fortify the agricultural finance institutions, and drive in agricultural and fisheries development of the country. The Bank also seeks the operating performance to serve the shareholders.

2. Projected business targets for 2010 (year-end balance)

Deposits: NT\$ 645,000,000,000 (at annual average business volume of NT\$616,000,000,000)

Loans: NT\$ 150,000,000,000 (at annual average business volume of NT\$130,000,000,000)

Income before tax: NT\$580,000,000

3. Development strategy

- (1) Fulfilling policy goals and stabilizing agricultural finance in line with government's objective of establishing the Bank.

- (2) Strengthening and improving capital structure, maintaining proper capital adequacy ratio and enhancing internal control and risk control mechanisms.
- (3) Actively promoting policy-based agricultural project financing and providing loan management service for Agricultural Development Fund, and fostering the development of agricultural and fishery industries.
- (4) Continuing to accept redeposits from credit departments of farmers' and fishermen's associations and offer financing services, expanding lending business (with priorities given to agricultural, forestry, fishery and livestock businesses) and financial investment in a prudent manner, accelerating the improvement of capital structure, and fortifying business performance.
- (5) Providing guidance to the credit departments of farmers' and fishermen's associations on their business and financial operations, developing new financial products for co-selling, and enhancing the competitiveness of community financial institutions.
- (6) Emphasizing customer relationship management and stepping up the communication and exchange with borrower clients of farmers' and fishermen's associations and the Bank to increase customer satisfaction.
- (7) Expanding the Bank's core accounting system and planning the setup of regional service outlets to better address the needs of credit departments of farmers' and fishermen's associations and improve the quality of service as foundation for sustained operations and business development.
- (8) Participating in the operation of "National Agricultural, Fishery and Financial Information Center" to bring about the synergy of multi-channel integration in the agricultural finance system.

C. Credit Rating

Date of rating	Credit rating agency	Long-term rating	Short-term rating	Prospect
March 12, 2010	Taiwan Ratings Services	twAA+	twA-1+	Stable



Mr. C.N. Shen (Vice President)

Mr. K.F. Chu (Vice President)

II. Company Profile



Company Profile

A. Introduction

The establishment of the Agricultural Bank of Taiwan can be traced back to November 30, 2002 when, in response to the views of farmers' and fishermen's associations and with the aim to revitalize the financial system for the agricultural sector, the government called a "National Agricultural Finance Meeting." The legislation of the "Agricultural Finance Act" was completed on July 10, 2003 whereby the Council of Agriculture of the Executive Yuan established the "Bureau of Agricultural Finance" on January 30, 2004. Under the efforts of the bureau, an agricultural financial institution system was established to open the Agricultural Bank of Taiwan for building an integral, secure and autonomous system of agricultural finance. On July 16, 2004, work on the preparation of the Bank was launched and the Bank was approved to open for service on May 26, 2005.

The Bank is the only chartered financial institution in the country that is allowed to operate as an agricultural bank and a commercial bank to assist the government in caring for the financial needs of farmers and fishermen. Pursuant to the Agricultural Finance Act, the Bank and the credit departments of farmers' and fishermen's associations are collectively termed "agricultural financial institutions", and the Bank is designated the superior agency to the credit departments of farmers' and fishermen's associations. The Bank together with 1,154 head and branch offices of the credit departments of farmers' and fishermen's associations around the country form a nationwide agricultural finance service network to implement the government policy of "supporting the agricultural with finance system" and aid the steady development of agricultural economy.

The Bank invested NT\$ 3,000,000 on August 28, 2006 for the establishment of a wholly-owned subsidiary, the "Agricultural Bank Insurance Brokers Co., Ltd." This subsidiary integrates the channels availed by the farmers' and fishermen's associations for collective bargaining and leading insurers in Taiwan for joint marketing of insurance policies. With this move, the Bank has opened a new era for financial services in farmers' and fishermen associations.



In the front row from left

Mr. S.H.Su (President)

Mr. T.Y.Yang (Executive Director)

Mr. Y.C.Chang (Executive Director)

Mr. C.F.Liu (Standing Supervisor)

Mr. S.L.Liu (Chairman)

Mr. S.C.Tsai (Executive Director)

Mr. C.H.Chen (Executive Director)

Mr. C.H.Lin (Senior Advisor)

In the back row from left

Mr. S.S.Lin (Director)

Mr. M.H.Yang (Director)

Mr. K.N.Ou (Director)

Mr. C.T.Yo (Director)

Mr. R.T.Yeh (Director)

Mr. Y.C.Chang (Supervisor)

Ms. L.F.Lei (Supervisor)

Mr. C.C.Yo (Director)

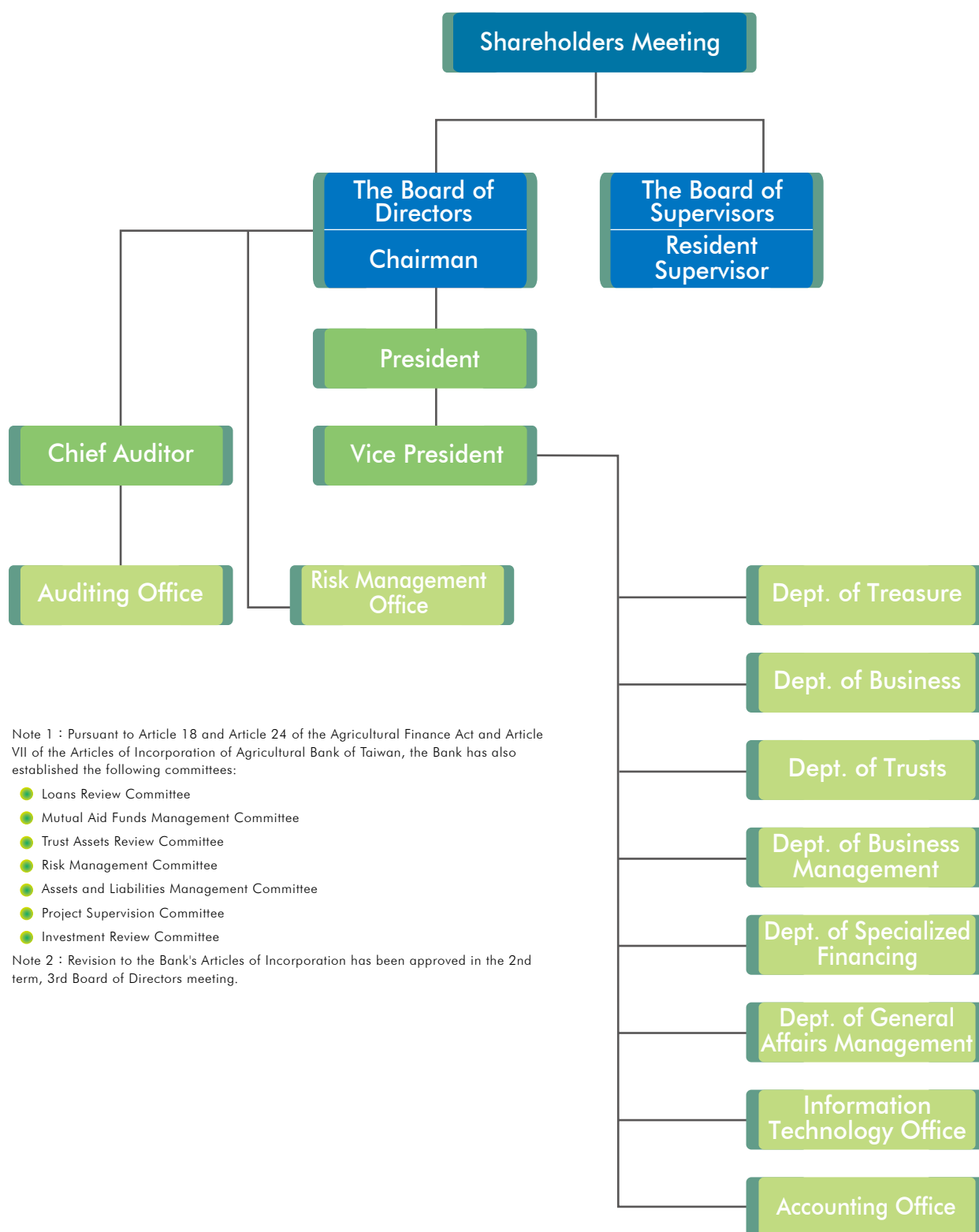
Mr. M.T.Chao (Director)

Mr. C.L.Tsai (Director)

Mr. H.C.Lin (Supervisor)

Mr. S.C.Yang (Supervisor)

B. Organization Structure



Direct Investment: Agricultural Bank Insurance Brokers Co., Ltd. (100% hold)

C. Functions and Operations of Major Departments

Auditing Office	Handle the planning and execution of internal audits. Audit, inquiry, tracking and evaluation on the operations of all departments. Audit on expenditures. Joint audit with various departments for acquisition or purchasing or disposal issues regarding Bank's assets, in charge of supervision and inspection of any related issue. Presents audit reports regularly to the Board.
Risk Management Office	Handle the planning of risk management, planning and implementation of credit assessments, design of credit risk standards and methods of assessment, risk monitoring and control, compliance with Basel II system and supervisory body of the national government in risk management.
Dept. of Treasue	Handle the planning on the appropriation of funds in local and foreign currencies, trade in foreign funds, medium and long-term capital planning and management, planning and management of bills, bonds and asset investment in both local and foreign currencies, planning, subscription and risk assessment of new financial products, design and planning of raising new capital and the issuance of preferred shares for the Bank, administer the allocation of funds, account transfer, clearing and settlement with the Central Bank, call loans, financial information services providers, clearing housed and inter-bank transactions.
Dept. of Business	Handle matters relating to all kinds of deposits, short, medium and long-term loans and bank guarantee, distribute different kinds of funds, warrants, gold, gold coins, silver coins, act as custodian agent of marketable securities and bond certificates.
Dept. of Trusts	Handle the planning, marketing and management of trust products, manage special trustee accounts and REIT.
Dept. of Business Management	Handle the revision and compilation of Bank rules, draft business policies and guideline, draft, execute, analyze and report the annual business plan, plan and manage deposit and agency businesses, design and execute marketing strategy and customer service, call and plan meetings of loan review committee and head office loan evaluation Team, draft rules for syndicated loans, and assist in the development, evaluation and advisory of syndicated loan business, supervise branch offices and new businesses, and plan and manage direct investments.
Dept. of Specialized Financing	Handle the planning and execution the governmental subsidizing plans for agricultural units of the government, guidance business, financial and operation audit of the credit departments of the farmers' and fishermen's associations, the loans of major agricultural establishment, agricultural project loans, planning, promotion and execution of loan plans in accordance with governmental policy.
Dept. of Genral Affairs Management	Handle the meeting arrangements for the Board of Directors, the study on legal cases, joint review of major internal regulations, operation manuals and contracts, planning and execution of human resources development, training and utilization, purchase and management of equipment, architectural work, construction, repair, and office supply, miscellaneous affairs, and disbursements.
Information Technology Office	Handle the planning, preparation and evaluation of computer operation plan, preparing budget on information service, computer and information operation security planning, design, installation and maintenance of networks, execution, control of machine room, design, write and test computer programs.
Accounting Office	Handle the planning, review and compilation of annual operation budget and financial forecasts, preparation and publication of monthly reports and quarterly reports, and clearing and settlement. Preparation and design of accounting system and accounting handbook, compilation of financial statistics, joint audit, supervision and joint inspection for acceptance of construction works and purchases.

D. Employees

February 28, 2010

Year		2008	2009	2010 as of Feb. 28, 2010
Number of employees	Full-time employees	139	141	146
	Contract employees	3	4	3
	Total	142	145	149
Average age		40.4	41.4	41.6
Average years of service		3.5	4.5	4.6
Distribution by education	Doctoral	0	0	0
	Master	30	35	38
	College and university	106	104	106
	Senior high school	6	6	5

A low-angle photograph of a bamboo forest. Several tall, green bamboo stalks rise vertically from the bottom of the frame towards the top. The background is a dense canopy of green leaves, with bright sunlight filtering through, creating a hazy, golden-green atmosphere and some lens flare effects. The overall tone is peaceful and natural.

III. Corporate Governance Report

Corporate Governance Report

A. Directors and Supervisors

December 31, 2009

Title	Name	Date elected (inaugurated)	Term	Date first elected	Major experience (education)	Any other position in the Bank and other companies
First-term						
Chairman Name of institutional shareholder: Council of Agriculture, Executive Yuan	S.L. Liu	2008/8/12	2008/8/12 ~ 2009/12/30	2008/8/12	-Master degree, Public Administration, Tung Hai University -General Manager of Ta Chia Farmers' Association, Taichung County -Chairman of National Agricultural, Fishery and Financial Information Center	Bank Chairman, chairman of National Agricultural, Fishery and Financial Information Center
Executive Director (Independent Director)	R.J. Woo	Elected as Director: 2004/12/24 Elected as Executive Director: 2005/6/14	Director (Executive): 2005/1/16 (2005/6/14) ~ 2009/12/30	Elected as Director: 2004/12/24 Elected as Director: 2005/6/14	-Ph.D. in Economics, Iowa State University, USA -Professor, Dept. of Agricultural Economics, National Taiwan University	Professor, Dept. of Agricultural Economics, National Taiwan University
Executive Director Name of institutional shareholder: Pan Chiao Farmers' Association, Taipei County	H.H. Wang	2004/12/24	2005/1/16 ~ 2009/12/30	2004/12/24	-Completion of Private Sector Leader Training Course, the Ketagalan Institute -General Manager of Pan Chiao Farmers' Association, Taipei County	General Manager of Pan Chiao Farmers' Association, Taipei County
Executive Director Name of institutional shareholder: Jente Farmers' Association, Tainan County	M.F. Chen	Elected as Director: 2004/12/24 Elected as Executive Director: 2008/8/12	Director (Executive): 2005/1/16 (2008/8/12) ~ 2009/12/30	Elected as Director: 2004/12/24 Elected as Executive Director: 2008/8/12	-Graduate of ChiaYi ZhiHui High School-General Manager of Jente Farmers' Association of Tainan	General Manager of Jen Te Farmers' Association of Tainan
Director Name of institutional shareholder: Council of Agriculture, Executive Yuan	Y. W. Chuang	2008/8/1	2008/8/1 ~ 2009/12/30	2008/8/1	-Master degree, Land Administration, National Chengchi University -Director, Bureau of Agricultural Assistance, Council of Agriculture	Director, Bureau of Agricultural Assistance, Council of Agriculture
Director Name of institutional shareholder: Council of Agriculture, Executive Yuan	C.C. Hsia	2006/12/21	2006/12/21 ~ 2009/12/30	2006/12/21	-Master degree, Public Administration, National Chengchi University -Master degree, Urban Planning, Asian Institute of Technology -Leader, Fifth Directorate, Executive Yuan	Leader, Fifth Directorate, Executive Yuan (retired in April 2010)
Director Name of institutional shareholder: Council of Agriculture, Executive Yuan	Y. Y. Tai	2008/8/1	2008/8/1 ~ 2009/12/30	2008/8/1	-Master degree, Law, National Taiwan Ocean University -Senior Specialist and Executive Secretary, Legal Affairs Committee, Council of Agriculture	Senior Specialist and Executive Secretary, Legal Affairs Committee, Council of Agriculture
Director Name of institutional shareholder: Chung Ho Farmers' Association, Taipei County	Y. L. Ho	2004/12/24	2005/1/16 ~ 2009/12/30	2004/12/24	-Graduate from Commercial Department, KaiNan High School of Commerce and Industry -General Manager of Chung Ho Farmers' Association	General Manager of Chung Ho Farmers' Association
Executive Director Name of institutional shareholder: Dou Nan Farmers' Association, Yun Lin County	Y. T. Chang	Elected as director: 2004/12/24 Elected as executive director: 2009/9/15	Director (Executive Director) Term: 2005/1/16 (2009/9/15) ~ 2009/12/30	2004/12/24	-Graduate from Electrical Works Department, Huwei Ta-Cheng Vocational High School -General Manager of Dou Nan Farmers' Association	General Manager of Dou Nan Farmers' Association

December 31, 2009

Title	Name	Date elected (inaugurated)	Term	Date first elected	Major experience (education)	Any other position in the Bank and other companies
Director Name of institutional shareholder: Banchiao City Farmers' Association, Taipei County	C. Y. Kuo	2009/8/13	2009/8/13 ~ 2009/12/30	2009/8/13	Kai Ming Vocational High School; Chairman of Banchiao City Farmers' Association	Chairman of Banchiao City Farmers' Association
Director Name of institutional shareholder: Council of Agriculture, Executive Yuan	T. Y. Yuan	2009/4/9	2009/4/9 ~ 2009/12/30	2009/4/9	Institute of Law, Fu Jen Catholic University; Deputy Chief of Section III, Bureau of Agricultural Finance, Council of Agriculture	Deputy Chief of Section III, Bureau of Agricultural Finance, Council of Agriculture
Director Name of institutional shareholder: Ta Chia Farmers' Association, Taichung County	No representative	2004/12/24	2005/1/16 ~ 2009/12/30	2004/12/24	-	-
Director (Independent Director)	C.T. Yu	2004/12/24	2005/1/16 ~ 2009/1/15	2004/12/24	-Master degree, MBA, Baker University -Director General, Banking Department, Central Bank of ROC	Director General, Banking Department, Central Bank of ROC
Director (Independent Director)	L.J. Wang	2004/12/24	2005/1/16 ~ 2009/12/30	2004/12/24	-PhD, Economics, University of Washington -Director, Research Fellow, Taiwan WTO Center, Chung-Hua Institution for Economic Research	Director, Research Fellow, Taiwan WTO Center, Chung-Hua Institution for Economic Research
Director (Independent Director)	W.Y. Ting	2004/12/24	2005/1/16 ~ 2009/12/30	2004/12/24	-PhD, Agricultural Promotion, National Taiwan University -Senior Research Fellow and Director of Information Dept, National Training Institute for Farmers' Organizations	Senior Research Fellow and Director of Information Dept, National Training Institute for Farmers' Organizations
Director (Independent Director)	S.L. Weng	2006/6/12	2006/6/12 ~ 2009/12/30	2006/6/12	-PhD, PPP, University of Pittsburgh, USA -Professor, Public and Business Administration, National Taipei University	Vice President, National Taiwan College of Performing Art
Resident Supervisor (Independent Supervisor)	P.H. Shih	2004/12/24	2005/1/16 ~ 2009/12/30	2004/12/24	-Master degree, Public Administration, National Taiwan University	President, Kaohsiung Rapid Transit Corp.
Supervisor Name of institutional shareholder: Council of Agriculture, Executive Yuan	S. C. Yang	2008/12/1	2008/12/1 ~ 2009/12/30	2008/12/1	-Master degree, Accounting, Tamkang University -Director, Accounting Office, Council of Agriculture	Director, Accounting Office, Council of Agriculture
Supervisor Name of institutional shareholder: Chuang Hua Fishery Association	C.T. Chen	2004/12/24	2005/1/16 ~ 2009/12/30	2004/12/24	-Private United Institute of Technology -General Manager of Changhua Fishery Association,	General Manager of Changhua Fishery Association
Supervisor (Independent Supervisor)	T.C. Hwang	2004/12/24	2005/1/16 ~ 2009/12/30	2004/12/24	-PhD, Agricultural Economics and Rural Society, Ohio State University, USA - Chairman and professor of Department of Molecular and Biological Agricultural Sciences, National Chung Hsing University	Chairman and professor of Department of Molecular and Biological Agricultural Sciences, National Chung Hsing University

Title	Name	Date elected (inaugurated)	Term	Date first elected	Major experience (education)	Any other position in the Bank and other companies
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Second -Term

Chairman Name of institutional shareholder: Council of Agriculture, Executive Yuan	S. L. Liu	2009/12/30	2009/12/30 ~ 2013/12/29	2007/8/12	Master of Public Affairs, Tunghai University; Secretary General of Taichung County Dajia Farmers' Association; Chairman of Farmers' and Fishermen's Association Central Information Center	Chairman of National Agricultural, Fishery and Financial Information Center
Executive Director Name of institutional shareholder: Council of Agriculture, Executive Yuan	T. Y. Yang	2009/12/30	2009/12/30 ~ 2013/12/29	2009/4/9	Institute of Law, Fu Jen Catholic University; Deputy Chief of Section III, Bureau of Agricultural Finance, Council of Agriculture	Deputy Chief of Section III, Bureau of Agricultural Finance, Council of Agriculture
Executive Director Name of institutional shareholder: Council of Agriculture, Executive Yuan	S. C. Tsai	2009/12/30	2009/12/30 ~ 2013/12/29	2009/12/30	Ph.D. in Business Management, NOVA Southeastern University; Chairman of Agricultural Credit Guarantee Fund	Chairman of Agricultural Credit Guarantee Fund
Executive Director Name of institutional shareholder: Taiwan Provincial Farmers' Association	Y. C. Chang	2009/12/30	2009/12/30 ~ 2013/12/29	2009/12/30	Master of Management Science, Nashua University; Secretary General of Taiwan Provincial Farmers' Association	Secretary General of Taiwan Provincial Farmers' Association; Chairman of National training institute for farmers' organization
Executive Director Name of institutional shareholder: Luzhou City Farmers' Association, Taipei County	C. H. Chen	2009/12/30	2009/12/30 ~ 2013/12/29	2009/12/30	B.A. of Tourism, Chinese Cultural University; Secretary General of Luzhou City Farmers' Association	Secretary General of Luzhou City Farmers' Association
Director Name of institutional shareholder: Council of Agriculture, Executive Yuan	C. C. Hsia	2009/12/30	2009/12/30 ~ 2013/12/29	2006/12/21	-Master degree, Public Administration, National Chengchi University -Master degree, Urban Planning, Asian Institute of Technology -Leader, Fifth Directorate, Executive Yuan	Leader, Fifth Directorate, Executive Yuan
(Discharged on 2010/5/14)						
Director Name of institutional shareholder: Shulin City Farmers' Association, Taipei County	S. S. Lin	2009/12/30	2009/12/30 ~ 2013/12/29	2009/12/30	Master of Management Science, National Chiao Tung University; Secretary General of Shulin City Farmers' Association	Secretary General of Shulin City Farmers' Association; Instructor of Department of Business Management, De Lin Institute of Technology; Instructor of Department of Business Management, Hsin Wu University of Technology
Director Name of institutional shareholder: Taichung County Farmers' Association	C. L. Tsai	2009/12/30	2009/12/30 ~ 2013/12/29	2009/12/30	B.A., Department of Business Management, Tunghai University; Secretary General of Taichung County Farmers' Association	Secretary General of Taichung County Farmers' Association
Director Name of institutional shareholder: Yong Kang Farmers' Association, Tainan County	M. T. Chao	2009/12/30	2009/12/30 ~ 2013/12/29	2009/12/30	Section of General Education, Fuhua Senior High School; Secretary General of Yong Kang Farmers' Association	Secretary General of Yong Kang Farmers' Association

December 31, 2009

Title	Name	Date elected (inaugurated)	Term	Date first elected	Major experience (education)	Any other position in the Bank and other companies
Director Name of institutional shareholder: Fengshan Farmers' Association, Kaohsiung County	K. N. Ou	2009/12/30	2009/12/30 ~ 2013/12/29	2009/12/30	Section of Chemistry, National Chin-Yi College of Technology, Secretary General of Fengshan City Farmers' Association	Secretary General of Fengshan City Farmers' Association
Director (Independent Director)	C.T. Yu	2009/12/30	2009/12/30 ~ 2013/12/29	2004/12/24	-Master degree, MBA, Baker University -Director General, Banking Department, Central Bank of ROC	Director General, Banking Department, Central Bank of ROC
Director (Independent Director)	R. T. Yeh	2009/12/30	2009/12/30 ~ 2013/12/29	2009/12/30	Master of Finance, National Taiwan University; independent director of Agriculture Bank	-
Director (Independent Director) (Departed on 2010/3/19)	C. H. Lee	2009/12/30	2009/12/30 ~ 2013/12/29	2009/12/30	Ph.D. in Finance, University of California, Berkeley; Professor of Finance, National Taiwan University	Professor of Finance, National Taiwan University
Director (Independent Director)	C. C. Yo	2009/12/30	2009/12/30 ~ 2013/12/29	2009/12/30	J.D., Stanford University; Judge of Banchiao, Yilan, Hualien District Courts; Li and Lee, Attorneys of Law, Assistant Professor of Business Management, Chang Gung University	Assistant Professor of Business Management, Chang Gung University
Director (Independent Director)	M. H. Yang	2009/12/30	2009/12/30 ~ 2013/12/29	2009/12/30	Ph.D. in Agricultural Economics, National Taiwan University; Director, Bureau of Agriculture, Changhua County Government; Associate Dean, School of Business, Feng Chia University	Associate Dean, School of Business, Feng Chia University
Resident Supervisor (Independent Supervisor)	C. F. Liu	2009/12/30	2009/12/30 ~ 2013/12/29	2009/12/30	Department of Accounting, Soo Chou University; Comptroller of Academia Sinica; Comptroller, Prosecutors Office for Taiwan High Court; Comptroller of Director General of Budget, Accounting and Statistics	Comptroller of Director General of Budget, Accounting and Statistics
Supervisor Name of institutional shareholder: Donggang District Fishermen's Association, Pingtung County	H. C. Lin	2009/12/30	2009/12/30 ~ 2013/12/29	2009/12/30	Section of Fishery Food Processing, National Kaohsiung Marine University; Donggang District Fishermen's Association	Secretary General of Donggang District Fishermen's Association
Supervisor Name of institutional shareholder: Dou Nan Farmers' Association, Yunlin County	Y. T. Chang	2009/12/30	2009/12/30 ~ 2013/12/29	2009/12/30	Section of Electricity, Ta Cheng Vocational High School; Secretary General of Dou Nan Farmers' Association	Secretary General of Dou Nan Farmers' Association
Supervisor (Independent Supervisor)	L. F. Lei	2009/12/30	2009/12/30 ~ 2013/12/29	2009/12/30	Ph.D. in Agricultural Economics, Iowa State University; Professor of Agricultural Economics, National Taiwan University	Professor of Agricultural Economics, National Taiwan University
Supervisor (Independent Supervisor)	S. C. Yang	2009/12/30	2009/12/30 ~ 2013/12/29	2009/12/30	-Master degree, Accounting, Tamkang University -Director, Accounting Office, Council of Agriculture	Director, Accounting Office, Council of Agriculture

B. Profiles of the Managers

December 31, 2009

Title	Name	Date appointed	Major experience (education)	Positions in other companies
President	S. H. Su	2008/8/12	-Bachelor, Business Management, Feng Chia University -Chairman, King's Town Bank Secretary General to Board of Directors, Medium Business Bank of Taiwan	Chairman, Agricultural Bank Insurance Brokers Co., Ltd. Director, Agricultural Credit Guarantee Fund
Vice President (Manager, Dept. of Trusts)	C. N. Shen	2005/5/26 (2008/9/17)	-EMBA, National Chiayi University -Division manager, Farmers Bank of China	Supervisor, National Agricultural, Fishery and Financial Information Center
Vice President	K. F. Chu	2006/2/24	-Graduate from Dept. of Agricultural Economics, National Taiwan University -Manager, Farmers Bank of China	Director, Agricultural Bank Insurance Brokers Co., Ltd.
Deputy Director, Auditing Office (Acting Chief Auditor)	Y. L. Chiang	2007/5/3 (2008/10/23)	-Master degree, Political Science, Chinese Culture University -Senior Administrator, Department of Auditing, Financial Information Service Co.	-
Chief Accounting officer	I.K. Hung	2008/3/3	-Graduate school of Statistics, National Chengchi University -Deputy Manager, Department of Planning, Farmers Bank of China	Supervisor, Agricultural Bank Insurance Brokers Co., Ltd.
Manager, Department of General Affairs Management	C.H. Han	2005/5/26	-Accounting and Statistics, Tamshui Industrial and Commercial Management School -Assistant Manager, Land Bank of Taiwan	-
Chief Information Technology officer	M.S. Chen	2005/5/26	-Dept. of Computer Science, Feng Chia University -Professional commissioner, Fuhwa Commercial Bank	-
Manager, Department of Business	Y.H. Chiu	2005/5/26	-Dept. of Land Administration, National Chung Hsing University -Manager, Land Bank of Taiwan	-
Manager, Department of Business Management	H.T. Chen	2008/9/17	-Graduate of Accreditation Program, International Business Management Institute, Chinese Culture University -Dept. of Commerce, National Open University -Deputy manager, Review Dept., Land Bank of Taiwan	Director, Agricultural Bank Insurance Brokers Co., Ltd.
Manager, Department of Specialized Financing and chief Risk Management Officer	H.M. Yen	2005/5/26	-Graduate School of Agricultural Economics, Kyushu University in Japan -Manager, Farmers Bank of China	-
Manager, Department of Treasure	S.C. Lai	2008/9/17	-Graduate from Dept. of Business Administration, National Chengchi University -Senior Asst VP, Taipei Fubon Bank	-

C. Corporate Governance

1. Status of Corporate Governance and its divergence from the practice in the banking industry and the reasons

December 31, 2009

Title	Status of Operations	Differences with Corporate Governance Practice Principles for Banks and Reasons
(1) Equity structure and shareholders' equity (a) Handling shareholders' suggestions and disputes (b) Major shareholders in actual control and the ultimate controller of major shareholders (c) The risk-control mechanism and the firewall with the affiliated enterprises	(a) Designated person is appointed to handle suggestions and disputes of the shareholders (b) Designated person is appointed to control the list of major shareholders and final decision-makers can be retrieved at any time. (c) The Bank and affiliates are transparent and clear-cut in personnel, assets and financial management, and duly observe and enforce applicable internal control systems.	None
(2) Composition and responsibility of the board of directors (a) Independent directors (b) Regular assessment of the independence of CPA	(a) Pursuant to Article 17 of the Agricultural Finance Act and determined by the number of seats of directors as stated in the corporate articles, two-thirds of the directors shall be elected by Shareholders Meeting. The rest of the directors shall be assigned as independent directors. (b) The Bank appoints the external CPA every year and presents it for the approval of the Board of Directors.	None
(3) Communications with related parties	The Bank has offered "Customers Comments Mailbox", "Farmers' and Fishermen's Associations Interchange Network", "Farmers' and Fishermen's Associations Contact" to the public via the website for providing a channel for complaints and proper communications with customers and related parties.	None
(4) Disclosure of information (a) A website to disclose financial and corporate governance information (b) Other ways to disclose information (such as the setup of an English website, appointment of the specific person in charge of information collection and disclosure, adoption of the spokesperson system, disclosing the institutional investor road shows on the Bank's website)	(a) The Bank website is http://www.agribank.com.tw . The Bank has designated staff to maintain the website and disclose financial, business and corporate governance information under the "Legally Required Disclosures" section on the website by the established deadlines, including information on corporate governance framework and rules, equity structure, structure and independence of board of directors, responsibilities of board of directors and management, composition, responsibility and independence of supervisors, continuing education of directors and supervisors, remuneration to directors and supervisors, lending to related parties, and capital adequacy that are disclosed respectively under the "Legally Required Disclosures" and "Capital Adequacy and Risk Management" section of Bank website as well as other major corporate events where disclosure is required by law. (b) The Bank discloses its annual reports and related information on financial position and operations through the Bank website. To ensure the accuracy and timeliness of the announcement of material information, the Bank also has a spokesperson and a deputy spokesperson who represent the Bank to make announcements to the public.	None

Title	Status of Operations	Differences with Corporate Governance Practice Principles for Banks and Reasons
(5) Operations of nomination, salary or other functional committees set up by the Bank	The Bank has not yet established any functional committee such as a Remuneration Committee.	The Bank will plan to establish such functional committee according to its corporate development status.

- (6) The status of corporate governance implementation and difference with the "Corporate Governance Best-Practice Principles for Banking Industry" and reasons for difference:

(7) Other important information that aids the understanding of status of corporate governance (e.g. employee benefits, employee care, investor relations, rights of stakeholders, continuing education of directors and supervisors, risk management policy and risk assessment criteria, execution of customer policy, purchase of liability insurance for directors and supervisors)

- (a) In support of government policies, the Bank makes all kinds of policy-based agricultural loans and provides guidance to the credit departments of farmers' and fishermen's associations to bring about agricultural economic prosperity. In the future, the Bank will actively participate in public interest activities, attend to community affairs, and heed the social responsibility to fulfill the corporate commitment of "What You Take From the Society, You Give Back to the Society."
- (b) Advanced study taken by director and supervisors: The Bank completed the re-election of directors and supervisors on December 30, 2009. The Bank asks the Taiwan Academy of Banking and Finance to offer corporate governance courses for the new directors and supervisors, and helps enroll them in other continuing education courses according to their preference.

Name of director/ supervisor	Training institute	Hours of courses taken	Name of director/ supervisor	Training institute	Hours of courses taken
S. L. Liu	Taiwan Academy of Banking and Finance	3	L. R. Wang	Accounting Research and Development Foundation	3
T. Y. Yang	Ministry of Justice and others	66	Y. Y. Tai	Taiwan Corporate Governance Association	3
R. J. Woo	Taiwan Academy of Banking and Finance	3	C. T. Yo	Central Bank of R.O.C.	60
C. Y. Kuo	Trust Association of R.O.C.	3	H. L. Ong	Taiwan Academy of Banking and Finance	3
M. F. Chen	Taiwan Academy of Banking and Finance	3	P. H. Shih	Taiwan Academy of Banking and Finance	3
C. C. Hsia	Taiwan Corporate Governance Association	3	C. T. Chen	Taiwan Academy of Banking and Finance	3
Y. W. Chuang	Taiwan Corporate Governance Association	3	C. C. Huang	Accounting Research and Development Foundation	3
Y. L. Ho	Taiwan Academy of Banking and Finance	3	S. C. Yang	Taiwan Corporate Governance Association. Trust Association of R.O.C.	6
Y. T. Chang	Taiwan Academy of Banking and Finance	3	W. Y. Ding	Taiwan Academy of Banking and Finance	3
S. C. Tsai	Council of Agriculture	8	C. H. Lee	Taiwan Academy of Banking and Finance	6
Y. C. Chang	Council of Agriculture	40	C. C. Yo	-	-
S. S. Lin	Taiwan Academy of Banking and Finance	16	M. H. Yang	-	-
C. L. Tsai	Council of Agriculture	40	C. F. Liu	-	-
M. T. Chao	Council of Agriculture	40	L. F. Lei	-	-
K. N. Ou	Council of Agriculture	40	C. H. Chen	Council of Agriculture	40
R. T. Yeh	-	-			

- (c) Directors and supervisors attending the board of directors/meetings: The directors and supervisors attend board of directors meetings in accordance with Rules for the Conduct of Board of Directors Meetings and a sign-in book is set up to show attendance record.
- (d) Execution of risk management policy and risk assessment criteria: The Bank has comprehensive risk management policy in place which stipulates credit risk, market risk and operational risk.
- (e) Execution of consumer protection and customer policies: The Bank has established a Consumer Protection Self-Evaluation Form to harness the implementation of consumer protection work and periodically examines the business operations to make sure they comply with Consumer Protection Act and related regulations.
- (f) Withdrawal from conflict of interest by directors: Directors would withdraw from voting on motions of the board
- (8) If there is corporate governance self-evaluation report or corporate governance assessment report prepared by another professional institution, describe the self-evaluation (or outside assessment) results, major deficiencies (or suggestions) found and corrective actions taken: The Bank does not yet have any corporate governance self-evaluation report.

2. Status of Internal Control

(1) Agricultural Bank of Taiwan Statement of Internal Controls

On behalf of Agricultural Bank of Taiwan, we hereby certify that from January 1, 2009 to December 31, 2009, the Bank has established internal control systems and implement risk management procedures in compliance with the Implementation Rules for Bank Internal Audit and Internal Control System. The Bank has been audited by independent internal auditors who report to the Board of Directors and supervisors regularly (with respect to the Bank's bond business, the Bank has conducted evaluation of the effectiveness of its internal control systems in accordance with 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, it is found that each department of the Bank has implemented effective internal controls and regulatory compliance during the year stated above. (This Statement shall constitute a principal part of the Bank's annual report and prospectus and shall be made public. Any false representation or concealment of facts in the Statement will be subject to legal consequences according to Articles 20, 32, 171 and 174 of the Securities and Exchange Act.)

TO

Council of Agriculture, Executive Yuan

Chairman:

Liu Song-Lin



(Authorized signature)

President:

Su Song-Hui



(Authorized signature)

Chief Auditor:

Chiang Yue-Ling (acting)



(Authorized signature)

Chief Compliance Officer:

Shen Chi-Nan



(Authorized signature)

Date: March 5, 2010

(2) Independent Auditor's Examination Report on Agricultural Bank of Taiwan



安侯建業聯合會計師事務所

KPMG

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Articles 25 of the Implementation Rules for Bank Internal Audit and Internal Control System provides: “When a bank engages an accountant to audit its annual financial statements, it shall also ask the same accountant to audit its internal control system and express opinion regarding the accuracy of information provided in the financial statements as well as the implementation of the bank's internal control system, regulatory compliance system, and the appropriateness of bank's bad debt reserve policy.”

We were engaged by Agricultural Bank of Taiwan to audit its internal control systems and hereby attach a report on the scope and basis of audit, audit procedure and results pursuant to Article 28 of the same Implementation Rules.

This Examination Report is for the reference of your bank only. Your bank may provide it to the financial competent authorities for supervisory purpose, but may not use it for other purposes or distribute it to other parties.

TO

Agricultural Bank of Taiwan

KPMG Taiwan
Chung Dan-Dan, CPA
(signature and seal affixed)



March 3, 2010

IV. Capital Structure



Capital Structure

A. Sources of Equity Capital

December 31, 2009

Unit: 1,000 shares; NTD 1,000

Year/month	Issue price	Authorized capital		Paid-in capital		Remarks	
		Quantity of shares	Amount	Quantity of shares	Amount	Sources 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	Resolved by a general session of Shareholders Meeting held on 2007/06/27 for issuing new shares through capitalization or retained earnings	Change in registration approved per MOEA Letter Ching-Shou-Shang-Zi-09601192630 dated 2008/08/16.
December 2009	10	-1,011,154	-10,111,536	-1,011,154	-10,111,536	Capital decrease resolved by a general session of Shareholders Meeting held on 2009/6/29	Change in registration for capital decrease and capital increase approved per MOEA Letter Ching-Shou-Shang-Zi-09801290140 dated 2009/12/18.
December 2009	10	1,000,000	10,000,000	1,000,000	10,000,000	Capital increase resolved by a general session of Shareholders Meeting held on 2009/6/29	

December 31, 2009

Unit: 1,000 shares

Type of stock	Authorized capital			Remark
	Shares outstanding	Unissued shares	Total	
Common stock	1,550,000	-	1,550,000	Non-listed stock
Class A preferred stock	450,000	-	450,000	Non-listed stock

B. List of Major Shareholders

December 31, 2009

Name	Shareholding	Shares held	Percentage
Council of Agriculture, Executive Yuan		890,000,000	44.50%
Taiwan Provincial Farmers' Association. Taiwan Supply Division of Provincial Farmers' Association		77,500,000	3.88%
Agricultural Credit Guarantee Fund		66,680,000	3.33%
Dou Nan Farmers' Association, Yunlin County		35,300,000	1.77%
Shu Lin Farmers' Association, Taipei County		32,750,000	1.64%
Pan Chiao Farmers' Association, Taipei County		23,599,999	1.18%
Yong Kang Farmers' Association, Tainan County		21,800,000	1.09%
Hsin Chuang Farmers' Association, Taipei County		20,050,000	1.00%
San Chung Farmers' Association, Taipei County		19,125,000	0.96%
Lu Chou Farmers' Association, Taipei County		17,250,000	0.86%

V. Status of Operation



Status of Operation

A. Principal Business

1. Financing major agricultural establishment.
2. Financing special agricultural projects initiated by the government.
3. Financing the operations in farming, forestry, fishery and livestock under governmental policy in agriculture and fishery.
4. Business stated in Article 71 of the Banking Act.
5. Business permitted by competent authority at the national level.
6. Foreign exchanges at the approval of The Central Bank of China, Taipei.

B. Guidance, Audit, Performance Evaluation and Loans to Credit Departments of Farmers' and Fishermen's Associations

1. General guidance: The guidance is given to credit departments with NPL ratio lower than 15% as follows:
 - (1) Establishment of rules of operation, management system and the concept of cost to upgrade their operation performance.
 - (2) Establishment of the internal control and internal audit system.
 - (3) Appropriation of deposit reserve and liquidity reserve.
 - (4) Deposit of surplus funds and financing.
 - (5) Financing the farming, forestry, fishery and livestock sectors and consumer loans.
 - (6) Service of financial instrument exchange and remittances.
 - (7) Collection services for the national treasury and other financial institutions.
 - (8) Audit on banking operation and correction of shortcomings.
 - (9) Sound financial structure and upgrading the quality of assets.
 - (10) Handling of nonperforming loans and the collection of overdue accounts.
 - (11) Accounting, bookkeeping and preparation of different statements and tables.
 - (12) Designing standardized forms and information systems for improving data exchange and statistical analysis.
 - (13) Providing information on the operation of the agricultural financial institution and analysis of the capital needs in agricultural operation and the proper allocation of resources.
 - (14) Employee training and introduction of new business.
 - (15) Consultation service on related legal rules.
 - (16) Other supervisory works as designated by competent authority at the national level.
2. Special guidance: Special guidance is given to credit departments with non-performing loan ratio exceeding 15%. Credit departments under special guidance are expected to reduce their non-performing loans as projected in 2009. The scope of special guidance encompasses the content of general guidance and the following:
 - (1) Monitoring business directions and assisting in improvement.
 - (2) Monitoring deficiencies in business and financial operations and assisting in improvement.
 - (3) Monitoring and assisting in the preservation of creditor rights on assets.
 - (4) Monitoring and assisting in the internal control and internal audit system.
 - (5) Monitoring and assisting in the setting aside allowances for doubtful accounts or transfer of doubtful accounts to bad debt.

- (6) Monitoring and assisting in bookkeeping and accounting and the preparation of financial statements.
- (7) Monitoring and assisting in asset acquisition and disposition.
- (8) Monitoring and assisting in the review of loan extension and investment and the management of assets and liabilities.
- (9) Attending meetings of the Board, Supervisors and Credit Review Committee and present opinions.
- (10) Demanding the parent farmers' and fishermen's associations whose credit departments are under special guidance and correction to present report on operation, financial position and other topics as requested within the stipulated span.
- (11) Auditing related accounting books, documents and assets.
- (12) Other assignments by competent authority.

3. Business and Financial Auditing:

The Bank has conducted 381 audits on the operation and financial status of the credit departments of farmers' and fishermen's associations in 2008. The primary task of the audit was to review the deficiencies detected in financial examinations and their status of corrective actions. The audit reports were forwarded to the competent authorities and related agencies. Audits on the liquidity of assets held by credit departments have also been conducted at the request of competent authority at the local level.

4. Performance Evaluation:

We conducted performance evaluations of credit departments of farmers' and fishermen's associations in six categories – capital adequacy, asset quality, internal management competence, profitability, liquidity and growth according to our “Credit Departments of Farmers' and Fishermen's Association Performance Evaluation Indicators and Standards” and forwarded the results to competent authorities and related agencies for reference.

5. Other Guidance Issues:

- (1) In 2009, we made suggestions on the formulation (amendment) of 43 laws and regulations, including Agricultural Finance Act, Regulations Governing the Examination of Farmers' Associations, Regulations Governing the Procedures for Credit Departments of Farmers' and Fishermen's Association to Evaluate Assets and Deal with Non-performing/Non-accrual Loans, Regulations Governing Risk Control Ratios for Credit Departments of Farmers' and Fishermen's Associations, Operating Rules for the Lending Operation of Agricultural Development Fund, Guidelines for Extending Loans to Agricultural Food Industry, Guidelines for Loans for Small Land Owners and Big Tenant Farmers, Guidelines for Extending Loans for the Research and Development of Agricultural Technology, Guidelines for Rewarding Farmers' and Fishermen's Associations for Providing Guidance to Farmland Brokers, and the internal rules of credit departments for the reference of competent authorities and related agencies.
- (2) In 2009, we executed the “Small Land Owners and Big Tenant Farmers Policy Education and Training Program”, “Small Land Owners and Big Tenant Farmers Policy Education and Business Promotion Program”, and “Farmer Retirement System Demonstration Program” of the Council of Agriculture, and with subsidy from the Council of Agriculture, held altogether 23 training sessions, including 11 training sessions for Farmers' Association staff on the Policy of Small Land Owners and Big Tenant Farmers, 6 sessions of “Advanced Training for Farmland Banks Implementing the Policy of Small Land Owners and Big Tenant Farmers”, and 6 sessions of workshop on offering financial planning and counseling services for farmer retirees. With 1,689 staff of Farmers' Associations participating in the training, the workshops achieved the purposes of policy propagation and business promotion.
- (3) To provide farmer retirees with financial planning and counseling services, the Bank assisted the Council of Agriculture in advising 20 Farmers' Associations on the establishment of a financial planning and counseling service window for farmer retirees.
- (4) In support of the “Fruit Trees Adoption Program for August 8 Flood” initiated by the Council of Agriculture, the Bank participated in the “Forum for Farmers' Associations in Morakot-Hit Area Fruit Trees Adoption Program” to assist in media campaign, setup of customer service center, providing counseling service for people interested in the adoption program, and helping seven Farmers' Association in disaster-hit areas to solve problems associated with individual and corporate adopters. In 2009, the Bank provided related customer service 2,920 times.

- (5) The Bank acted as the contact window for credit departments of farmers' and fishermen's association and banks on debt workout under the Consumer Insolvency Act. Aside from setting up a special website and providing counseling services, the Bank also attended the liaison meeting on debt workout under the Consumer Insolvency Act held by the Bankers Association.
- (6) We compiled the 2008 Analysis Report on the Business and Operation of Credit Departments of Farmers' and Fishermen's Associations and distributed the report to the central competent authority and related financial supervisory agencies (institutes) for reference.

6. Business Liaison and Exchanges:

- (1) In 2009, we conducted 60 location office advisory service review meetings, in which the advisory staff jointly discussed the status of advisory service and shared their views and reflected the issues to central competent authorities. We also held two advisory service discussions with the central competent authorities in January and June 2009 to communicate and exchange views on the issues as reference for policy-making or supervision.
- (2) The Bank held 75 sessions of seminars and workshops, including a conference on "Global Trends of Grain Development", "Consumption Coupon Acceptance Operation Workshop", "Credit Department Financial Investment and Risk Management Workshop", "Credit Department Internal Control and Compliance Workshop", "Workshop on Deposit and Lending Operations for Farmers' Associations Reestablishing a Credit Department", "Agricultural Development Fund Loans Workshop", "Response Measures for Credit Departments after the Amendment of the Civil Code on Inheritance", "Workshop on Collection of National Annuity Premiums by Farmers' and Fishermen's Associations", "Workshop on Trust Business" and insurance related courses. A total of 4,790 persons attended the workshops.

7. Policy-based Agricultural Loans:

- (1) Supporting the Council of Agriculture (COA) in the Reconstruction Work in the Aftermath of Typhoon Morakot
 - ① The Bank's disaster-hit area counselors collected the damage situation in the area and the immediate needs of farmers and fishermen. The collected information was promptly passed on to the COA for reference in policy formulation. The Bank also participated in COA's formulation of financial assistance measures, offered suggestions, and produced relevant loan application forms for use by the handling institutions. The Bank also studied the interest subsidy application and receipt operations.
 - ② Lin Bian Township and its neighboring towns in Pingtung County were hardest hit by the Typhoon Morakot. As the Lian Bian Fishermen's Association only had limited amount of deposit that could not meet the lending needs in the area, the Bank collaborated with the credit department of Lian Bian Fishermen's Association in the joint offering of low-interest loans for farmers in the area that sustained damage in the natural disaster to help them obtain the funds needed for reconstruction and restoring farming.
 - ③ The Bank acted as the managing bank provided in Paragraph 1, Article 6 of the Measures for Subsidizing Financial Institutions with Total Destruction or Loss of Collateral in Disaster-Hit Areas and Measures for Financial Institutions Carrying Out Debt Extension and Interest Subsidy for Residents in Areas Hit by Typhoon Morakot.
- (2) The Bank actively makes policy loans to provide ample funds for agricultural development. In 2008, we financed operation of leisure farms under the Sino-America Fund, provided guidance for financing the production of refined wood and bamboo products and for financing the establishment of poultry slaughterhouses, and provided loan for promoting the institutionalization of agricultural produce processing.
- (3) The Bank produced the 2009 Manual for Policy-Based Agricultural Loans", managed the agricultural loan accounting system, and produced statistical reports on loan operation under the Agricultural Development Fund.

C. Business Assets and Income to Total Assets and/or Revenue, Growth and Changes

1. The proportions of incomes from all business to corporate earnings and changes

Unit: in NTD thousand

Title	2009		2008	
	Amount	Percentage %	Amount	Percentage %
Net revenue	11,400,801	100.00	16,645,009	100.00
Net interest income	6,989,192	61.30	9,929,645	59.66
Commissions and fees, net	130,594	1.15	106,148	0.64
Gains (losses) from financial assets and liabilities at fair value through profit or loss	1,337,417	11.73	3,611,988	21.70
Realized gains from available-for-sales financial assets	987,814	8.66	204,573	1.23
Loss on assets impairments	1,890,757	16.59	2,014,647	12.10
Other non-interest gain (loss), net	65,027	0.57	778,008	4.67

Reason for changes:

- (1) Decrease in interest income in 2009 as compared to 2008 was mainly due to the drop in interest on loans and securities investments.
- (2) Decrease in gains (losses) from financial assets and liabilities at fair value through profit or loss in 2009 as compared to 2008 was mainly due to decrease in gain from disposal of financial assets at fair value through profit or loss.
- (3) Increase in realized gains from available-for-sales financial assets in 2009 as compared to 2008 was mainly due to the disposal of government bonds with higher return amid a drop in the yield of government bonds

2. Proportions of Business

(1) Proportion of deposits

Unit: in NTD thousand

Title	2009		2008	
	Amount	Percentage %	Amount	Percentage %
Total deposits	557,526,671	100.00	383,355,134	100.00
Current Deposits	2,767,649	0.50	2,864,344	0.75
Time deposits	554,759,022	99.50	380,490,790	99.25

(2) Proportion of loans

Unit: in NTD thousand

Title	2009		2008	
	Amount	Percentage %	Amount	Percentage %
Total loans	112,374,813	100.00	86,376,762	100.00
Short loans	23,038,520	20.50	17,361,282	20.10
Medium loans	73,891,525	65.75	56,862,991	65.48
Long loans	14,482,280	12.89	11,446,780	13.60
Delinquent accounts	962,488	0.86	705,709	0.82

(3) Proportion of major business assets to total assets

Unit: in NTD thousand

Title	2009		2008	
	Amount	Percentage %	Amount	Percentage %
Total assets	610,044,681	100.00	439,545,566	100.00
Cash and cash equivalents	5,041,200	0.83	9,036,534	2.06
Due from The Central Bank and other banks	279,639,178	45.84	149,884,787	34.10
Financial assets at fair value through profit or loss	25,290,745	4.15	27,713,152	6.30
Discounts and loans, net	111,824,062	18.33	85,825,362	19.53
Available-for-sales financial assets	126,481,473	20.73	41,108,103	9.35
Held-to-maturity financial assets	52,297,516	8.57	114,072,613	25.95
Other financial assets	5,655,357	0.93	8,647,892	1.97
Others	3,815,150	0.62	3,257,123	0.74

D. Market Analysis

Looking back at 2009, the world global demands slipped as the financial crisis and credit crunch in 2008 continued to undermine the global economy. As a result, the world trade volume plunged. The world major economies took the concerted actions of dropping interest rates, injecting massive funds into the market to enhance market liquidity, and launching all kinds of stimulus packages, while China and India continued to record economic growth. But the market confidence remained weak. According to the latest forecasts of Global Insight published in February 2010, global economy is expected to have a turnaround to record a growth of 3.2% in 2010 from -1.9% in 2009, only the major economies will experience different pace of expansion. Countries hit hard by the financial storm and mired in debt will recover more slowly. The U.S. will see 3.0% growth, up from -2.4% in 2009; Eurozone will rise 1.0%, up from -4.1%, while Japan will see 1.8% growth, up from -5.0%. Newly industrialized countries on the perimeter of financial storm will grow at a faster pace, of which, China will maintain strong momentum and is expected to see its economic growth increase from 8.7% in 2009 to 10.1% in 2010. Among exported-driven countries in Asia-Pacific, Singapore will grow 5.0% in 2010, up from -2.0% in 2009, Korea will grow 3.8%, up from 0.2%, whereas Hong Kong will rise 4.8%, up from -2.5%.

As for the domestic economy, benefitted from the strong recovery of the emerging economies in Asia, such as China, plus the base period factor, Taiwan's 2009 economic growth was -1.91% according to the figures published by the Directorate General of Budget, Accounting and Statistics (DGBAS). The Q4 2009 alone recorded 9.22% growth, far surpassing the market expectation of 6.5 ~ 7% and the first time in positive territory after five consecutive quarters of negative growth. The domestic interest rate was dropped twice in the first two months of 2009, 0.25% each time, and then kept at the same level up to the end of the year. According to the financial statistical data published by the Central Bank of ROC, the annual average of interbank overnight rate was 0.109% in 2009, down 94.590% as compared to the year before; the annual average exchange rate of NTD to USD was 33.05, appreciating 2.53% as compared to 2008. In the banking sector, the gradual rebound of the economy, gradual exit of the market rescue programs and possible interest rate hike by governments around the world are expected to boost the operations of banks. On the other hand, with the signing of financial MOU and the anticipated signing of Economic Cooperation Framework Agreement (ECFA) with Mainland China under which financial institutions in Taiwan and China are allowed to enter each other's market, and the possible establishment of the West Straits Special Economic Zone, domestic banks are facing a new competitive environment.

Looking into the domestic economic prospects for 2010, our export trade is expected to grow as the international business environment turns for the better and the launches of electronic book, LED TV, touch screen, cloud computing, and new 3D products are expected to present considerable business opportunities for the domestic industry. In the aspect of fixed investment, encouraged by rising export, increase in capacity utilization rate, acceleration of the launch of new electronic products, and anticipated rise in outsourcing demands of multinational companies, the domestic high-tech companies are vigorously upgrading their processes and planning on a next wave of capacity expansion. Thus we expect to see two-digit growth in private investment. In the public sector, the government decided to boost the investment in infrastructure projects last year as a part of the economic stimulus program and earmarked another \$50 billion in 2009, which brought the total government fixed investment to the tune of NT\$500 billion. The government will continue to promote various construction projects in 2010, only the increase in spending will edge down slightly. The forecast for wholesale price index (WPI) is that will rise 4.78% in 2010 as rising global demands and abundant monetary liquidity drive up the prices of crude oil and some agricultural and industrial raw materials, which in turn will push up the prices of import and domestically produced products. The forecast for CPI is that it will increase by 1.27% as the pressure of rising raw material prices trickles down to downstream products. Overall, the DGBAS forecast for domestic economic growth in 2009 is 6.14%.

E. Favorable and Unfavorable Factors for Corporate Development

Favorable factors

- (1) Both the government and the farmers' and fishermen's associations are shareholders of the Bank. The government holds 44.5% of the stakes that entails high stability in the management.
- (2) The registered principal businesses of the Bank are financing major agricultural establishment, financial special agricultural projects of the government, financing the farming, forestry, fishery and

livestock sectors in supporting the governmental policy of farming and fishery. These businesses feature distinctive market segmentation and grant the Bank greater opportunities to access borrowers in agricultural financing than others in the financial sector.

- (3) The Bank has integrated the credit departments of farmers' and fishermen's associations and can fully utilize their business locations and personnel in developing new financial products and new channels for creating synergy. In the future, this form of presence will be a niche for business development.
- (4) The Bank accepts large amount of redeposits from the credit departments of farmers' and fishermen's associations, which provides the Bank with good liquidity.
- (5) The Bank offers integrative and policy-based agricultural financing and functions as an amalgamation of agricultural bank and commercial bank that gives the Bank unique characteristics.

Unfavorable factors

- (1) The huge volume of deposit influx from the credit departments of farmers' and fishermen's associations compelled the Bank to pay a high amount of interest expenses.
- (2) Corporation and institutions are accustomed to acquiring direct finance through local and overseas channels. As such, it is not easy for the Bank to expand its lending business with only one business outlet.
- (3) Financial holding companies can construct a financial environment for one-stop shopping, given their advantage in providing a full-range of financial services. This indeed poses a threat to banks that are not members of such holding companies.
- (4) Under rapidly increasing market risk and overflow of funds on the market, there are only a limited number of financial products available that offer steady return higher than the cost of funds.
- (5) The continual emigration of domestic companies and keen competition in corporate banking make it difficult for the Bank to broaden its customer base. Keen competition also narrows the profit margin from interest income, which in turn affects the profitability of the Bank.

Countermeasures

- (1) Make flexible use of asset portfolios to enhance the profit of the Bank to maintain its position as a supporter of governmental policy.
- (2) Fully integrate the resources of the bank and the credit departments of farmers' and fishermen's associations in products, channels and clients to optimize the efficiency of the Bank in the system of agricultural finance.
- (3) Develop new business in the direction of diversity for the diversification of risks.
- (4) Continue to attract talented persons to strengthen the human resources of the Bank and enhance the overall performance capacity. °
- (5) Enhance the image of the Bank in professional standing through the effective use of public relations, media and charity platforms. °
- (6) Seek the approval of the competent authority to set up more business outlets.

F. R&D of Financial Instruments and Outlook of Business

1. Major financial products and new departments in the past two years and their sizes: None
2. R&D spending in the past two years and R&D Plan in 2009:

The Bank spent NT\$900,000 on R&D in 2009 and 2008, respectively. The said spending was primarily used in the retaining of consultants for the installation of asset allocation and risk management system module including the tasks of: counterparty risk assessment, product evaluation and risk assessment module, and asset allocation module. In 2010, the Bank will continue to update and maintain the aforesaid modules and expects to complete the stress test module and capital charge module.

G. Short, Medium and Long-Term Business Development Plans

1. Short-term Plan

(1) Loans

To ensure steady income stream, the Bank will continue to expand the loan business. The target loan business set for 2010 is NT\$160 billion and our business promotional strategies are as follows

- ① Continue to support government policy by offering policy agricultural loans.
- ② Cultivate relations with other banks in developing syndicated loan business.
- ③ Use the local forces of farmers' and fishermen's associations more effectively to expand grass-level farming loan and regional loan business.
- ④ Materialize customer relation management.

(2) Investments

① Securities investment

The Bank stresses the security, liquidity and profitability of funds with regard to investment and comply with the investment guidelines and limits approved by the competent authority.

② Financial operations

- A. Step up investment risk management and rigorously control the risk exposure of positions on financial products.
- B. Strengthen internal controls and adjust the limits of authorization in a timely manner.
- C. Adopt the investment strategy that focuses primarily on steady spread and secondarily on capital gain.
- D. Adjust capital structure to reduce interest rate risk.
- E. Enhance the allocation of core assets to create diverse profit streams.
- F. Enhance the RP bond business to lower cost of funds.

(3) Guiding the credit departments of farmers' and fishermen's associations

- ① The target NPL ratio set for credit departments under the special guidance plan in 2010. The targets set for the end of 2010 by the Bank is to bring the NPL ratio of the credit departments of farmers' and fishermen's associations down to 4%, and the number of credit departments with NPL ratio over 15% down to 25.
- ② Achieve the budget goal of NT\$30 billion for policy agricultural loans set forth by the agricultural administration for 2009.
- ③ Offer training classes for the employees of credit departments. The Bank plans 42 sessions of seminars on credit investigation and lending, project agricultural loans, collection of overdue accounts, financial management, trust and insurance business for the employees of credit departments.
- ④ Conduct annual financial assessment and performance evaluation of 300 credit departments.
- ⑤ Formulate Credit Department Guidance Business Plan, Agricultural Development Fund Business Plan, and plans for other subsidy or commissioned projects.
- ⑥ In support of the government's agricultural policies, continue to implement the 2010 "Small Land Owners and Big Tenant Farmers Policy Education and Training, and Farmers' Association Assistance Program", "Promotion of Farmer Retirement System Program", and "Fruit Trees Adoption Program for August 8 Flood" of the Council of Agriculture.
- ⑦ Based on the actual business advisory experience and the opinions of the credit departments, make timely suggestions to the competent authority regarding the amendment of agricultural finance related regulations to facilitate the stable operation and business development of credit departments.
- ⑧ Advise new credit departments on the establishment of management system, make policy

agricultural loans and assist them in business development.

- ⑨ Act as the managing bank for financial assistance programs relating to Typhoon Morakot.
- ⑩ Offer counseling service for the businesses of credit departments in association with the Consumer Insolvency Act.

(4) Trusts:

① Real estate trust

The Bank's Trust Department assists the farmers' and fishermen's associations in financing construction projects through real property investment trust service to enhance protection of debt and ensure smooth completion of the project. This measure also brings benefits to farmers' and fishermen's associations in financing the same project through separate accounts for higher yield.

② Money trust

This business offers the service of planning money trust products for the clients of farmers' and fishermen's associations and provides trust service to the clients of farmland banks and farmers who purchase or sell land to reduce transaction risk.

③ Securities trust:

This business serves the needs of clients of farmers' and fishermen's associations for estate planning.

④ Discretionary account service

The Bank engages in this business in coordination with government policy and to strengthen services to farmers' and fishermen's associations. °

(5) Insurance Brokerage

The business strategy is the training of personnel of farmers' and fishermen's associations into insurance professionals, development of niche insurance products, and providing customized services. The Bank will actively plan the selling of life and non-life insurance policies as a broker and pursue joint marketing with the farmers' and fishermen's associations to increase service fees income.

(6) Expand the Bank's core accounting system

In line with the offering of new businesses, the Bank will continue to add new functions to the recently rolled-out core accounting system to meet the demands of upcoming business growth and enhance management efficiency. The Bank's new businesses include collection of national annuity premiums and credit card payment, and new businesses under planning include: exchange settlement of RMB, collection and custody of reserve deposit, funds clearing service, and collection and clearing of bills.

(7) Participate in the operation of National Agricultural, Fishery and Financial Information Center

To promote the sharing of information on farmers' and fishermen's associations, the Bank, together with the competent authority and other sharing centers have set up a National Agricultural, Fishery and Financial Information Center for the construction of a shared accounting system among farmers' and fishermen's associations. In the future, the Bank will coordinate the system development and construction.

(8) Address the year 2011 issue (year 100 in Taiwan's calendar system)

In response to the possible year 100 (year 2011 in Western calendar system) bug issue, the Bank has undertaken verification for the core accounting system before it was rolled out, and has arranged testing for the other systems. Except for the bonds and bills system that requires switch to a new system for the vendor is unable to solve the year 100 problem, the rest of the systems will not encounter any problem when going into year 100.

2. Medium and long-term plans

(1) Loans

To enhance profitability, the Bank will adjust its loan portfolio each year by placing more emphasis on agriculture related financing and regular loan business, continue to participate in syndicated loans, and join forces with the credit departments of farmers' and fishermen's associations to underwrite syndicated loans. We set our loan extension target at NT\$ 180 billion for 2011 and NT\$200 billion for 2012, and will increase the amount steadily every year thereafter.

(2) Investment

① Three pillars of capital structure to shore up the profit base

To ensure steady profitability, the Bank will gradually adjust the weight of loan assets and investment assets. Except for maintaining redeposits to the Central Bank at 30%, we will lower the weight of financial investment, while increasing the weight of loan business. The Bank's mid-term goal is to keep the ratios of redeposits to the Central Bank and securities investment to deposits at 30% respectively.

② Diverse profit streams to lower the earnings volatility

As the Bank mainly accepts redeposits from farmers' and fishermen's association, the level of Bank's funds could fluctuate with the economy. On the other hand, investment options available to the Bank are limited. To maintain the stability of earnings, the Bank needs to diversify its profit streams as described below:

- A. The long-term goal is to allocate the deposits according to the ratio of 40%, 30% and 20% to respectively loan business (loan-to-deposit), redeposits to the Central Bank, and securities investment along with the establishment of branches.
- B. In coordination with the establishment of an offshore banking unit, the Bank will increase the weight of foreign exchange trading and sell NTD and foreign currency products to increase revenue streams.
- C. The Bank will vie for the qualification of government bond dealers and actively boost the NTD bond business to garner more profits.

(3) Assistance to credit departments in boosting competitiveness

Under the guidance of the competent authorities and the assistance of the Bank, credit departments of farmers' and fishermen's associations have been able to reduce their NPL ratio, increase loan-to-deposit ratio and increase overall profits. Besides continuing the advisory works, the Bank will make more efforts on developing ideas to help credit departments boost their overall competitiveness so they can continue to grow and serve farmers and fishermen in today's intensely competitive environment.

(4) Implementing information sharing

The Bank has established a core accounting system and will carry on the planning of an agricultural financial information exchange platform and funds clearing mechanism. The Bank will assist the National Agricultural, Fishery and Financial Information Center in embarking on system integration so it can take over as soon as possible the operation of reserve deposits from credit departments currently being handled by the Taiwan Cooperative Bank. Through the integration of information system, the credit departments will gradually move towards business integration to bring about real integration of "money flow", "logistic flow" and "information flow" in the national agricultural finance system.

(5) Bringing in extended counter and adding business outlets to better serve farmers' and fishermen's associations

The Bank was established on the idea of mutual aid and cooperation among farmers' and fishermen's associations. But currently the Bank has only one business outlet, which not only undermines the quality of service, but also increases operating costs, and is hence adverse to the development of agricultural finance. In the present stage, the Bank together with farmers' and fishermen's associations will adopt the idea of extended counter by working with regional representative farmers' and fishermen's associations to set up more business outlets so as to improve the quality of service. In the future, the Bank will seek the approval of the competent authorities to set up branches. With more branches in place, the Bank can perform its legal duties as a superior agency more efficiently, reinforce the examination of loans above a certain amount, guide the credit departments to speed up improvement of asset quality, and effectively promote policy agricultural loans. More branch offices will also drive the business growth of the Bank, moderately expand the Bank's business scale, lower operating costs, strengthen the Bank's ability to pay interest on deposits and increase the interest rate on redeposits that will help increase the income of credit departments and promote the balanced regional development of the agricultural finance system.

VI. Financial Overview



Financial Overview

A. Condensed Balance Sheet and Income Statement (2005-2009)

Condensed Balance Sheet

Unit: in NTD thousand

Title	Year	Financial Information 2005 ~ 2009 (Note 2)				
		December 31, 2009	December 31, 2008	December 31, 2007	December 31, 2006	December 31, 2005 (Note 1)
Cash and cash equivalents, deposits with the Central Bank and call loans to banks		284,680,378	158,921,321	166,975,436	178,202,692	62,119,625
Financial assets measured at fair value through profit or loss		25,290,745	27,713,152	944,206	608,876	522,821
Bills and bonds purchased under resell agreements		-	-	-	8,300,000	11,196,146
Available-for-sale financial assets		126,481,473	41,108,103	59,183,370	45,787,633	11,974,599
Discounts and loans		111,824,062	85,825,362	42,267,185	13,455,582	3,067,748
Receivables		3,712,445	3,147,305	3,356,162	2,175,176	423,306
Held-to-maturity financial assets		52,297,516	114,072,613	157,242,273	99,759,093	22,072,363
Investments under the equity method		15,167	8,553	4,021	2,680	-
Property and equipment		67,005	68,907	80,874	70,632	66,822
Other financial assets		5,655,357	8,647,892	9,677,896	4,490,226	6,704,694
Other assets		20,533	32,358	28,009	24,615	32,191
Total assets		610,044,681	439,545,566	439,759,432	352,877,205	118,180,315
Deposits from the Central Bank and other banks		20,517	20,965	20,000	20,000	-
Deposits and remittances		557,526,671	383,355,134	392,010,677	317,089,086	95,570,533
Financial liabilities measured at fair value through profit or loss		1,929,277	1,883,480	86,800	-	-
Bills and bonds sold under repurchase agreements		25,008,336	41,053,812	25,573,918	12,446,769	-
Accrued pension liabilities		23,787	16,958	12,118	6,618	3,337
Financial bonds payable		800,000	-	-	-	-
Other financial liabilities		2,395,067	2,410,207	2,645,177	2,428,050	480,000
Other liabilities		1,042,089	703,406	848,163	602,429	2,044,257
Total liabilities	Cum-dividend	588,745,744	429,443,962	421,196,853	332,592,952	98,098,127
	Ex-dividend	-	429,443,962	421,196,853	332,612,635	98,098,127
Capital stock		20,000,000	20,111,536	20,111,536	20,000,000	20,000,000
Retained earnings	Cum-dividend	508,669	(10,727,368)	206,126	218,699	82,188
	Ex-dividend	-	(10,727,368)	206,126	87,480	82,188
Unrealized gain or loss on financial instrument		790,268	717,436	(1,755,083)	65,554	-
Total Stockholders' Equity	Cum-dividend	21,298,937	10,101,604	18,562,579	20,284,253	20,082,188
	Ex-dividend	-	10,101,604	18,562,579	20,264,570	20,082,188

Note 1: The Bank was licensed in April 2005 and commenced operation in May 2005.

Note 2: The financial data above are CPA-audited.

Condensed Income Statement

Unit: in NTD thousand

Title	Year	Financial information from 2005 to 2009 (Note 2)				
		2009	2008	2007	2006	2005 (Note 1)
Net interest income		1,765,508	518,176	816,876	345,332	143,370
Non-interest income		132,968	(9,529,465)	(165,560)	242,270	58,785
Bad debt expenses		200,000	500,000	31,400	20,000	-
Operating expenses		483,869	461,057	456,798	419,592	133,962
Earnings (loss) from continuing operations before income tax		1,214,607	(9,972,346)	163,118	148,010	68,193
Earnings (loss) from continuing operations after income tax		1,124,501	(10,008,804)	118,646	130,021	57,200
Cumulative effect of changes in accounting principles (net value after income tax)		-	-	-	6,490	-
Net income (loss)		1,124,501	(10,008,804)	118,646	136,511	57,200
Earnings per share		1.08	(4.98)	0.06	0.07	0.03

Note 1: The Bank was licensed in April 2005 and commenced operation in May 2005. In 2005, the Bank opened business from April 19 to December 31.

Note 2: The financial data above are CPA-audited.

Names and Audit Opinions of CPA in the Past Five Years

Year	Name of CPA firm	Name of CPA	Audit Opinion
2009	KPMG Taiwan	Chung Dan-Dan	Unqualified opinion
2008	KPMG Taiwan	Chung Dan-Dan	Revised unqualified opinion
2007	Solomon & Co., CPAs	Huang Yi-Rui	Revised unqualified opinion
2006	Solomon & Co., CPAs	Lu Ya-Tzer	Revised unqualified opinion
2005	Deloitte & Touche	Lee Tung-Feng	Unqualified opinion

B. Financial Analysis (2005-2009)

Financial Analysis

Analysis item (Note 4)		Financial Analysis 2005 ~ 2009				
		2009	2008	2007	2006	2005
Operating ability	Loan-to-deposit ratio (%)	20.16	22.53	10.80	4.25	3.21
	NPL ratio (%)	0.87	0.82	0.005	0	0
	Interest expenses/average annual deposit balance (%)	1.04	2.31	2.16	2.02	1.79
	Interest revenue/average annual loan balance (%)	1.57	3.23	3.18	2.73	2.26
	Total asset turnover (times)	0.003	(0.02)	0.001	0.002	0.002
	Average return per employee (in NTD thousand)	13,092.94	(63,459.78)	4,554.66	4,289.07	1,981.91
	Average profit per employee (in NTD thousand)	7,755.18	(70,484.54)	829.69	996.43	560.78
Profit ability	Return on Tier 1 Capital (%)	10.54	(80.12)	0.93	0.77	0.48
	ROA (%)	0.21	(2.28)	0.03	0.06	0.12
	ROE (%)	7.16	(69.83)	0.61	0.68	0.40
	Net profit rate (%)	59.23	(note 1)	18.22	23.23	28.30
	EPS (in NTD)	1.08	(4.98)	0.06	0.07	0.03
Financial structure	Liabilities/total assets (%)	96.51	97.70	95.78	94.25	83.01
	Fixed assets/shareholders'equity (%)	0.31	0.68	0.44	0.35	0.33
Growth rate	Asset growth rate (%)	38.79	(0.05)	24.62	198.59	-
	Profit growth rate (%)	112.18	(6,213.58)	5.58	126.56	-
Cash flow	Cash flow ratio (%) (note 2)	14.94	-	-	-	-
	Cash flow adequacy rate (note 3)	97.44	-	-	-	-
	Cash flow sufficiency rate (%)	(2.33)	1.49	1.93	0.52	0.72
Liquidity ratio (%)		61.57	35.57	56.31	74.73	83.19
Total loans guaranteed by related parties (in NTD thousand)		238,834	254,597	181,566	136,372	864
Total loans guaranteed by related parties/ total loan balance (%)		0.19	0.29	0.42	1.01	0.03
Business scale	Market share in assets (%)	1.82	1.41	1.44	1.16	0.38
	Market share in net worth (%)	1.01	0.52	0.96	1.10	1.07
	Market share in deposits (%)s	2.29	1.74	1.85	1.50	0.47
	Market share in loans (%)	0.60	0.49	0.23	0.08	0.02

1. The significant increase in average return per employee as compared to the previous year was mainly due to increase in earnings.
2. The significant increase in average profit per employee as compared to the previous year was mainly due to increase in net income.
3. The significant increase in financial ratios under profitability as compared to the previous year was mainly due to increase in net income.
4. Increase in asset growth rate as compared to the previous year was mainly to the growth in loan business and investment business.
5. Increase in profit growth rate was mainly due to increase in earnings before tax (EBT).

Note 1: The after-tax profit and net income are all negative and not analyzed.

Note 2: The cash flow from operating activities between 2005 and 2008 registered net outflow. So the ratios were negative and not counted.

Note 3: The Bank officially launched its operation in May 2005, which was less than 5 years ago, so this ratio is not applicable.

Note 4: Equations for financial analysis:

(1) Operating ability

- (a) Loans/deposits ratio = total loans/total deposits
- (b) NPL ratio = total non-performing loans/total loans
- (c) Interest expense to average annual deposit balance ratio= total interest expenses/ average annual deposit balance
- (d) Interest income to average annual loan balance ratio= total interest incomes/ average annual loan balance
- (e) Total assets turnover= earnings/total assets
- (f) Employee average return rate= earnings/total number of employees
- (g) Employee average profit rate= net income/total number of employees

(2) Profitability

- (a) Return on Tier 1 Capital = earnings before tax (EBT)/average total amount of Tier 1 capital
- (b) ROA= net income/average total asset
- (c) ROE = net income/average net shareholders equity
- (d) Profit rate = net income/return
- (e) EPS = (earnings – dividends from preferred shares)/weighed average quantity of outstanding shares

(3) Financial Structure

- (a) Liabilities to Assets ratio = total liabilities/total assets
- (b) Fixed assets to net worth ratio = net fixed assets/net shareholders'equity

(4) Growth rate:

- (a) Asset growth rate = (total assets in current year – total assets in previous year)/total assets in previous year
- (b) Profit growth rate = (EBT in current year – EBT in previous year)/EBT in previous year

(5) Cash Flows

- (a) Cash flow ratio = net cash flow from operation/(call loans from banks and overdraft + payable commercial papers + financial liabilities at fair value through profit and loss + liabilities of securities purchased under agreement to repurchase + current portion of payables)
- (b) Net cash flow suitability rate = Net cash flow from operation in the last 5 years/(capital expenditure + cash dividend) in the last 5 years.
- (c) Cash flow sufficiency rate = net cash flow from operation/net cash flow from investments

(6) Liquidity Reserve = current assets designated by The Central Bank/liabilities quoted for liquidity reserve

(7) Business Scale

- (a) Asset market share = total assets/total assets of all financial institutions available for making deposits and loans (note 2)
- (b) Net worth market share = net worth/total net worth of all financial institutions available for making deposits and loans
- (c) Deposit market share = total deposits/total deposits of all financial institutions available for making deposits and loans
- (d) Loan market share = total loans/total loans of all financial institutions available for making deposits and loans.
- (e) Financial institutions available for making loans and deposits include domestic banks, branches of foreign banks in Taipei, credit unions, credit departments of farmers' and fishermen's associations, and investment trust companies.

Adequacy of Capital

Unit: in NTD thousand

Analysis item			Year	Capital adequacy ratio from 2007 to 2009 (Note)		
			2009	2008	2007	
Equity Capital	Tier 1 Capital	Common shares	15,500,000	20,111,536	20,111,536	
		Non-cumulative perpetual preferred shares	-	-	-	
		Non-cumulative subordinate bonds with no maturity	-	-	-	
		Prepaid capital investment	-	-	-	
		Capital surplus (except from appreciation of fixed assets)	-	-	-	
		Legal reserve	-	134,938	87,479	
		Special reserve	-	71,188	-	
		Accumulated surplus	508,669	-	118,646	
		Minority shareholding	-	-	-	
		Other shareholders'equity	(127,804)	(96,055)	(1,755,099)	
		Less: good will	-	-	-	
		Less: unamortized loss from disposal of non-performing assets	-	(8,223,618)	-	
		Less: Accumulated loss	-	-	-	
		Capital deduction items	3,325,716	1,496,720	4,168,864	
		Total Tier 1 Capital	12,555,148	10,501,269	14,393,698	
	Tier 2 Capital	Cumulative perpetual preferred shares	4,500,000	-	-	
		Cumulative subordinate bonds with no maturity	-	-	-	
		Capital surplus from appreciation of fixed assets	-	-	-	
		45% of unrealized gain of financial assets available for sales	413,133	366,071	8	
		Convertible bonds	-	-	-	
		Business reserve and allowance for doubtful accounts	255,845	543,805	101,728	
		Long-term subordinate bonds	2,440,000	1,800,000	-	
		Non-perpetual preferred shares	-	-	-	
		The total of Non-cumulative perpetual preferred shares and Non-cumulative subordinate bonds with no maturity in excess of total Tier 1 capital by 15%.	-	-	-	
		Less: Accumulated loss	-	2,709,876	-	
		Capital deduction items	3,325,716	-	101,736	
		Total Tier 2 Capital	4,283,261	0	0	
		Tier 3 Capital	Short-term subordinate bonds	-	-	-
			Non-perpetual preferred shares	-	-	-
			Total Tier 3 Capital	-	-	-
		Equity Capital	16,838,409	10,501,269	14,393,698	
Total weigh average risk asset	Credit risk	Standard method	121,643,732	116,222,084	117,677,587	
		Internal rating method	-	-	-	
		Asset securitization	8,992,634	6,656,913	8,940,198	
	Operational risk	Basic Standard method	2,294,558	1,338,883	802,865	
		Standard method/ Optional standard method	-	-	-	
		Advanced Assessment method	-	-	-	
	Market risk	Standard method	14,194,193	36,174,563	34,456,152	
		Internal model method	-	-	-	
		Total risk weighed risk assets	147,125,117	160,392,443	161,876,802	
Capital adequacy ratio			11.44%	6.55%	8.89%	
Ratio of Tier 1 capital to risk assets			8.53%	6.55%	8.89%	
Ratio of Tier 2 capital to risk assets			2.91%	-	-	
Ratio of Tier 3 capital to risk assets			-	-	-	
Ratio of equity capital from common shares to total assets			2.54%	4.58%	4.57%	

Changes of capital adequacy ratio in the last 2 years and the reasons:

The Bank's capital adequacy ratio varies more significantly in the last two years mainly because the Bank has undergone capital increase in the amount of NT\$10 billion in December 2009, which significantly increase the Bank's equity capital.

Note: The equations for the calculation of capital adequacy are shown below:

- (1) Equity capital = Tier 1 capital + Tier 2 capital + Tier 3 capital
- (2) Total risk weighed risk assets = Credit risk weighed risk assets + Capital allowance of (operational risk + market risk) x 1.25
- (3) Capital adequacy ratio = equity capital /total weighed risk assets
- (4) Ratio of Tier 1 capital to Risk Assets = Tier 1 Capital/ Total weighed risk assets
- (5) Ratio of Tier 2 capital to Risk Assets = Tier 2 Capital/ Total weighed risk assets
- (6) Ratio of Tier 3 capital to Risk Assets = Tier 3 Capital/ Total weighed risk assets
- (7) Ratio of equity capital from common shares to total assets = equity capital from common shares/ total assets


C. Supervisors' Report


Supervisors' Report


We have examined the Agricultural Bank of Taiwan's 2009 (January 1, 2009 ~ December 31, 2009) financial statements (balance sheets, statements of income, statements of changes in stockholders' equity and statements of cash flows), as well as the Bank's 2009 business report and proposal for earnings distribution in the second-term third supervisors' meeting held on April 20, 2010 and second-term fourth supervisors' meeting held on May 18, 2010 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
2010 General Shareholders' Meeting


Agricultural Bank of Taiwan

Resident Supervisor: *Liu Chia-Fu*  (Authorized signature)

Supervisor: *Chang Yo-Ze*  (Authorized signature)

Supervisor: *Lin Han-Chou*  (Authorized signature)

Supervisor: *Yang Shun-Cheng*  (Authorized signature)

Supervisor: *Lei Li-Feng*  (Authorized signature)

May 18, 2010

D. Auditors' Report



安侯建業聯合會計師事務所

KPMG

台北市11049信義路5段7號68樓(台北101大樓)
68F, TAIPEI 101 TOWER, No. 7, Sec. 5,
Xinyi Road, Taipei, 11049, Taiwan, R.O.C.

Telephone 電話 +886 (2) 8101 6666
Fax 傳真 +886 (2) 8101 6667
Internet 網址 www.kpmg.com.tw

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, 2009 and 2008, 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 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, 2009 and 2008, 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" and of the "Regulation on Handling Business Entity Accounting" and accounting principles generally accepted in the Republic of China.

As described in Note 31, the Bank received a recommendation letter from the Financial Supervisory Commission which requested the Bank to reclassify a part of financial assets and recognize adjustments of prior-period losses amounted to \$924,690 thousand.



Taipei, Taiwan, R.O.C.
March 3, 2010

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.

Deputy Agent:

Manager:

松輝

(Originally Issued in Chinese)
 AGRICULTURAL BANK OF TAIWAN, LTD.
 TAIPEI, TAIWAN

2009 AND 2008
 (in thousands of New Taiwan Dollars)

LIABILITIES AND STOCKHOLDERS' EQUITY	December 31, 2009	December 31, 2008	Variance %
	Amount	Amount	
Liabilities			
Deposits from the Central Bank and other banks	\$ 20,517	20,965	(2)
Financial liabilities measured at fair value through profit or loss	1,929,277	1,883,480	2
Bills and bonds sold under repurchase agreements (Notes (2) and (15))	25,008,336	41,053,812	(39)
Payables (Note (16))	742,222	618,869	20
Deposits and remittances (Note (17))	557,526,671	383,355,134	45
Financial bonds payable (Note (18))	800,000	-	-
Accrued pension liabilities (Notes (2) and (20))	23,787	16,958	40
Other financial liabilities (Note (19))	2,395,067	2,410,207	(1)
Other liabilities	299,867	84,537	255
Total Liabilities	588,745,744	429,443,962	37
Stockholders' Equity			
Capital stock (Note (22))			
Common stock	15,500,000	20,111,536	(23)
Preferred stock	4,500,000	-	-
Retained earnings			
Legal reserve	-	134,938	(100)
Special reserve	-	71,188	(100)
Undistributed earnings (accumulated deficits) (Note (22))	508,669	(10,933,494)	105
Other			
Unrealized gain and loss on financial assets	790,268	717,436	10
Total Stockholders' Equity	21,298,937	10,101,604	111
Significant Commitments and Contingencies			
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 610,044,681	439,545,566	39

Lead Accountant:



(English Translation of Financial Report Originally Issued in Chinese)

AGRICULTURAL BANK OF TAIWAN, LTD.

STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

(Amounts Expressed in Thousands of New Taiwan Dollars, Except for Share Data)

	2009		2008		Variance
	Amount		Amount		%
Interest revenue	\$	6,989,192		9,929,645	(30)
Less: Interest expense (Note (2))		5,223,684		9,411,469	(44)
Net interest income		1,765,508		518,176	241
Non-interest income , net					
Commissions and handling fee, net (Note (2))		105,885		85,572	24
Gain or loss from financial assets or liabilities measured at fair value through profit or loss		218,802		(4,788,544)	105
Realized gains (losses) on available-for-sale financial assets		910,524		(644,413)	241
Realized losses on held-to-maturity financial assets		(42,886)		(893)	(4,702)
Investment income recognized under the equity method (Notes (2) and (11))		6,614		4,532	46
Foreign exchange gains (losses)		(475,235)		217,990	(318)
Loss on impairment (Note (2))		(495,000)		(5,145,386)	90
Others, net		(95,736)		741,677	(113)
Sub-total		132,968		(9,529,465)	101
Net revenue (expense)		1,898,476		(9,011,289)	121
Bad debt expenses (Notes (2) and (8))		200,000		500,000	(60)
Operating expenses					
Personnel expenses		234,795		216,828	8
Depreciation and amortization expenses		15,479		15,794	(2)
Other selling and administrative expenses		233,595		228,435	2
Total operating expenses		483,869		461,057	5
Earnings (loss) from continuing operations before income tax		1,214,607		(9,972,346)	112
Income tax expense (Notes (2) and (21))		90,106		36,458	147
Net income (loss)	\$	1,124,501		(10,008,804)	111
	Before tax	After tax	Before tax	After tax	
Basic earnings (deficit) per share (in dollars) (Notes (2) and (23))	\$ 1.16	1.08	(4.96)	(4.98)	
Basic deficit per share (in dollars) - retroactively adjusted (Notes (2) and (23))	\$ -	-	(9.97)	(10.01)	
Dilutive earnings per share (in dollars) (Notes (2) and (23))	\$ 1.14	1.05	-	-	

Deputy Agent:



Manager:



Lead Accountant:



(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, 2009 AND 2008

(Amounts Expressed in Thousands of New Taiwan Dollars)

	Capital Stock		Retained Earnings			Unrealized gain and loss on financial assets	Total
	Common stock	Preferred stock	Legal reserve	Special reserve	Undistributed earnings		
Balance - January 1, 2008	\$20,111,536	-	87,480	-	118,646	(1,755,083)	18,562,579
Adjustment of prior-period gains and losses (Note (31))	-	-	-	-	(924,690)	-	(924,690)
Balance after adjustment - January 1, 2008	20,111,536	-	87,480	-	(806,044)	(1,755,083)	17,637,889
Legal reserve	-	-	47,458	-	(47,458)	-	-
Special reserve	-	-	-	71,188	(71,188)	-	-
Net loss for the year ended December 31, 2008	-	-	-	-	(10,008,804)	-	(10,008,804)
Unrealized gains and losses on financial assets	-	-	-	-	-	2,472,519	2,472,519
Balance - December 31, 2008	20,111,536	-	134,938	71,188	(10,933,494)	717,436	10,101,604
Offset of capital surplus against accumulated deficit	(10,111,536)	-	(134,938)	-	10,246,474	-	-
Reversal of special reserve	-	-	-	(71,188)	71,188	-	-
Capital increase in cash	5,500,000	4,500,000	-	-	-	-	10,000,000
Net income for the year ended December 31, 2009	-	-	-	-	1,124,501	-	1,124,501
Unrealized gains and losses on financial assets	-	-	-	-	-	72,832	72,832
Balance - December 31, 2009	\$15,500,000	4,500,000	-	-	508,669	790,268	21,298,937

Deputy Agent:



Manager:



Lead Accountant:



(English Translation of Financial Report Originally Issued in Chinese)

AGRICULTURAL BANK OF TAIWAN, LTD.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

(Amounts Expressed in Thousands of New Taiwan Dollars)

	2009	2008
Cash flows from operating activities:		
Net income (loss)	\$ 1,124,501	(10,008,804)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Realized (gains) losses on available-for-sale financial assets	(866,176)	649,457
Realized losses on held-to-maturity financial assets	42,886	893
Gain on disposal of debt instruments with no active market	(26,596)	(732,512)
Provision for impairment loss	495,000	5,145,386
Depreciation and amortization	19,954	20,273
Losses on scrapping of property, plant, and equipment	-	33
Other revenues	-	(4,512)
Gain on investment under the equity method	(6,614)	(4,532)
Bad debt expenses	200,000	500,000
Provision for various reserves	122,473	13,680
Reversal of various reserves	-	(1,645)
Amortization of bond discounts and premiums	988,807	(431,018)
Amortization of unrealized (gains) losses on financial assets	9,854	(3,329)
Change in assets and liabilities		
Change in financial assets and liabilities measured at fair value through profit or loss	2,468,204	4,327,944
(Increase) decrease in receivables	(565,140)	208,857
Increase (decrease) in payables	123,353	(146,972)
Increase in other financial assets	(3,238)	(216)
Increase in accrued pension liabilities	6,829	4,840
Net cash provided by (used in) operating activities	4,134,097	(462,177)
Cash flows from investing activities:		
Proceeds received from available-for-sale financial assets	5,143,588	5,480,525
Proceeds received from held-to-maturity financial assets	71,223,226	21,163,615
Proceeds received from debt instruments with no active market	1,207,678	840,979
Increase in deposits with the Central Bank and call loans to banks	(129,754,391)	(16,891,943)
Increase in discounts and loans	(26,198,700)	(44,058,177)
Purchase of available-for-sale financial assets	(153,854,569)	(14,813,135)
Proceeds from disposal of available-for-sale financial assets	63,104,313	29,426,002
Purchase of held-to-maturity financial assets	(9,348,409)	(1,000,000)
Proceeds from disposal of held-to-maturity financial assets	-	3,106,482
Purchase of debt instruments with no active market	-	(16,734,923)
Proceeds from debt instruments with no active market	1,350,730	2,424,344
Increase in refundable deposits	(5,091)	(4,129)
Purchase of property and equipment	(533)	(6,178)
Increase in intangible assets	(666)	(775)
(Increase) decrease in other assets	63	(1,606)
Net cash used in investing activities	(177,132,761)	(31,068,919)

(English Translation of Financial Report Originally Issued in Chinese)

AGRICULTURAL BANK OF TAIWAN, LTD.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

(Amounts Expressed in Thousands of New Taiwan Dollars)

	2009	2008
Cash flows from financing activities:		
Increase (decrease) in deposits from the Central Bank and other banks	(448)	965
Increase (decrease) in bills and bonds sold under repurchase agreements	(16,045,476)	15,479,894
Increase (decrease) in deposits and remittances	174,171,537	(8,655,543)
Issuance of financial bonds payable	800,000	-
Decrease in other financial liabilities	(15,140)	(234,970)
Increase (decrease) in other liabilities	92,857	(5,308)
Cash capital increase	10,000,000	-
Net cash provided by financing activities	169,003,330	6,585,038
Net decrease in cash and cash equivalents	(3,995,334)	(24,946,058)
Cash and cash equivalents, beginning of year	9,036,534	33,982,592
Cash and cash equivalents, end of year	\$ 5,041,200	9,036,534
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	\$ 5,335,196	9,522,125
Income taxes	\$ 82,021	35,324

Deputy Agent:



Manager:



Lead Accountant:



VII. Risk Management



Risk Management

A. Credit Risk Management

1. Credit Risk Management System

2009

Title	Content
Credit risk strategy, objective, policy, and process	For the sake of managing credit risk, the Bank has credit risk management rules in place to effectively identify, measure, monitor and control credit risk; for the sake of enhancing the quality of loan portfolio, and ensuring the safety of loan assets, the Bank has established a credit policy as the general guideline for processing loans. The Bank also regulates the credit limits granted to the same individual, same related party, same affiliate or group enterprise, financial holding company and borrowers in the same industry for the effective control of risk through reducing the credit risk arising from overconcentration in a particular counterparty. In loan processing management, the Bank uses the financial statements of prospective borrower as well as credit information and credit rating provided by Joint Credit Information Center and the clearinghouse in credit check and appraisal of collateral. The Bank also emphasizes onsite audit to have a firm grasp on the financial position and debt-paying ability of the borrowers and the fair value of collateral furnished.
Organization and structure of credit risk management	The Bank incorporates the Risk Management Committee, Loan Review Committee, and Loan Review Team and Department of Risk Management into its organizational structure of credit risk management. 1. The Risk Management Committee comprises the president, vice president, chief auditor, and the heads of Finance, Business Development and Risk Management, where the president acts as the convener. If deemed necessary, the Committee may invite scholars, experts, the heads of other departments and compliance officers to be present in the meetings. The Department is responsible for reviewing the credit risk management policy, risk management rules and other material risk management matters. 2. Loan Review Committee and Loan Review Team: The Bank's Department of Operations has a loan review team set up as the staffer for different levels of authorized management. The Bank's head office has a Loan Review Committee and a Loan Review Team set up. The Loan Review Team is the staffer for the president and the board of directors to review loan application cases that require the approval of vice president or higher to strengthen the function of loan review. 3. The Department of Risk Management monitors credit risk and the production and submission for approval of risk related reports to serve the function of consolidated risk management.
The scope and features of credit risk reporting and assessment system	Aside from risk management statistical reports required by the competent authorities, the Bank periodically compiles information on credit risk position, use of credit line, distribution of credit ratings, and borrowers by industry, and submits such reports to senior management as well as Risk Management Committee and the board of directors.
Credit risk hedging or risk mitigation policy, and the strategy and process for assuring the continuous effectiveness of hedging and risk mitigation instruments	The Bank regulates the credit limits granted to the same individual, same related party, same affiliate or group enterprise, financial holding company and borrowers in the same industry to reduce credit risk. The Bank uses collaterals, guaranty by credit guaranty institutions, net value settlement, and derivative products as instruments for risk mitigation and continues the control of limits, post-approval management, collateral management, and asset quality management as the means for assuring the effectiveness of the risk mitigation instruments.
Method for charging regulatory capital	The Bank adopts the standardized approach to credit risk for calculating credit risk capital charges.

2. Exposure after risk reduction under the standardized approach and capital requirement

December 31, 2009

Unit: in NTD thousand

Type of exposure	Exposure after risk reduction	Capital requirement
Sovereign	368,593,104	-
Public sector beyond the central government	30,042,855	480,686
Banks (including multilateral development banks)	47,597,854	1,790,771
Corporate (including securities and insurance companies)	99,893,972	6,666,001
Retail	3,795,455	287,297
Residential mortgage	387,654	14,095
Equity	907,338	217,761
Others	4,440,059	274,887
Total	555,658,291	9,731,498

B. Asset Securitization Risk Management

1. Asset securitization risk management system

2009

Title	Content
Asset securitization strategy, objective, policy, and process	The management strategies and processes employed by the Bank with respect to the holding of securitization products issued by other financial institutions are formulated from the perspectives of risk identification, risk confirmation, risk assessment and risk control. For securitization products, we identify the product structure and risk factors before making an investment, and in view of the product characteristics, report to the Investment Review Committee for decision, and carry out periodic valuation and follow-up of asset pool after making the investment. The Department of Risk Management keeps track and discloses any change in the credit rating of securitization position to ensure proper risk control, and will promptly report to the senior management and take necessary actions if any abnormality is discovered.
Organization and structure of Asset securitization management	<ol style="list-style-type: none"> 1. The Investment Review Committee comprises the Bank's president, vice president and the heads of Risk Management, Accounting and Finance, with the president acting as the convener. The Committee is responsible for reviewing the Bank's investment in beneficiary securities, asset-backed securities, foreign currency assets, convertible bond asset swap, credit-linked notes, and structured products that combine basic contract with CLN or other financial products, and other major securities investments to strengthen the Bank's business operations. 2. The Risk Management Committee is responsible for reviewing risk management policy associated with the exposures to asset securitization and related risk management rules. 3. The Department of Finance conducts monthly valuation of the Bank's securitization positions to grasp the fair market values of securitization products and the extent of price volatility. 4. The Department of Risk Management submits related risk reports to senior management for perusal, and in case of abnormality, promptly reports the situation to senior management and takes necessary actions.
The scope and features of asset securitization reporting and assessment system	Department of Risk Management compiles statistics on risk management for disclosure of the changes in credit ratings of securitization products the Bank has invested and the percentage of securitization exposure to total exposure at regular intervals. The department also singles out and keeps track on asset securitization products which credit ratings may possibly be downgraded.
Asset securitization risk hedging or risk mitigation policy, and the strategy and process for assuring the continuous effectiveness of hedging and risk mitigation instruments	asset securitization products and keep track on the changes on the credit rating of the products to reduce risk in investment in asset securitization products.
Method for charging regulatory capital	The Bank adopts the standardized approach for calculating asset securitization capital charges.

2. Status of asset securitization: none

3. Exposures to asset securitization and capital charge

December 31, 2009

Unit: in NTD thousand

Type of exposure	Non-originator bank		Originator bank					
	Exposures to purchased or held securitization products	Capital charge	Exposure limit				Asset-backed commercial papers	Capital requirement before securitization
			Non asset-backed commercial papers					
			Traditional		Synthetic			
			With position	Without position	With position	Without position		
20%	1,894,820	378,964	-	-	-	-	-	-
50%	3,009,229	1,504,615	-	-	-	-	-	-
100%	7,109,055	7,109,055	-	-	-	-	-	-
Capital deduction items	6,066,319	-	-	-	-	-	-	-
Total	18,079,424	8,992,634	-	-	-	-	-	-

C. Operational Risk Management

1. Operational Risk Management System

2009

Title	Content
Operational risk strategy, objective, policy, and process	The Bank has established and implements a viable operational risk management system to manage operational risk, and has operational risk management rules in place to achieve the objective of operation management. To enhance awareness to risk throughout the Bank, the Bank carries out risk analysis and process inspection to uncover potential risks in the operational activities and take countermeasures so as to maintain operational security, improve the business operations and reduce the loss from operational risk.
Organization and structure of operational risk management	<p>The Department of Risk Management is responsible for the review of the internal rules for the regulation of operational risk, the study and design of risk indicators and method of assessment and related amendment, the monitoring of operational risk, compilation of data and reports on risks, report and study issues pertinent to Basel II Accord, and planning of the coordination and integration of risk related works. The Bank has built an operational risk incident reporting mechanism and loss event database and reports information to the Operational Risk and Loss Event Database of Joint Credit Information Center (JCIC) to improve the quantification and management of operational risk.</p> <p>The business management units of the Bank draw up and revise operational rules and measures in consideration of the nature of business, internal control and risk management in compliance with applicable regulations set forth by the competent authorities and oversee that all business units carry out necessary risk control.</p> <p>The Department of Auditing under the Board of Directors conducts audit in the spirit of independence and audits operations presenting operational risk at least once a year and provided timely recommendation for improvement.</p>
The scope and features of operational risk reporting and assessment system	The Department of Risk Management monitors the status of operational risk control and report related issues on a regular basis. The Department of Auditing also conducts general audit and special audit of the operations, finance and information technology departments at least once a year, and will increase the frequency of audits as dictated by the situation. Independent certified public accountants will conduct audit of the internal control system and the status of enforcement once a year. The Departments of Operations, Finance and Information Technology will conduct "general self-audit" at least once every half a year and "special self-audit" at least once monthly.
Operational risk hedging or risk mitigation policy, and the strategy and process for assuring the continuous effectiveness of hedging and risk mitigation instruments	To reduce operational risk, the Bank carries out risk transfer or offset through well-formulated operational rules, rigorous internal control and internal and external audits, and draws up improvement and/or response measures based on the audit reports. The Bank also cautiously selects insurance coverage and appoints contractors to transfer or adjust, and enhance the management of operational risk for optimal efficiency.
Method for charging regulatory capital	The Bank adopts the basic indicator approach for calculating operational risk capital charges.

2. Operational Risk Capital Charge

December 31, 2009

Unit: in NTD thousand

Year	Gross profit	Capital requirement
2009	1,621,575	183,565
2008	(8,066,718)	
2007	825,953	
Total	2,447,528	

D. Market Risk Management

1. Asset securitization risk management system

2009

Title	Content
Market risk management strategy, and process	For the sake of managing market risk, improving business operations and effectively achieve the operational and management goals, the Bank has market risk management rules in place to effectively identify, measure, monitor and control market risk, and achieve a balance between risk tolerance level and expected rate of return. In managing the market risk of investment positions, the Bank takes cautious measures in confirming the details and adopts the division of labor in decision-making along the corporate hierarchy through empowerment before investment, and keeps track on the development of the assets after investment. The Bank also draws up rules for investment approval authority and stop loss, conducts periodic evaluation and compiles management reports to effectively control market risks. In risk management process, the Department of Finance and the Department of Risk Management jointly review the risk factors inherent to relevant financial instruments, confirm the return and risk thereof, and report to the Investment Review Committee for any financial instrument that is traded the first time before investment to rigorously control the quality of investment and associated risk factors. After the investment, the two functions will conduct routine evaluation of the portfolio and compile relevant statistical reports on the features and income status of the financial instruments in holding every month to disclose the exposures of relevant positions and submit the reports to senior management.
Organization and structure of market risk management	<ol style="list-style-type: none"> 1. The Assets and Liabilities Management Committee comprises the president, vice president, and the heads of Finance, Business Development and Risk Management, with the president acting as its convener. The Committee is responsible for reviewing the Bank's business strategies for deposits and loans, foreign exchange and capital market businesses, interest rate sensitivity ratios and the structure of major assets and liabilities by time to maturity, and other important policies to improve the Bank's business operations. 2. The Investment Review Committee comprises the Bank's president, vice president and the heads of Risk Management, Accounting and Finance, with the president acting as the convener. The Committee is responsible for reviewing the Bank's investment in beneficiary securities, asset-backed securities, foreign currency assets, convertible bond asset swap, credit-linked notes, and structured products that combine basic contract with CLN or other financial products, and other major securities investments to strengthen the Bank's business operations. 3. The Risk Management Committee is responsible for reviewing market risk management policy and related risk management rules. 4. The Department of Finance conducts daily valuation of the Bank's investment positions to grasp the accurate market values of investment products and the extent of price volatility. 5. The Department of Risk Management independent of the trading departments submits related risk reports to senior management for perusal, and reports to the Risk Management Committee and the board of directors on a regular basis.
The scope and features of market risk reporting and assessment system	The Department of Risk Management monitors and reviews the reports and statements on risk management containing information on the position of the securities held by the Bank in the market and inherent risk, stop/loss mechanism, the liquidity position, analysis of the maturities of the securities, and the limits of investment by industry for enhancing market risk management and the full control of risks inherent to all securities invested by the Bank. The Department of Finance submits evaluation reports on the Bank's trading position and position on derivatives to the senior management on a daily or regular basis.
Market risk hedging or risk mitigation policy, and the strategy and process for assuring the continuous effectiveness of hedging and risk mitigation instruments	Currently the hedge trading the Bank engages in is for hedging the risk of foreign currency assets and securities investments associated with fluctuation of exchange rate and interest rate, and the hedge instruments used are primarily swap contracts. For tracking the changes in the profit position of such instruments, the Bank conducts evaluation on the derivative trade for hedging at least twice a month based on their market value and reports the evaluation result to the senior management. The Bank has established internal rules for the regulation of securities investment and reasonable stop/loss mechanism. At the same time, the Bank steps up the decision-making for investment in domestic securities and makes appropriate adjustment on the investment portfolios to reduce the risk in investing in domestic securities. To better manage interest rate risk, the Bank conducts routine analysis on the gap position and ratios of interest rate sensitive assets (including deposits, loans, short-term investments, and borrowings) to reduce interest rate risk.
Method for charging regulatory capital	The Bank adopts the standardized approach for calculating market risk capital charges.

2. Market Risk Capital Charge

December 31, 2009

Unit: in NTD thousand

Type of risk	Capital requirement
Interest rate	1,071,976
Equity	59,138
Exchange rate	0
Product	0
Options accounted for by simplified approach	4,421
Total	1,135,535

E. Liquidity Risk Management

1. Analysis of the maturity structure of NTD assets

December 31, 2009

Unit: in NTD thousand

	Total	Amount in days to maturity				
		1~30days	31~90days	91~180days	181days~1 year	Over 1 year
Main stream of capital inflow at maturity	\$ 611,424,322	82,400,304	79,036,026	62,392,662	115,865,357	271,729,973
Main stream of capital outflow at maturity	709,697,103	62,532,698	168,933,754	165,757,935	277,664,144	34,808,572
Maturity Gap	(98,272,781)	19,867,606	(89,897,728)	(103,365,273)	(161,798,787)	236,921,401

2. Analysis of the maturity structure of USD assets: none



Agricultural Bank of Taiwan



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Agricultural Bank of Taiwan

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