

- * The only specialized agricultural bank in Taiwan granted a license by the ROC government, ABT is outlining a vision for the future prosperous development of agriculture in Taiwan.
- * Assisting the government in taking care of all the nation's farmers and fishermen.
- * Providing guidance to raise the operational efficiency of the credit departments of the farmers' and fishermen's associations.
- * Painting a stable outline for agricultural finance.
- * The new agricultural finance team- the Agricultural Bank of Taiwan, and the credit departments of Taiwan's farmers' and fishermen's associations are together creating a new national vision for agricultural finance.

Agricultural Bank of Taiwan

Professional and innovative development, Trust and secure operations, Harmonious and mutually trustworthy coexistence and co-prosperity, A dedicative and pragmatic service concept



Agricultural Bank of Taiwan

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Independent Auditor for 2008 Financial Statements

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中華民國九十七年度年報

2008

Annual Report

全國農業金庫

Agricultural Bank of Taiwan



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Message to Shareholders



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I. Message to Shareholders

Year 2008 marked a year of full-blown financial crisis that swept around the world. Triggered by the U.S. subprime debacle, the crisis soon led to a cascade of events, including accelerated deleveraging on the financial market, credit freeze, bubbling of real estate market, and tumbling stock prices that shrank the values of assets and rapidly ripped to the global supply chains. Under a chain reaction brought about by the mutual dependence in trade and economy between countries and the linkage between industries, the global financial system was ravaged. Soon after the Lehman Brothers filed for bankruptcy protection in mid-September and the news that AIG faced liquidity crisis broke out, many large European and American banks were also reported to be in financial crisis and the credit crunch worsened. The stock markets around the world faltered and most of the emerging markets were not spared. Countries like Iceland, Argentina, Korea, Brazil and Russia suffered precipitous drop in both stock and foreign exchange markets. A full-blown global financial crisis was in sight. Our domestic economy could not escape the impact of the financial tsunami and tumbling stock markets on the international scenes. People's wealth shrank, consumer confidence fell, and industrial forecast turned pessimistic amidst global economic freeze. As private investment continued to stay on the sideline and the downturn of advanced economies spread swiftly to emerging markets, our foreign trade momentum turned weak. According to the figures published by the Directorate General of Budget, Accounting and Statistics (DGBAS), Executive Yuan, our annual economic growth for 2008 was 0.12%.

Looking into 2009, both the International Monetary Fund (IMF) and Global Insight have sharply revised down their global economic growth projections. The forecast is that all advanced economies would see negative growth and the majority of them would be on the brink of recession, while emerging and developing economies would be affected and experience significantly slow growth. To stabilize the financial market and to avoid systemic crisis amid global economic freeze, central banks around the world dropped interest rates in the hope to stimulate the languishing consumer spending and private investment. Governments around the world also introduce stimulus packages and adopt expansionary fiscal policy in the efforts to curb the spread of financial crisis. To boost the economy, our government has also identified three policy directions, namely "stimulate consumer spending", "revitalize investment and step up infrastructure construction", and "stabilize financial market and promote exports", and formulated ten concrete measures - care for the disadvantaged groups, encourage consumer spending, promote employment, offer low-interest mortgage loans, step up public construction, encourage private investment, stabilize financial and stock markets, increase financing to SMEs, expand export trade, and promote tax reform. Those measures are expected to produce modest expansion effect and help lift the economy. According to DGBAS forecast, our 2009 economic growth will be -2.97%.



Mr. S.L. Liu (Chairman)

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 redeposits accepted by the Bank has created significant burden on the bank operation. In addition, as the structured notes invested by the Bank were invariably downgraded amid the financial tsunami and global credit crunch that cause their market values to drop, the Bank sustained huge loss on financial assets. However believing that opportunity is always present in the time of crisis, we subsequently adjusted our business strategies, embarked on all kinds of measures, strengthened the asset and liability management, and enhanced the efficiency of fund utilization. In consideration of the Bank's long-term development and to optimize our functions as a superior agency to the credit departments of farmers' and fishermen's associations, we plan to undergo capital decrease of NT\$10,111,536,000 and then capital increase of NT\$10,000,000,000 in 2009 to shore up our capital structure and increase our capital adequacy ratio. In our lending business, we will target primarily government agencies and state-run enterprises representing lower risk weighting and give priority to policy-based agricultural loans, financing major government projects, syndicated loans, and financing medium and large-sized enterprises. We will beef up the pre-lending review and post-lending management to gain a firm grasp on the quality of our assets. With respect to our investment operation, we will fortify internal management, 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 engage mainly in interest rate swap with a spread lock to pursue steady development. 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 relationship management in the efforts to achieve the statutory assignments of the Bank. We look forward to your continuing encouragement and support for the sustained operation of the Bank.



Mr. S.H. Su (President)

A. Business Report 2008

1. Operating Results

(1) Deposits

As of December 31, 2008, we had deposit balance amounting to NT\$383,355,134,000, a decrease of NT\$8,655,543,000 or 2.21% from the same period of 2007. Redeposits from farmers' and fishermen's associations totaled NT\$376,286,912,000, accounting for 98.16% of total deposits, and current account deposits totaled NT\$2,864,344,000 or 0.75% of the total deposits.

(2) Loans

a. As of December 31, 2008, we had loan balance amounting to NT\$ 86,376,762,000, an increase of NT\$44,058,177,000 or 104.11% from the same period of 2007. Agricultural loans totaled NT\$10,135,683,000, accounting for 11.73% of total loans, and general loans totaled NT\$76,241,079,000, accounting for 88.27% 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\$ 12,951,200,000 to county and city governments and general borrowers. There are 111 farmers' and fishermen's associations participating in the consortium that contributed in total NT\$12,113,490,000 (93.53%) to the syndicated loans. The Bank supplied NT\$837,710,000 for the loans (6.47%).

2. Budget execution and operating performance:

(1) Budget Execution

The Bank recorded loss before tax in the amount of NT\$9,972,346,000 in 2008, or an attainment rate of -5,540.19% based on the approved budget target of NT\$180,000,000.

(2) Operating Performance

The Bank's CPA-audited net loss in 2008 amounted to NT\$9,011,289,000, of which, net interest income accounted for NT\$518,176,000 and net non-interest loss amounted to NT\$9,529,465,000.

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

(1) Improving the asset quality of the credit departments of farmers' and fishermen's associations.

December 31, 2008 Unit: in NTD thousand

Title	Year	2008	2007	Change	
				Amount	Percentage
Total deposits		1,366,385,646	1,357,260,764	9,124,882	0.67%
Total loans		736,938,912	721,754,373	15,184,539	2.10%
Loan/Deposit ratio		51.02%	50.26%	-	0.76%
Amount of NPL		38,006,467	45,137,628	-7,131,161	-15.80%
NPL ratio		5.16%	6.25%	-	-1.09%
Capital adequacy ratio		12.41%	11.70%	-	0.71%
Net Income		3,815,085	4,535,732	-720,647	-15.89%
Number of credit departments with NPL ratio higher than 15%		36	43	-7	-16.28%

(2) General and project guidance: In 2008, the Bank provided general guidance 3,322 times and project guidance 5,153 times, totaling 6,474 times. In addition, the Bank attended 834 business meetings held by the credit departments of farmers' and fishermen's associations, 236 liaison meetings with other agencies, and provided guidance to farmers, fishermen and farming enterprises 24 times.

- (3) Assistance to the credit departments of farmers' and fishermen's associations in making policy-based loans: In 2008, special loans under the agricultural policy of the Agricultural Development Fund were budgeted at NT\$40,000,000,000. The actual amount of loans extended under this category for the whole year amounted to NT\$37,309,170,000, or at the execution rate of 93.27%.
- (4) Business and financial audit and performance evaluation: The Bank has conducted 235 business audits and 146 financial audits on credit departments. Per the instruction of competent authority, the Bank has also conducted an audit on liquidity assets of the credit department of Taiwan Province Farmers' Association once, and completed 286 evaluation reports on the 2007 performance evaluation of the credit departments.
- (5) Guiding the farmers' associations in re-establishing credit departments: In 2008, the Bank provided guidance to Hsiao Gang Chu, Puyen Hsiang, and Nan Hua Hsiang Farmers' Associations in the establishment and opening of credit departments. The Bank also guided the newly established credit departments of Taiwan Province Farmers' Association, Hsing Feng Farmers' Association, Ta Shu Hsiang Farmers' Association, Fu Hsing Hsiang Farmers' Association, Che Cheng District Farmers Association, Lin Nei Hsiang Farmers' Association, Pingtung Farmers' Association, and Kaohsiung Hsiao Gang Chu Farmers' Association, a total of 8, to join the deposit insurance.
- (6) Other assistance rendered:
 - a. The credit department of a farmers' association had a run on it. The Bank sent staffs to help the credit department formulate response actions and fund transfer and allocation plan, maintain order onsite and communicate with the media. The incident subsided in the next two days.
 - b. In 2008, the Bank held a conference on "2008 Domestic and International Economic Prospects" and 57 sessions of business seminar for the employees of credit departments, in which 3,989 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 2009 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 best operating performance to serve the shareholders.

2. Projected business targets for 2009 (year-end balance)

Deposits: NT\$ 362,220,000,000 (at annual average business volume of NT\$362,584,000,000)

Loans: NT\$ 97,000,000,000 (at annual average business volume of NT\$84,417,000,000)

Income before tax: NT\$10,000,000

3. Development strategy

(1) Strengthening internal control and risk management systems

The Bank will avoid over-concentration of investment portfolio in terms of product or class of product and associated risk, strengthen the identification of risk factors and assessment capability, elevate the level of authority for investment approval, and enhance employees' knowledge of applicable laws and regulations to ensure implementation of internal controls and regulatory compliance.

(2) Accelerating the adjustment of asset structure

The Bank will gradually adjust its asset allocation. Aside from maintaining redeposits with the Central Bank at 30% of assets, the Bank will take measured steps to expand the lending business (with target set at 40% of assets) to reduce the weight of financial investments so as to avoid the risk of over-concentration, diversify profit streams, and reduce the impact of individual market volatility on corporate profits.

(3) Providing new financial products and services

In support of the government’s consumption coupon issuing plan, the Bank has signed a consumption coupon acceptance agreement with the Bank of Taiwan and enlisted the service of farmers’ and fishermen’s associations for the acceptance operation. Between January 19, 2009 and end of April 2009, the farmers’ and fishermen’s associations and the Bank recorded NT\$21,810,000 of service fees income, which is expected to growth as more consumption coupons are cashed out. The Bank has constructed its own account management system, and is currently planning an agricultural financial information exchange platform and funds clearing mechanism. The Bank expects to roll out the fee collection service by the end of 2009 to collect on behalf of others credit card payment, telephone bills, National Annuity Insurance premium, etc.

(4) Optimizing the functions of a superior agency

Based on the idea of extended counter, the Bank plans to work with regional representative farmers’ and fishermen’s associations, asking them to perform collection and payment, and bills clearing services so as to improve the quality of service. The Bank also plans to systemically foster seed instructors for agricultural finance business and collaborate with the National Training Institute for Farmers’ Organization to enhance the professional know-how of agricultural finance service personnel so as to optimize the functions of a superior agency.

(5) Improving capital structure

The Bank posts huge losses on financial investments amid the financial tsunami and plans to decrease the capital by NT\$10,111,536,000 to make up operating loss. The Bank will then undergo cash capital increase of NT\$10 billion by issuing 600,000,000 common shares (to raise NT\$6 billion) and 400,000,000 shares of cumulative 5-year preferred stock (to raise NT\$4 billion). The dividend paid on the preferred shares will be the one-year variable interest rate for time deposit quoted by Postal Remittance & Savings Bank plus 1.25% (currently at 2.3%). The Bank will notify all shareholders about the issue of new shares and ask them to subscribe by their original shareholding, and will contact specific parties if any original shareholder forfeits his subscription rights.

C. Credit Rating

Date of rating	Credit rating agency	Long-term rating	Short-term rating	Prospect
April 29, 2009	Taiwan Ratings Services	twAA+	twA-1+	Stable



Mr. K.F. Chu (Vice President)

Mr. C.N. Shen (Vice President)

Company Profile



II. 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 1,150 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 eight major 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.



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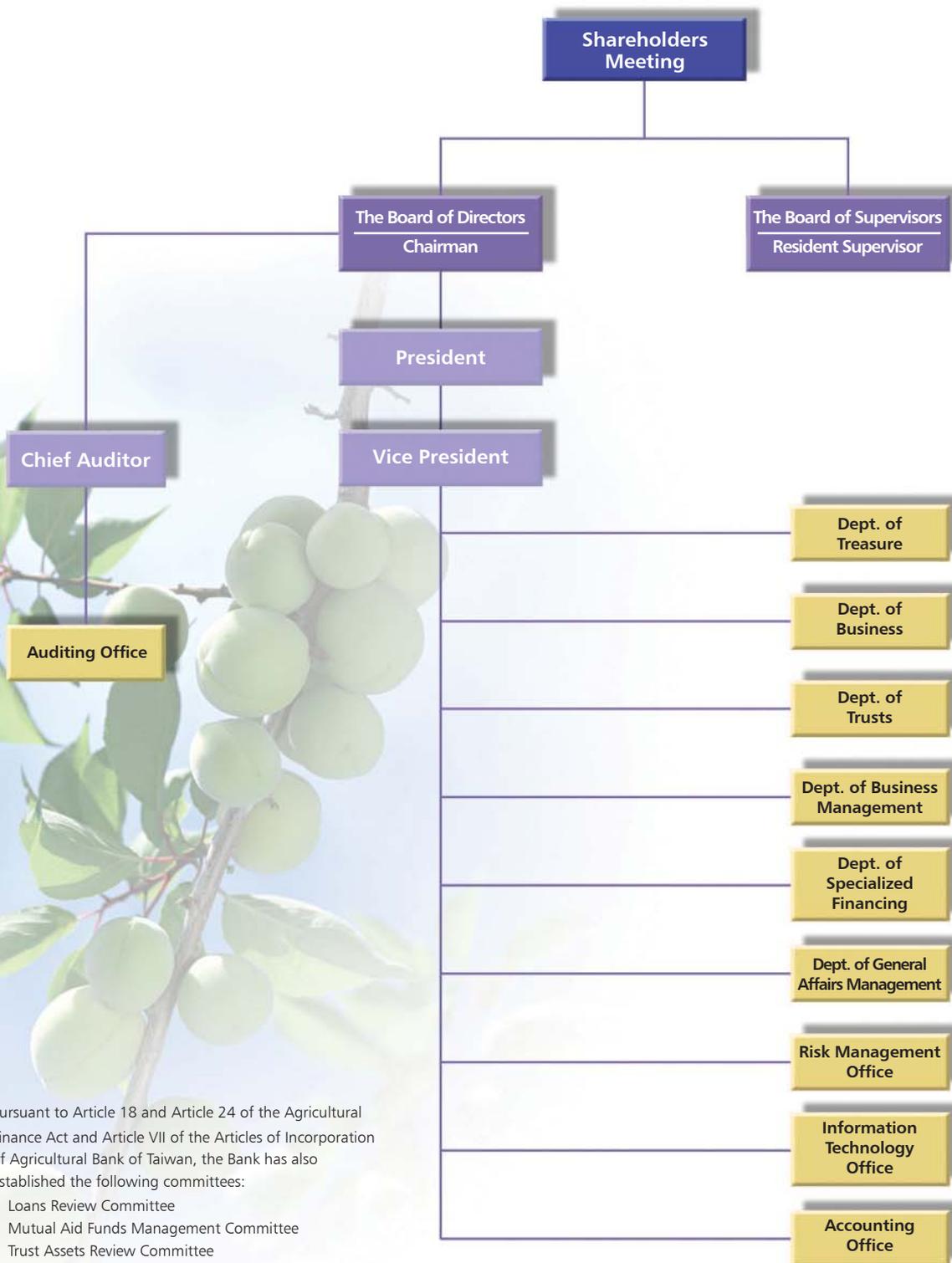
Mr. R.J. Woo (Executive Director)	Mr. S.L. Liu (Chairman)
Mr. Z.M. Xu (Executive Director)	Ms. H.H. Wang (Executive Director)
Mr. S.H. Su (President)	Mr. J.H. Lin (Consultant)
Mr. P.H. Shih (Resident Supervisor)	Mr. M.F. Chen (Executive Director)

In the back row from left

Mr. Y.L. Ho (Director)	Ms. Y.Y. Dai (Director)	Mr. C.T. Chen (Supervisor)
Mr. C.T. Yu (Director)	Ms. L.J. Wang (Director)	Mr. W.Y. Ting (Director)
Mr. S.C. Yang (Supervisor)	Mr. T.C. Hwang (Supervisor)	Mr. Y.T. Chang (Director)
Ms. Y.W. Chuang (Director)	Mr. S.L. Weng (Director)	Ms. C.C. Hsia (Director)

B. Organization Structure

A. Organization Structure



Note: Pursuant to Article 18 and Article 24 of the Agricultural Finance Act and Article VII of the Articles of Incorporation of Agricultural Bank of Taiwan, the Bank has also established the following committees:

- Loans Review Committee
- Mutual Aid Funds Management Committee
- Trust Assets Review Committee
- Risk Management Committee
- Assets and Liabilities Management Committee
- Project Supervision Committee

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

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.
Dept. of General 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.
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.
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.
Department 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.
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.
Department of Treasure	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.
Department 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.
Department 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.
Department of Trusts	Handle the planning, marketing and management of trust products, manage special trustee accounts and REIT.

D. Employees

February 28, 2009

Year		2007	2008	2009 as of Feb. 28, 2009
Number of employees	Full-time employees	140	139	138
	Contract employees	3	3	2
	Total	143	142	140
Average age		38.6	40.4	41.1
Average years of service		1.5	3.5	3.6
Distribution by education	Doctoral	0	0	0
	Master	28	30	30
	College and university	109	106	105
	Senior high school	6	6	5

Corporate Governance Report



III. Corporate Governance Report

A. Directors and Supervisors

December 31, 2008

Title:	Name:	Date elected (inaugurated)	Term	Date first elected	Major experience (education)	Any other position in the Bank and other companies
Chairman Name of institutional shareholder: Council of Agriculture, Executive Yuan	S.L. Liu	2008/8/12	2008/8/12 ~ 2009/1/15	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 Name of institutional shareholder: Council of Agriculture, Executive Yuan	C.M. Hsu	Elected as Director: 2005/6/14 Elected as Executive Director: 2008/8/12 (Discharged on 2009/4/9)	Director (Executive): 2005/6/14 (2008/8/12) ~ 2009/1/15	Elected as Director: 2005/6/14 Elected as Executive Director: 2008/8/12	-Master degree, Agricultural Economics, National Taiwan University -Deputy Director General, Bureau of Agricultural Finance, Council of Agriculture, Executive Yuan	Deputy Director General, Bureau of Agricultural Finance, Council of Agriculture, Executive Yuan
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) ~ 2009/1/15	Elected as Director: 2004/12/24 Elected as Executive 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 ~ 2009/1/15	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) ~ 2009/1/15	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 ~ 2009/1/15	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 ~ 2009/1/15	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
Director Name of institutional shareholder: Council of Agriculture, Executive Yuan	Y. Y. Tai	2008/8/1	2008/8/1 ~ 2009/1/15	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 ~ 2009/1/15	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

December 31, 2008

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: Dou Nan Farmers' Association, Yun Lin County	Y.T. Chang	2004/12/24	2005/1/16 ~ 2009/1/15	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
Director Name of institutional shareholder: Ta Chia Farmers' Association, Taichung County	No representative	2004/12/24	2005/1/16 ~ 2009/1/15	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 ~ 2009/1/15	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 ~ 2009/1/15	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 ~ 2009/1/15	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 ~ 2009/1/15	2004/12/24	-Master degree, Public Administration, National Taiwan University -President, Kaohsiung Rapid Transit Corp	President, Kaohsiung Rapid Transit Corp.
Supervisor Name of institutional shareholder: Council of Agriculture, Executive Yuan	S. C. Yang	2008/12/1	2008/12/1 ~ 2009/1/15	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 ~ 2009/1/15	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 ~ 2009/1/15	2004/12/24	-PhD, Agricultural Economics and Rural Society, Ohio State University, USA -Professor, Dept. of Applied Economics, National Chung Hsing University	Chair, Dept. of Applied Economics, National Chung Hsing University

B. Profiles of the Managers

December 31, 2008

Title	Name	Date appointed	Major experience (education)	Positions in other companies
President	Su Song-Hui	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	-Agricultural Bank Insurance Brokers Co., Ltd. (100% holding) -Director, Agricultural Credit Guarantee Fund
Vice President (Manager, Dept. of Trusts)	Shen Chi-Nan	2005/5/26 (2008/9/27)	-EMBA, National Chiayi University -Division manager, Farmers Bank of China	Supervisor, National Agricultural, Fishery and Financial Information Center
Vice President	Chu Kuang-Fu	2006/2/24	-Graduate from Dept. of Agricultural Economics, National Taiwan University -Manager, Farmers Bank of China	Agricultural Bank Insurance Brokers Co., Ltd. (100% holding)
Deputy Director, Auditing Office (Acting Chief Auditor)	Chiang Yue-Ling	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 Manger, Department of Planning, Farmers Bank of China	Agricultural Bank Insurance Brokers Co., Ltd. (100% holding)
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	Agricultural Bank Insurance Brokers Co., Ltd. (100% holding)
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

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 staffs 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 site. The Bank also has a spokesperson system for unifying public announcements.	None
(5) Audit committee and 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: The differences between the Bank's corporate governance practices and the "Corporate Governance Best-Practice Principles for Banking Industry" are as described in (1) ~ (5) above.		
(7) Corporate social responsibility (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 directors and supervisors: The Bank asks the Taiwan Academy of Banking and Finance to offer corporate governance courses for our directors and supervisors, and enrolls in other continuing education courses for them according to their desire. (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 of directors to avoid conflict of interest. (g) Liability insurance purchased for directors and supervisors: The Bank has not yet purchased liability insurance for directors and supervisors.		
(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

To: Council of Agricultural Affairs, Executive Yuan

On behalf of, and in the name of the Agricultural Bank of Taiwan, we hereby duly declare that we have conducted an internal audit in accordance with the Internal Control Code established under the "Implementation Rules for Bank Internal Audit and Internal Control System" covering the period from January 1 to December 31, 2008. The Bank has established the internal control system and implemented risk management and conducted internal audit by an impartial and independent audit function and presented the audit reports to the Board of Directors and the Board of Supervisors at regular intervals (the Bank is engaged in bond trade thereby judges the effectiveness of the internal control system in design and enforcement in accordance with the "Regulations Governing the Establishment of Internal Control Systems by Service Enterprises in Securities and Futures Markets" promulgated by Securities and Futures Bureau, Financial Supervisory Commission). The Bank has adopted the aforementioned internal control system for internal audit on the effectiveness of the design and enforcement of the internal control system. (This statement shall form an integral part of the Bank's annual report and prospectus and will be announced. If there is any fraud, concealment and unlawful practice discovered in the content of the aforementioned information, the Bank shall be liable to legal consequences under Article 20, Article 32, Article 171 and Article 174 of the Securities and Exchanges Act.)

TO

Council of Agriculture, Executive Yuan

Declared by:
Declarants

Chairman:	<i>Song-Lin, Liu</i>		(Authorized Signature)
President:	<i>Sung-Huei, Su</i>		(Authorized Signature)
Chief Auditor:	<i>Ueh-Lin, Chiang</i>		(Acting) (Authorized Signature)
Compliance Officer:	<i>Chi-Nan, Shen</i>		(Authorized Signature)

March 3, 2009

(2) Independent Auditor's Report



安侯建業會計師事務所

KPMG

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Independent Auditor's Report on Agricultural Bank of Taiwan

Agricultural Bank of Taiwan, Ltd.

Pursuant to Article 25 of the Implementation Rules for Bank Internal Audit and Internal Control System which announced by Financial Supervisory Commission, Executive Yuan, "when a bank engages an certified public accountant to audit its annual financial statements, it shall also ask the same certified public accountant to audit its internal control system and express an opinion regarding the accuracy of the 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 the bank's bad debt reserve policy."

We have been appointed by the Agricultural Bank of Taiwan to conduct the aforementioned audit and present as attached the scope of examination, the sources and evidence, audit procedures and audit findings in accordance with Article 28 of the Implementation Rules for Bank Internal Audit and Internal Control System.

This audit report is for the reference of your company and competent authority for purpose of supervision. Do not use and distribute this report or disclose any information other unconcerned parties.

Taipei, Taiwan, R.O.C.

March 5, 2009

Capital Structure



IV. Capital Structure

A. Sources of Equity Capital

December 31, 2008 Unit: 1,000 shares; NTD 1,000

Year/ month	Issue price (NTD/ share)	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.

B. List of Major Shareholders

December 31, 2008 Unit: 1,000 shares%

Name	Shareholding	Shares held	Percentage
Council of Agriculture, Executive Yuan		985,465,264	49%
Pan Chiao Farmers' Association, Taipei County		47,463,224	2.36%
Hsin Chuang Farmers' Association, Taipei County		40,323,629	2.005%
Shu Lin Farmers' Association, Taipei County		26,346,112	1.31%
Ta Li Farmers' Association, Taichung County		24,234,400	1.205%
Chung Ho Farmers' Association, Taipei County		23,429,939	1.165%
San Chung Farmers' Association, Taipei County		15,385,325	0.765%
Lu Chou Farmers' Association, Taipei County		13,876,959	0.69%
Shijir Farmers' Association, Taipei County		12,569,710	0.625%
Feng Shan Farmers' Association, Kaohsiung County		11,564,133	0.575%



Status of Operation



V 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 NPL ratio exceeding 15%. Credit departments under special guidance are expected to reduce their NPL ratio as projected in 2008. 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) We attended the Consumer Insolvency Act Consumer Debt Workout Liaison Meeting held by Banker's Association and acted as the contact window between credit departments and banks. Aside from providing counseling service, the Bank has also set up a "Consumer Insolvency Act Consumer Debt Workout" zone on the website for the information of credit departments.
- (2) In 2008, we made suggestions on the formulation (amendment) of Agricultural Finance Act, Regulations Governing Business Guidance and Financing for Credit Departments of Farmers' and Fishermen's Associations and Redeposit of Funds by Them, Regulations Governing Risk Control Ratios for Credit Departments of Farmers' and Fishermen's Associations, Guidelines for Policy-Based Agricultural Loans, Guidelines for Forestation Loans, Guidelines for Loans for Small Land Owners and Large Tenant Farmers, and internal rules of credit departments for the reference of competent authorities and related agencies.
- (3) We advised credit departments on making loans under the general development fund of the Council of Indigenous People, Executive Yuan to increase their business scope. Four farmers' associations in Guanxi, Taitung, Taimali and Chang Bing Hsiang participated in the program.
- (4) In 2008, we advised 38 farmers' and fishermen's associations in opening the farmland banking business and subsidized the operation. We have provided subsidy to 259 associations in 2007 and 2008 combined. There are now 297 associations across the country that now offer this new service under the guidance and subsidy of the Bank. We also assisted the competent authorities in planning the spot check, rating and audit mechanisms for farmland brokerage cases and held the farmland bank award ceremony which has been warmly received.
- (5) We advised farmers' and fishermen's associations on consumption coupon acceptance business to increase their service fees income.
- (6) We advised the credit departments of farmers' and fishermen's associations on conducting self-check of crime prevention environment required of financial institutions by the central competent authority and step up security and protection drill to reduce possible loss.
- (7) We assisted the Bureau of Agricultural Finance in conducting a questionnaire survey on the method of releasing government shareholdings of Agricultural Bank of Taiwan and forwarded the results to the Bureau for reference in policy-making.

- (8) We compiled the 2007 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 2008, 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 2008 to communicate and exchange views on the issues as reference for policy-making or supervision
- (2) In 2008, we organized 57 seminars for the employees of credit departments covering the topics of economic outlook and prospect, credit investigation and lending for beginners, financial laws and practice of overdue accounts collection, out-of-court debt workout under the Consumer Insolvency Act, real estate trust, risk management of construction financing and lending, Agricultural Development Fund loans, trends of real estate industry, and insurance business. A total of 3,989 people attended the seminars.

7. Policy-based Agricultural Loans:

- (1) 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.
- (2) Our Agricultural Loan Account Management System was rolled out on January 1, 2008. Through an information platform, this system integrates the account information of agricultural loans extended by various institutions to step up control over the loan operations of lending institutions. This system allows account inquiry and performs account matching to effectively prevent redundant loan applications and uphold the quality of agricultural loans. The system conducted account data testing at the beginning of the year. In phase 1, loan related forms and statements were tested and the testing was completed in April 2008. The Bank submitted the test results to the Bureau of Agricultural Finance and received a consent letter from the Bureau that allows the Bank to submit system-generated instead of manually prepared monthly reports on agricultural loans to the Bureau starting from May 2008. The Bank finished the phase 2 testing of interest spread subsidy data at the end of 2008 and will start using the system for generation of interest spread data in place of manual reporting by the lending institutions to help streamline the operation and enhance efficiency.

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	2008		2007	
	Amount	Percentage %	Amount	Percentage %
Net revenue	(9,011,289)	(100.00)	651,316	100.00
Net interest income	518,176	5.75	816,876	125.42
Commissions and fees, net	85,572	0.95	115,500	17.73
Gains (losses) from financial assets and liabilities at fair value through profit or loss	(4,788,544)	(53.14)	(266,905)	(40.98)
Realized gains from available-for-sales financial assets	(644,413)	(7.15)	154,765	23.76
Loss on assets impairments	(5,145,386)	(57.10)	(187,219)	(28.74)
Provision for security trading losses	(13,681)	(0.15)	(92,381)	(14.18)
Other non-interest gain (loss), net	976,987	(10.84)	110,680	16.99

2. Proportions of Business

(1) Proportion of deposits

Unit: in NTD thousand

Title	2008		2007	
	Amount	Percentage %	Amount	Percentage %
Total deposits	383,355,134	100.00	392,010,677	100.00
Current Deposits	2,864,344	0.75	1,589,501	0.41
Time deposits	380,490,790	99.25	390,421,176	99.59

(2) Proportion of loans

Unit: in NTD thousand

Title	2008		2007	
	Amount	Percentage %	Amount	Percentage %
Total loans	86,376,762	100.00	42,318,585	100.00
Short loans	17,361,282	20.10	8,339,744	19.71
Medium loans	56,862,991	65.48	27,131,762	64.11
Long loans	11,446,780	13.60	6,845,039	16.18
Delinquent accounts	705,709	0.82	2,040	0.00

(3) Proportion of major business assets to total assets:

Unit: in NTD thousand

Title	2008		2007	
	Amount	Percentage %	Amount	Percentage %
Total assets	439,545,566	100.00	439,759,432	100.00
Cash and cash equivalents	9,036,534	2.06	33,982,592	7.73
Due from The Central Bank and other banks	149,884,787	34.10	132,992,844	30.24
Financial assets at fair value through profit or loss	27,713,152	6.30	944,206	0.21
Discounts and loans, net	85,825,362	19.53	42,267,185	9.61
Available-for-sales financial assets	41,108,103	9.35	59,183,370	13.46
Held-to-maturity financial assets	114,072,613	25.95	157,242,273	35.76
Other financial assets	8,656,445	1.97	9,681,917	2.20
Others	3,248,570	0.75	3,465,045	0.79

Note: The amount of discounts and loans hereof is the balance after deducting allowance for bad debt

D. Market Analysis

In 2008, the U.S. subprime debacle quickly evolved into a financial tsunami that has swept the world and is showing no sign of abatement. The extent and degree of its impact continue to expand. Countries around the world experience massive wealth impairment, widespread layoffs, shrinking demands, and steep decline in import and export trade. Under the circumstances where the global economy and trade are closely linked than ever, the extent of economic downturn brought about by this round of financial crisis has far exceeded the ravage the world experienced during the 1997-1998 Asian financial crisis and the burst of high-tech bubble in 2000. It is generally held belief that the world economy will take longer to recover and return to the path of steady growth. According to the latest forecasts of Global Insight published in February 2009, despite the vigorous multi-prong efforts made by world governments to lift the continuously tumbling economy through monetary and fiscal policies, the stimulus packages have not produced significant effect on the economy due to the extent of damage experienced by many sectors. All leading industrial nations are expected to see full-scale recession in 2009. The forecast for global economic growth in 2009 has been revised down from positive 1.1% three months earlier to negative 1.2%, the most serious drop since World War II where the U.S. would see -2.7% growth, Japan -3.3%, and Eurozone -2.4%. Of the emerging economies, China's economic growth in 2009 would drop to 5.9%, the lowest level since the country embarked on economic reform thirty years ago. The economic growth of other countries or districts would all drop to a new low. Asia's four little dragons would also see negative growth.

As for the domestic economy, the 2008 economic growth is 0.12% according to the figures published by the Directorate General of Budget, Accounting and Statistics (DGBAS), which is lower than the original forecast of 1.87%, mainly due to languishing consumer spending, slow private investment and less-than-expected government investment. In 2008, the domestic interest rate was first raised twice, up totally 0.25% and then cut five times, down totally 1.625%. According to the financial statistical data published by the Central Bank of ROC, the annual average of interbank overnight rate was 2.014% in 2008, rising 0.016% as compared to the year before; the annual average exchange rate of NTD to USD was 31.517, appreciating 4.03%. In the banking sector, the trends in 2007 where a number of foreign banks and private equity funds have successfully merged medium and small-sized domestic banks continued, and the domestic banks are faced with new competition.



Looking into the domestic economic prospects for 2009, our export trade is expected to decline as the economies of industrialized countries slip which would affect the emerging economies. Massive evaporation of global wealth and sharp increase in unemployment will all cause decline in the demands for imports. In the aspect of fixed investment, the majority of companies decide to either postpone their investment plan or reduce capital spending under surplus capacity and diminishing foreign demands. In addition, as the real estate market stagnates, housing investment will also decline. The forecast is that private fixed investment will see negative growth. In the public sector, because the government has decided to increase the investment in infrastructure projects and there are ongoing construction projects from last year's budget, the government fixed investment is expected to show positive growth in 2009. The forecast for CPI is that it will drop 0.82% as the relatively high fuel cost in 2008 is expected to fluctuate in a narrow range in 2009. Overall, the DGBAS forecast for domestic economic growth in 2009 is -2.97%.

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 49% 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. With proper use of such funds, the Bank can create good profits.

- (5) The Bank offers integrative and policy-based agricultural financing and functions as an amalgamation of agricultural bank and commercial bank that puts the Bank in a unique position to diversify its operations.

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) Highly rated institutions have access to direct finance through channels locally and overseas. As such, it is not easy for the Bank to expand its lending business.
- (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 keen competition in corporate banking makes it difficult to broaden the 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.



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:

To support government policy, help the credit departments of farmers' and fishermen's associations expand their business and strengthen the protection of loan assets, the Bank starts the offer trust services. Currently the trust services already approved by the Financial Supervisory Commission include money trust, real estate trust, securities trust, and discretionary account service. It is hoped that the professional trust services offered by the Bank to loan cases under the agricultural finance system could effectively enhance the local competitiveness of credit departments of farmers' and fishermen's associations.

Size of the Bank's trust department: (As of December 31, 2008)

- (1) Trust assets: NT\$1,633,858,000
- (2) Commissions and fees: NT\$10,912,000

2. R&D spending in the past two years and R&D Plan in 2008:

The Bank spent NT\$900,000 and NT\$900,000 on R&D in 2008 and 2007, 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 2009, 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 2009 is NT\$110 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 Maintain proper level of cash flow to ensure security in liquidity.
- ② Increase interest rate-sensitive assets and reduce the ratio of sensitivity gap.
- ③ Flexible adjustment of the maturities of asset portfolios to hedge interest rate risk.
- ④ Make capital enhancement plan to maintain capital adequacy ratio.
- ⑤ Step up investment risk management to safeguard operational health.
- ⑥ Strengthen asset/liability allocation to ensure a balance between profit and risk.
- ⑦ Enhance the operation of financial investment to ensure steady profit stream.





(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 2009

According to the medium-term administration plan published by the Council of Agriculture, the target NPL ratio set for the credit departments of farmers' and fishermen's associations is 6%. The goal set forth by the Bank itself is to bring the number of credit departments with NPL ratio over 15% down to 28 and bring their NPL ratio down to 4% by the end of 2009.

- ② Achieve the budget goal of NT\$50 billion for policy agricultural loans set forth by the agricultural administration for 2009.

- ③ Offer training classes for the employees of credit departments.

Plan 50 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 289 credit departments.

- ⑤ Formulate Credit Department Guidance Business Plan, Agricultural Development Fund Business Plan, New or Merged Credit Department Business Guidance Plan, and plans for other subsidy or commissioned projects.

- ⑥ Plan and execute the Small Land Owners and Large Tenant Farmers Project in coordination with government agricultural policy.

- ⑦ Advise new credit departments on the establishment of management system, make policy agricultural loans and assist them in business development.

- ⑧ Advise farmers' and fishermen's associations on consumption coupon acceptance business to increase their service fees income.

- ⑨ Offer counseling service for the businesses of credit departments in association with the Consumer Insolvency Act.

- ⑩ Audit the lending institutions for loans granted under Agricultural Development Fund and compile business manual.

(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) Construction of National Agricultural, Fishery and Financial Information Center:

The Bank will assist the National Agricultural, Fishery and Financial Information Center in promoting the construction of a shared system among farmers' and fishermen's associations to augment the channel value of nationwide farmers' and fishermen's associations. Our 2009 business goals are as follows:

- ① Integrate the functions of existing shared systems of farmers' and fishermen's associations.
- ② Integrate the human resources of existing sharing center and establish systems and rules.
- ③ Establish shared account management system among the farmers' and fishermen's associations.

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\$ 130 billion for 2010 and NT\$150 billion for 2011, and will increase the amount steadily every year thereafter.

(2) Investment:

We will diversify our profit streams through stock investment and allocation of NTD and foreign currency assets to shield ourselves from the wild fluctuation of individual markets. Our pre-tax EPS target is set at NT\$0.25~0.5.



(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 built its own account management system and plans to incorporate the functions of agricultural financial information exchange platform and funds clearing mechanism into the system in the future. The Bank will also assist the National Agricultural, Fishery and Financial Information Center in carrying out system integration so it will be able to take over the operations of credit departments' reserve deposit and audit currently being handled by 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. After the business operations of those outlets become stable, the Bank will seek the approval of the competent authorities to set up a regional branch in northern, central, southern and eastern Taiwan respectively. With new branch offices operating, the Bank will be able to 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.



Financial Overview



VI. Financial Overview

A. Condensed Balance Sheet and Income Statement (2005-2008)

Condensed Balance Sheet

Unit: in NTD thousand

Title	Year	Financial Information 2005 ~ 2008			
		December 31, 2008	December 31, 2007	December 31, 2006	December 31, 2005 (Note 1)
Cash and cash equivalents, due from the Central Bank and other banks		158,921,321	166,975,436	178,202,692	62,119,625
Financial assets at fair value thorough profit or loss		27,713,152	944,206	608,876	522,821
Securities purchased under agreement to resell		-	-	8,300,000	11,196,146
Available-for-sale financial assets		41,108,103	59,183,370	45,787,633	11,974,599
Discount and loans, net		85,825,362	42,267,185	13,455,582	3,067,748
Account, interest and other receivables		3,147,305	3,356,162	2,175,176	423,306
Held-to-maturity Financial assets		114,072,613	157,242,273	99,759,093	22,072,363
Equity Investments- equity method		8,553	4,021	2,680	-
Properties		68,907	80,874	70,632	66,822
Unquoted equity instruments		8,647,892	9,677,896	4,490,226	6,704,694
Other assets		32,358	28,009	24,615	32,191
Total assets		439,545,566	439,759,432	352,877,205	118,180,315
Call loans and due to bank		20,965	20,000	20,000	-
Deposits and remittances		383,355,134	392,010,677	317,089,086	95,570,533
Financial liabilities at fair value through profit or loss		1,883,480	86,800	-	-
Securities sold under agreements to repurchase		41,053,812	25,573,918	12,446,769	-
Accrued pension costs		16,958	12,118	6,618	3,337
Other financial liabilities		2,410,207	2,645,177	2,428,050	480,000
Other liabilities		703,406	848,163	602,429	2,044,257
Total liabilities	Cum-dividend	429,443,962	421,196,853	332,592,952	98,098,127
	Ex-dividend	-	421,196,853	332,612,635	98,098,127
Capital stock		20,111,536	20,111,536	20,000,000	20,000,000
Retained earnings	Cum-dividend	(10,727,368)	206,126	218,699	82,188
	Ex-dividend	-	206,126	87,480	82,188
Unrealized gain/loss on available-for-sale financial assets		717,436	(1,755,083)	65,554	-
Total shareholders' Equity	Cum-dividend	10,101,604	18,562,579	20,284,253	20,082,188
	Ex-dividend	-	18,562,579	20,264,570	20,082,188

Note 1: The Company was licensed in April 2005 and commenced operation in May 2005. Note: 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 2007			
		2008	2007	2006	2005(Note 1)
Net interest		518,176	816,876	345,332	143,370
Net revenue other than interest		(9,529,465)	(165,560)	242,270	58,785
Provision for loan losses		500,000	31,400	20,000	-
Total Operating expenses		461,057	456,798	419,592	133,962
Income before income tax		(9,972,346)	163,118	148,010	68,193
Income before cumulative effect		(10,008,804)	118,646	130,021	57,200
Cumulative effect of accounting changes (net value after income tax)		-	-	6,490	-
Net Income		(10,008,804)	118,646	136,511	57,200
EPS		(4.98)	0.06	0.07	0.03

Note 1: The Bank was licensed in April 2005 and commenced operation in May 2005.
 Note 2: The financial data above are CPA-audited.

Names and Audit Opinions of CPA in the Past Four Years

Year	Name of CPA firm	Name of CPA	Audit 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 (2005-2008)

Financial Analysis

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

Reasons for the changes are analyzed as follows:

1. The increase in loan-to-deposit ratio from the previous year was mainly due to increase in total loans.
2. The increase in NPL ratio from the previous year was mainly due to increase in the transfer from loan account to overdue account.
3. The total asset turnover becomes negative and decreases from the previous year, mainly due to negative net income.
4. The average return per employee becomes negative and decreases from the previous year, mainly due to negative net income.
5. The average profit per employee becomes negative and decreases from the previous year, mainly due to negative net income.
6. The financial ratios relating to profitability decrease sharply from the previous year, mainly due to negative after-tax profit and negative net income.
7. The decrease in asset growth rate from the previous year was mainly due to slowdown in investment amid poor economic climate.
8. The decrease in profit growth rate from the previous year was mainly due to negative net income.
9. Liquidity ratio was lower than that the previous year mainly due to increase in liabilities quoted for liquidity purpose.

Note 1: The cash flow from operating activities between 2005 and 2008 registered net outflow. So the ratios were negative and not counted.

Note 2: The Bank officially launched its operation in May 2005, which was less than 5 years ago, so this ratio is not applicable.

Note 3: The after-tax profit and net income are all negative and not analyzed.

Note 4: Equations for financial analysis:

(1) Utility

- (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= earning/Total number of employees
- (g) Employee average profit rate= EBT/Total number of employees

(2) Profitability

- (a) Return on Tier 1 Capital = EBT/Average total amount of Tier 1 capital
- (b) ROA= earnings/Average total assets
- (c) ROE = earnings/Average net shareholders equity
- (d) Profit rate = earnings/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 2005 to 2007 (Note)		
		2008	2007	2006
Equity Capital	Common shares	20,111,536	20,111,536	20,000,000
	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	22,880
	Special reserve	71,188	-	-
	Tier 1 Capital			
	Loss carried forward	-	118,646	195,819
	Minority shareholding	-	-	-
	Other shareholders' equity	(96,055)	(1,755,099)	(2,534)
	Less: good will	-	-	-
	Less: unamortized loss from disposal of non-performing assets	-	-	-
	Less: Accumulated loss	(8,223,618)	-	-
	Capital deduction items	1,496,720	4,168,864	247,773
	Total Tier 1 Capital	10,501,269	14,393,698	19,968,392
	Tier 2 Capital			
	Cumulative perpetual preferred shares	-	-	-
	Cumulative subordinate bonds with no maturity	-	-	-
	Capital surplus from appreciation of fixed assets	-	-	-
	45% of unrealized gain of financial assets available for sales	366,071	8	30,640
	Convertible bonds	-	-	-
	Business reserve and allowance for doubtful accounts	543,805	101,728	34,683
	Long-term subordinate bonds	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	-	101,736	65,323	
Total Tier 2 Capital	0	0	0	
Tier 3 Capital				
Short-term subordinate bonds	-	-	-	
Non-perpetual preferred shares	-	-	-	
Total Tier 3 Capital	-	-	0	
Equity Capital	10,501,269	14,393,698	19,968,392	
Total weigh average risk asset	Credit risk			
	Standard method	116,222,084	117,677,587	61,111,783
	Internal rating method	-	-	-
	Asset securitization	6,656,913	8,940,198	-
	Operation Risk			
	Basic Standard method	1,338,883	802,865	-
	Standard method/ Optional standard method	-	-	-
	Advanced Assessment method	-	-	-
	Market Risk			
	Standard method	36,174,563	34,456,152	26,893,275
Internal model method	-	-	-	
Total risk weighed risk assets	160,392,443	161,876,802	88,005,058	
Capital adequacy ratio	6.55%	8.89%	22.69%	
Ratio of Tier 1 capital to risk assets	6.55%	8.89%	22.69%	
Ratio of Tier 2 capital to risk assets	-	-	-	
Ratio of Tier 3 capital to risk assets	-	-	-	
Ratio of equity capital from common shares to total assets	4.58%	4.57%	5.67%	

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 taken a conservative approach to recognition of asset impairment and account adjustment in reference to the financial examination guidelines set forth by the Financial Supervisory Commission and the views of our accountant, that results in increase in the accumulated loss and capital deduction.

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 (operation 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. Supervisor's Report

Supervisor's Report

To: 2009 General Shareholders' Meeting, Agricultural Bank of Taiwan

We have examined the Company's financial statements (including the balance sheet, the income statement, the statement of changes in shareholders' equity, and the statement of cash flow), for fiscal year 2008 (January 1 to December 31, 2008) prepared by the Board of Directors and audited by Chung Dan-Dan, CPA of KPMG Taiwan as well as the Company's 2008 business report and proposal on the appropriation of loss in the 18th session and the 20th session of the 1st Board of Supervisors held on April 21, 2009 and May 25, 2009 respectively, and did not find any discrepancy. We hereby respectively prepare and present this Report for your review.

Resident Supervisor:

P.H. Shih



Authorized signature

Supervisor:

C.T. Chen



Authorized signature

Supervisor:

S.C. Yang



Authorized signature

Supervisor:

T.C. Hwang



Authorized signature

D. Independent Auditor's Report



安侯建業會計師事務所

KPMG

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Independent Auditors' Report

The Board of Directors
Agricultural Bank of Taiwan, Ltd.

We have audited the accompanying balance sheet of Agricultural Bank of Taiwan, Ltd. as of December 31, 2008, and the related statements of income, changes in stockholders' equity, and cash flows for the year 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. The Bank's financial statements for the year ended December 31, 2007 was audited by other auditors who expressed an unqualified opinion on March 5, 2008. In order to fully disclose the assets impairment, the Bank updated the 2007 financial statement on May 9, 2008 and expressed a modified unqualified opinion.

We conducted our audits in accordance with the "Rules Governing Auditing and Certification of Financial Statements by Certified Public Accountants" and generally accepted auditing standards in the Republic of China. Those 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 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, 2008, and the results of its operations and its cash flows for the year then ended in conformity with the related financial accounting standards of the "Business Entity Accounting Law" and "Regulation on business entity accounting handling" and accounting principles generally accepted in the Republic of China.

As described in Note 30, the Bank obtained the recommendation letter from the Financial Supervisory Commission which requested the Bank to reclassify a part of financial assets and recognized adjustments of prior period losses amounting to \$924,690 thousand.

Taipei, Taiwan, R.O.C.
March 5, 2009

Notice 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 review such financial statements are those generally accepted and applied in the Republic of China.



AGRICULTURAL BANK OF TAIWAN, LTD

STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

(New Taiwan Dollars in Thousands, except for earnings per share data)

	For The Year Ended December 31, 2008	For The Year Ended December 31, 2007	Variance	
	Amount	Amount	%	
Interest revenue (Note (2))	\$ 9,929,645	9,266,470	7	
Less: Interest expense	9,411,469	8,449,594	11	
Net interest income	518,176	816,876	(37)	
Non-interest income , net				
Commissions and handling fee, net (Note (2))	85,572	115,500	(26)	
Gain or loss from financial assets or liabilities measured at fair value through profit or loss	(4,788,544)	(266,905)	1,694	
Realized gains (losses) from available-for-sale financial assets	(644,413)	154,765	(516)	
Realized losses from held-to-maturity financial assets	(893)	(19,515)	(95)	
Investment income recognized under the equity method (Note(2) and (11))	4,532	1,341	238	
Foreign exchange gain	217,990	4,376	4,881	
Losses on impairment loss (Note (2))	(5,145,386)	(187,219)	2,648	
Other net revenues	741,677	32,097	2,211	
Subtotal	(9,529,465)	(165,560)	5,656	
Net revenue(expense)	(9,011,289)	651,316	(1,484)	
Bad debt expenses (Note(2) and (8))	500,000	31,400	1,492	
Operating expenses				
Personnel expenses	216,828	229,521	(6)	
Depreciation and amortization expenses	15,794	23,631	(33)	
Other selling and administrative expenses	228,435	203,646	12	
Total operating expenses	461,057	456,798	1	
Earnings (loss) from continuing operations before income tax	(9,972,346)	163,118	(6,214)	
Income tax expense (Note(2) and (21))	36,458	44,472	(18)	
Net income (loss)	\$ (10,008,804)	118,646	(8,536)	
Basic earning (loss) per share (Note(2) and (22)) (in New Taiwan dollars)	Before tax	After tax	Before tax	After tax
	\$ (4.96)	(4.98)	0.08	0.06

Deputy Agent:



Manager:



Lead Accountant:



ASSETS	DECEMBER 31, 2008	DECEMBER 31, 2007	Variance %
	Amount	Amount	
Assets			
Cash and cash equivalents (Note (4))	\$ 9,036,534	33,982,592	(73)
Deposits with the Central Bank and call loans to banks (Notes (5))	149,884,787	132,992,844	13
Financial assets measured at fair value through profit or loss (Note (2) and (6))	27,713,152	944,206	2,835
Receivables, net (Note (7))	3,147,305	3,356,162	(6)
Discounts and loans, net (Notes (8))	85,825,362	42,267,185	103
Available-for-sale financial assets (Note (2) and (9))	41,108,103	59,183,370	(31)
Held-to-maturity financial assets, net (Notes (2) and (10))	114,072,613	157,242,273	(27)
Investments under the equity method, net (Note (2) and (11))	8,553	4,021	113
Financial assets measured at cost (Note (2) and (12))	250,000	250,000	-
Debt instruments with no active market (Note (2) and (13))	8,397,655	9,427,875	(11)
Other financial assets, net	237	21	1,029
Property and equipment, net (Note (2) and (14))	68,907	80,874	(15)
Refundable deposits	9,559	5,430	76
Other assets	22,799	22,579	1
TOTAL ASSETS	\$ 439,545,566	439,759,432	-

Deputy Agent:



Manager:





 2008 AND 2007
 (in thousands)

LIABILITIES AND STOCKHOLDERS' EQUITY	DECEMBER 31, 2008	DECEMBER 31, 2007	Variance %
	Amount	Amount	
Liabilities			
Deposits from the Central Bank and other banks	\$ 20,965	20,000	5
Financial liabilities measured at fair value through profit or loss	1,883,480	86,800	2,070
Bills and bonds sold under repurchase agreements (Note(2) and (15))	41,053,812	25,573,918	61
Payables (Note (16))	618,869	765,841	(19)
Deposits and remittances (Note (17))	383,355,134	392,010,677	(2)
Accrued pension liabilities (Note (2) and (19))	16,958	12,118	40
Other financial liabilities (Note (18))	2,410,207	2,645,177	(9)
Other liabilities	84,537	82,322	3
Total Liabilities	429,443,962	421,196,853	2
Stockholders' Equity			
Common stock (Note (20))	20,111,536	20,111,536	-
Retained earnings			
Legal reserve	134,938	87,480	54
Special reserve	71,188	-	-
(Accumulated deficits) undistributed retained earnings (Note (20))	(10,933,494)	118,646	(9,315)
Other Shareholders' equity			
Unrealized gain and loss on financial assets	717,436	(1,755,083)	(141)
Total Stockholders' Equity	10,101,604	18,562,579	(46)
Significant Commitments and Contingencies			
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 439,545,566	439,759,432	-

Lead Accountant:




 AGRICULTURAL BANK OF TAIWAN, LTD
 STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
 FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
 (New Taiwan Dollars in Thousands)

	Common stock	Retained Earnings			Unrealized gain and loss on financial assets	Total
		Legal reserve	Special reserve	Undistributed earnings		
Balance - January 1, 2007	\$ 20,000,000	22,880	-	195,819	65,554	20,284,253
Appropriation of 2006 earnings:						
Legal Reserve	-	64,600	-	(64,600)	-	-
Mutual aid funds	-	-	-	(13,122)	-	(13,122)
Remuneration to directors and supervisors and bonuses to employees	-	-	-	(6,561)	-	(6,561)
Stock dividends	111,536	-	-	(111,536)	-	-
Net income for the year ended December 31, 2007	-	-	-	118,646	-	118,646
Unrealized gain and loss on financial assets	-	-	-	-	(1,820,637)	(1,820,637)
Balance - December 31, 2007	20,111,536	87,480	-	118,646	(1,755,083)	18,562,579
Adjustment of prior period gains and losses	-	-	-	(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 gain and loss 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

Deputy Agent:



Manager:



Lead Accountant:





AGRICULTURAL BANK OF TAIWAN, LTD
STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(New Taiwan Dollars in Thousands)

	For The Year Ended December 31, 2008	For The Year Ended December 31, 2007
Cash flows from operating activities:		
Net income (loss)	\$ (10,008,804)	118,646
Adjustments to reconcile net income(loss) to net cash used in operating activities:		
Realized gains (losses) from available for sale financial assets	649,457	(154,765)
Realized losses from held-to-maturity financial assets	893	19,515
Gain on disposal of debt instruments with no active market	(732,512)	(124,285)
Provision of impairment loss	5,145,386	187,219
Depreciation and amortization	20,273	23,631
Losses on scrapping of property, plant, and equipment	33	-
Other revenues	(4,512)	-
Gain on investment under the equity method	(4,532)	(1,341)
Bad debt expenses	500,000	31,400
Provision for various reserves	13,680	92,381
Reversal for various reserves	(1,645)	-
Amortization of bonds premium	(431,018)	(175,943)
Amortization of unrealized gains(losses) on financial assets	(3,329)	2,579
Deferred income tax	-	2,898
Changes in assets and liabilities		
Changes in financial assets and liabilities measured at fair value through profit or loss	4,327,944	(251,076)
(Increase) decrease in receivables	208,857	(1,180,986)
Increase (decrease) in payables	(146,972)	189,429
Increase in other financial assets	(216)	-
Increase in accrued pension liabilities	4,840	5,500
Net cash used in operating activities	(462,177)	(1,215,198)
Cash flows from investing activities:		
Proceeds received from available-for-sale financial assets	5,480,525	-
Proceeds received from held-to-maturity financial assets	21,163,615	-
Proceeds received from debt instruments with no active market	840,979	-
Decrease(increase) in deposits with the Central Bank and call loans to banks	(16,891,943)	35,157,069
Decrease in bills and bonds purchased under resale agreements	-	8,300,000
Increase in discounts and loans	(44,058,177)	(28,843,003)
Purchase of available-for-sale financial assets	(14,813,135)	(39,017,754)
Proceeds from disposition of available-for-sale financial assets	29,426,002	-
Purchase of held-to-maturity financial assets	(1,000,000)	(36,034,271)
Proceeds from disposition 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	2,424,344	-
Sale(Purchase) of debt instruments with no active market	-	(2,643,600)
Increase in refundable deposits	(4,129)	-
Purchase of property and equipment	(6,178)	(36,787)
Increase in intangible assets	(775)	-
Increase in other assets	(1,606)	(7,881)
Net cash used in investing activities	(31,068,919)	(63,126,227)

	For The Year Ended December 31, 2008	For The Year Ended December 31, 2007
Cash flows from financing activities:		
Increase in deposits from the Central Bank and other banks	\$ 965	-
Increase in bills and bonds sold under repurchase agreements	15,479,894	13,127,149
Increase (decrease) in deposits and remittances	(8,655,543)	74,921,591
Mutual aid funds	-	(13,122)
Remuneration to directors and supervisors and bonuses to employees	-	(6,561)
Increase (decrease) in other financial liabilities	(234,970)	217,127
Increase(decrease) in other liabilities	(5,308)	25,054
Net cash provided by financing activities	6,585,038	88,271,238
Net increase (decrease) in cash and cash equivalents	(24,946,058)	23,929,813
Cash and cash equivalents, beginning of the year	33,982,592	10,052,779
Cash and cash equivalents, end of the year	\$ 9,036,534	33,982,592
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	\$ 9,522,125	8,268,161
Income taxes	\$ 35,324	41,574

Deputy Agent:



Manager:



Lead Accountant:



Risk Management



VII. Risk Management

A. Credit Risk Management

1. Credit Risk Management System

2008

Title	Content
Credit risk strategy, objective, policy, and process	For the sake of managing credit risk, 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 over-concentration 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 overseeing the Finance Department, 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, 2008

Unit: in NTD thousand

Type of exposure	Exposure after risk reduction	Capital requirement
Sovereign	3,388,224	271,058
Public sector beyond the central government	44,128,416	3,530,273
Banks (including multilateral development banks)	61,585,928	4,926,874
Corporate (including securities and insurance companies)	3,532,145	282,572
Retail	167,380	13,390
Residential mortgage	0	0
Equity	0	0
Others	3,419,991	273,599
Total	116,222,084	9,297,766

B. Asset Securitization Risk Management

1. Asset securitization risk management system

2008

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 Assets and Liabilities Management 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"> The Assets and Liabilities Management Committee comprises the president, vice president overseeing the Finance Department, and the heads of Finance, Business Development and Risk Management that takes charge of reviewing the Bank's investment operation, deposit and loan interest rates, and the structure of major assets and liabilities by time to maturity, and other important policies to improve the Bank's business operations. The Risk Management Committee is responsible for reviewing risk management policy associated with the exposures to asset securitization and related risk management rules. 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. 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	The Bank has established the system of credit rating and investment limits on underlying assets of 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, 2008

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		Synthetic			
			Traditional	Synthetic	With position	Without position		
		With position	Without position	With position	Without position			
20%	773,159	61,853	-	-	-	-	-	-
50%	5,692,658	455,413	-	-	-	-	-	-
100%	191,096	15,288	-	-	-	-	-	-
Capital deduction items	1,238,167	1,238,167	-	-	-	-	-	-
Total	7,895,080	1,770,721	-	-	-	-	-	-

C. Operational Risk Management

1. Operational Risk Management System

2008

Title	Content
Operation risk strategy, objective, policy, and process	The Bank adopts proper policy measures including insurance coverage, outsourcing, security exercise drill, the inspection for the prevention of dummy accounts, enforcement of anti-money laundering, and compliance with applicable legal rules in order to establish and implement a viable operational risk management system. These measures are taken to maintain security in operation and the proper functioning of the organization thereby reducing the loss from operational risk.
Organization and structure of operation risk management	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 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. 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.
The scope and features of operation 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 offset its risk. The Bank will continue to review, adjust, and enhance the management of operation 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, 2008

Unit: in NTD thousand

Year	Gross profit	Capital requirement
2008	(8,066,718)	
2007	825,953	
2006	602,189	
Total	1,428,142	107,111

D. Market Risk Management

1. Market Risk Management System

2008

Title	Content
Market risk strategy, objective, policy, and process	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 and confirm the return and risk thereof before investment, and conduct routine evaluation of the instruments after investment. These two functions will 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 overseeing the Finance Department, and the heads of Finance, Business Development and Risk Management that takes charge of reviewing the Bank's investment operation, deposit and loan interest rates, 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 Risk Management Committee is responsible for reviewing market risk management policy and related risk management rules. 3. Investment Review Team: The Finance Department manager or an assistant manager he/she designates acts as the convener of Investment Review Team, which is composed of business personnel assigned by the heads of Finance and Risk Management. The main task of the Team is to discuss investment in stocks, mutual funds, convertible corporate bonds and government bonds not for trading purpose. 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, 2008

Unit: in NTD thousand

Risk type	Capital requirement
Interest rate	2,890,927
Equity	3,038
Exchange rate	0
Product	0
Total	2,893,965

E. Liquidity Risk Management

1. Analysis of the maturity structure of NTD assets

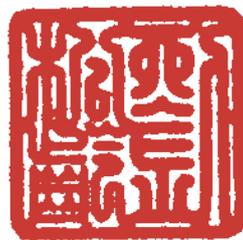
December 31, 2008 Unit: in NTD thousand

	Total	Amount in days to maturity				
		1~30 days	31~90 days	91~180 days	181 days ~1 year	Over 1 year
Main stream of capital inflow at maturity	447,303,862	46,848,448	26,603,227	30,841,679	107,712,568	235,297,940
Main stream of capital outflow at maturity	462,635,474	54,844,849	116,069,250	107,892,104	168,854,604	14,974,667
Maturity Gap	-15,331,612	-7,996,401	-89,466,023	-77,050,425	-61,142,036	220,323,273

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



Agricultural Bank of Taiwan



Mr. S.L. Liu (Chairman)





Agricultural Bank of Taiwan