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Agricultural Bank of Taiwan



William L. Huang  
Chairman of the Board

## Agricultural Bank of Taiwan

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** **Annual Report** **2006**

A new agriculture movement  A new agriculture bank



# CONTENTS

## 04 I. A Message to Shareholders

- 06 I. Report on operation in 2006
- 08 II. Summary of the 2007 Business Plan

## 11 II. Profile of the company

## 13 III. Report on Corporate Governance

- 13 I. Organizational structure
- 15 II. Profiles of Directors and Supervisors
- 18 III. Information on the managers
- 19 IV. Remunerations to the Directors, Supervisors, President and the Vice Presidents
- 21 V. Practice of corporate governance
- 28 VI. Information on accountant's fees
- 28 VII. Information on replacement of external auditors
- 29 VIII. The Chairman, President, Chief Financial Officer and Chief Accounting Officer has been working with the branch of the current CPA servicing firm or its affiliates in the most recent year
- 29 IX. According to Article 25-3 that Directors, Supervisors, and managers declare their holding of equity, there is any change in the status of shareholding or any pledge of equity shares under lien
- 29 X. Information on the affiliations among top 10 shareholders as stakeholder to one another under Financial Accounting Standard No. 6
- 29 XI. The proportion of shareholdings by investees directly or indirectly controlled by the bank, Directors and Supervisors of the bank, President, Vice President, Assistant VP, Head of functional departments or branches and the bank

## 31 IV. Particular notes on shares and dividends

- 31 I. Sources of equity capital
- 31 II. Shareholder structure
- 32 III. Diversification of shareholding
- 32 IV. List of Dominant Shareholders
- 33 V. Market price, net worth, earnings and dividend per share in the last 2 years and related information
- 33 VI. Dividend policy and status of implementation
- 34 VII. The effect of stock dividend paid out under the resolution of current Shareholders Meeting on the operation performance and earnings per share of the Company
- 34 VIII. Employee bonus and remunerations to the directors and supervisors
- 34 IX. Repurchase of shares of the Company by the Company
- 34 X. Issuance of debentures
- 34 XI. Issuance of preferred shares
- 34 XII. Issuance of GDR/ADR
- 34 XIII. Issuance of employee stock options
- 34 XIV. Acquisition or acceptance of other financial institutions
- 34 XV. Status of execution of capital utilization plan

# Agricultural Bank of Taiwan

## 36 V. Status of Operation

- 36 I. Content of Business
- 42 II. The Employees
- 43 III. Corporate responsibility and ethics code
- 43 IV. IT Equipment
- 45 V. Labor-Management Relation
- 45 VI. Major Agreement
- 45 VII. Securitized products and related information

## 47 VI. Financial Statements

- 47 I. Condensed Balance Sheet and Income Statement for the most recent year
- 49 II. Financial Analysis of the most recent year
- 50 III. Supervisors' Report in the most recent year
- 51 IV. Auditors' Report in the most recent year
- 70 V. Any consolidated audited consolidated financial statements of the parent and subsidiaries in the most recent year
- 70 VI. Any financial problem and insolvency of the bank and its affiliates in the most recent year as of the day this report was printed. Specify its effect on the financial statements of the bank, if there is any

## 72 VII. Review and Analysis of Financial Statements and Report on Operation and Risk Management

- 72 I. Financial statements
- 72 II. Report on Operation
- 72 III. Cash flow
- 73 IV. Major capital spending in the most recent years and its effect on financial statements and operation
- 74 V. Direct investment policy in the most recent years and the investment plan for the next year
- 80 VI. Analysis and assessment of risk management
- 80 VII. Crisis Management Mechanism
- 80 VIII. Other major events

## 80 VIII. Special Notice

- 80 I. Information on affiliates
- 80 II. Status of private placement of securities in the most recent year to the date this report was printed
- 80 III. Holding or disposals of the stocks issued by the Company by subsidiaries in the most recent year
- 80 IV. Any other supplementary disclosure

Professionalism

Trust

Harmony

Dedication

# I | A Message to Shareholders

In general, global economic performance in 2006 increased momentum, albeit the continued rise of energy prices due to geopolitical uncertainty, the high prices of raw materials and the continued upward adjustment of interest rates by a number of G7 countries. Domestic economic growth was strong externally and moderate internally. Demand in the region was on growth, which stimulated corresponding growth in our external trade. In 2006, the balance of trade surplus amounted to US\$21,290 million, indicating a growth of 34.58% over the same period in 2005. Real estate transactions in the country also increased, coupled with the gradual retirement of credit card debt storm. All contributed to the incremental growth of consumer expenditure in individual consumption and investments, including the Taiwan High Speed Rail and the Sixth Oil Refinery, have also been in place. Therefore, the Directorate-General of Budget, Accounting and Statistics, Executive Yuan reported an economic growth rate of 4.62% for 2006.

Economic growth in the USA in 2007 is expected to slow gradually, with the anticipation of a less progressive performance in the real estate sector. Europe and Japan have discarded the yoke of economic stagnation and have been showing signs of recovery. The results in their economic growth are expected to compensate for the sluggish economy of the USA. However, economy development in China shows no signs of abating and it is still expected to take the lead in global economic growth. Forecast on economic growth of USA, EU countries and Japan in 2006 tended to be conservative, meanwhile, most international research institutions have adjusted the global economic growth rate marginally downward. Affected by the aforementioned major trade partners, the Taiwan has also slightly adjusted economic growth rate with a downward tendency to 4.30% for 2007. The overall economic performance is expected to be mild.



# Agricultural Bank of Taiwan

In the era of knowledge economy, where globalization and liberalization is the order of the day, the Council of Agriculture of the Executive Yuan has pursued a policy to revitalize the traditional agricultural sector and transform it to an industry with high added-value. In doing so, the Council has launched the New Agricultural Movement whereby sustained development of the agricultural sector will be assured under the balanced development of the three productive directives (production, life and ecology) and the three strengths (creative agriculture, vibrant farmers, charming villages) to further the nation's sustainable agricultural development objective of Brighten Taiwan's Agriculture. Since 2006, the Agricultural Bank of Taiwan (hereinafter referred to as the Company) has acting as the custodian agent for the agricultural development fund as our effort to support the agricultural policies of the government in specialized project loans for agricultural development. In 2006, the Company budgeted a pool of loans amounting to NT\$41,000 million as project loans from the previous budgeted amount of NT\$30,000 million. In this year, NT\$41,070 million worth of loans for agricultural development was drawn with an achievement rate of 100.17%. In addition, the Company and all farmers and fishermen's associations requested the government allocate additional funds with every effort. Seeing that the accelerated upgrading of agriculture will benefit a larger population of farmers and fishermen, the government increased the pool of fund from the previous budget of NT\$30,000 million to NT\$45,000 million in 2007.

After implementing the uniform supervision in agricultural finance, all farmers and fishermen's associations have made the best of their efforts to make improvement. Under the full support of competent authorities at the respective government level with the Company and agricultural financial institutions in the basic unit have substantially been improved and vitalized. In 2006, the credit departments of all farmers and fishermen's associations have jointly yielded earnings of NT\$3,675,848 thousands, which indicated an increase by 28.39% or NT\$812,793 thousands over the same period of 2005. Non-performing loan (NPL) ratio in 2006 has also been reduced to 8.13% from 10.92% from the same period of 2005. The number of credit departments with a NPL ratio higher than 15% has also been reduced from 88 to 63. However, there is still room for further improvement when comparing the performance of all other financial institutions of the country. The Company shall duly execute the mission assigned by the government and persist to coach the development of credit departments of farmers and fishermen's associations. Nonetheless, the Company will work in conjunction with the credit departments of farmers and fishermen's associations to support the governmental policy of agricultural upgrading for the best interest of the farmers.

Farmers and fishermen's associations have transferred a large pool of deposits to the Company through transfer deposits since we commenced to run the business. As such, the Company is flush with cash reserves, which in turn becomes a critical situation of the Company. With the assistance of relevant competent authority, the support of all directors, supervisors and shareholders, and the efforts of all staffs, the Company has successfully earned NT\$1,200 million of deposit profit income for the farmers and fishermen's associations and has before-tax earning amounted to NT\$148,010 thousands for the Company. This figure indicates an attainment rate of 202.75% or NT\$75,010 thousands in excess of the budget figure. For business development needs, the Company has appointed Taiwan Ratings Services to conduct a premier evaluation on our credit rating in Nov. 2006. On March 28 2007, Taiwan Ratings Services rated the Company as *twAA+* in long-term credit rating and *twA-1* in short-term credit rating. Prospects for our long-term credit is rated as *stable*. The Company will continue its principle of stable growth to further its effort to reward our shareholders with better performance.

Chairman





# Agricultural Bank of Taiwan

The operation in 2006 and the business plan of 2007 are explained as follows:

## (I) Report on operation in 2006

### 1. Operation result in 2006

#### (1) Deposits

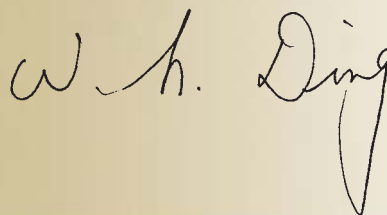
As of December 31 2006, our deposit balance amounted to NT\$317,089,086K, an increase of NT\$221,518,553K or 231.79% over the same period of 2005. Current account deposits accounted for NT\$1,589,895K or 0.50% of the total while time deposits amounted to NT\$315,499,191K or 99.50% of the total.

#### (2) Loans

a. As of December 31 2006, the loan balance amounted to NT\$ 13,475,582K, an increase of NT\$ 10,407,834K or 339.27% over the same period of 2005. Secured loans accounted for NT\$10,041,453K or 74.52% of the total while unsecured loans accounted for NT\$3,434,129K or 25.48 % of the total.

b. In 2006, the Company also acted as the lead bank and managing bank in syndicated loans with a consortium comprising farmers and fishermen s associations amounting to NT\$23,889,000K including the lending to governments at the county and city levels as well as regular borrowers. There were 127 participating farmers and fishermen s associations in the consortium and the total loans involved amounted to NT\$22,459,500K of which NT\$1,429,500K was supplied by the Company.

President



## 2. The status of budget execution on EBT and operation performance in 2006:

### (1) Budget execution

Earnings before taxation in 2006 amounted to NT\$148,010K or the realization of 202.75% of an approved budget target of NT\$73,000K

### (2) Operation performance

#### a. Net Income

Net income for the year-2006 end amounted to NT\$587,602K of which Net interest income accounted for NT\$345,332K or 58.77% of the total and Net non-interest income accounted for NT\$242,270K or 41.23% of the total.

#### b. Analysis on Profitability

ROA in 2006 was 0.06% and ROE was 0.68% in the same year. The Net Income Ratio After Tax was 23.23%, and EPS was NT\$0.07 after taxation.

## 3. The achievements of supervising the credit departments of farmers and fishermen s associations in 2006:

### (1) Improvements of asset quality in the credit departments of farmers and fishermen's associations

Unit: NT\$ thousand

Total of all farmers and fishermen s associations Title	Year	2006	2005	Variation	
				Amount	Percentage
Total deposits		1,373,943,710	1,369,037,347	4,906,363	0.36%
Total loans		661,863,760	594,892,460	66,971,300	11.26%
Deposit/loan ratio		45.38%	40.79%	-	4.59%
Amount of NPL		53,826,276	64,965,192	-11,138,916	-17.15%
NPL ratio		8.13%	10.92%	-	-2.79%
Net Income		3,675,848	2,863,055	812,793	28.39%
Number of credit departments with NPL ratio higher than 15%		63	88	-25	28.41%

### (2) Assistance to the credit departments of farmers and fishermen's associations in offering special loans:

In 2006, special loans under the agricultural policy of the Agricultural Development Fund were budgeted at NT\$41,000,000K. Actual executive loans of the category for the entire year amounted to NT\$41,070,000K or at the attainment rate of 100.17%.

### (3) General and project coaching: In 2006, the Company held general coaching in 2,023 instances and project coaching in 4,838 instances, which total to 6,861 instances. In addition, the Company attended 2,076 business meetings held by the credit departments of farmers and fishermen's associations and 308 liaison meetings of various natures.

### (4) Business and financial audit: Review of the 454 shortcomings of credit departments detected under financial audit and the status of correction has been released in the quarterly report.

### (5) Financial assessment and performance evaluation: In 2006, the Company conducted 278 financial assessments and 278 performance evaluations.

### (6) Conferences and seminars on business: In 2006, the Company has held 50 lectures on business for the farmers and fishermen's associations covering the topics of special agricultural project loans, practice in collection of NPL, credit information verification and credit granting, finance, insurance and trust. In addition, the Company worked in conjunction with the Agricultural Training Association in organizing seminars for General Managers of farmers and fishermen's associations. The response was enthusiastic and there were 3,574 persons/times of participation.

#### **4. Research and Development:**

The Company has committed its efforts in research and development in the analysis of the economic and financial situation, and the dynamic survey research on industry, and is published in the Agricultural Bank of Taiwan's Bi-monthly Magazine . This magazine began publishing in November 2006. This is the platform for the interactions between the Company, the competent authorities and the farmers and fishermen s associations. The primary function of this magazine is to provide information on coaching the credit departments for business, news on the farming and fishery industry, special research topics on agricultural finance and the feedback from farmers and fishermen s associations.

### **(II) Summary of the 2007 Business Plan**

#### **1. Corporate Policy**

Comply with governmental policy in serving as the superior institution of the credit departments of all farmers and fishermen's associations by providing assistance to establish viable internal systems, improve the quality of credit, vitalize the organization in operation and fortify the agricultural financial institutions. Take the lead in agricultural development of the country and seek the best operation performance to serve the shareholders of farmers and fishermen's associations.

#### **2. Projected business goal in 2007 (as of December 31 of the year)**

Deposits: NT\$452,306,000K

Loans: NT\$24,983,180K

EBT: NT\$160,000K

#### **3. Development strategy and gravity of operation**

- (1) Comply with the governmental policy objectives and assure its implementation for stabilizing agricultural finance.
- (2) Continue to receive deposits transferred from farmers and fishermen s associations and loans for stabilizing the financial operations and optimizing their asset structure.
- (3) Support the governmental policy in proactively launching special loans for the agricultural sector and take custody of the agricultural development funds. Design relevant investment portfolios to support the development of the agricultural sector.
- (4) Implement a coaching of the credit departments of farmers and fishermen s associations as well as their financial operation, develop niche financial products and sell the products in joint efforts with the farmers and fishermen s associations to strengthen the competitive power of agricultural financial institutions.
- (5) Assist the government in handling mismanaged credit departments of farmers and fishermen s associations for the security and stability of agricultural finance.
- (6) Focus on customer relationship management and enhance the liaison and communications with both farmers and fishermen s associations and the loan accounts of the Company to upgrade customer satisfaction.
- (7) Plan to apply for the establishment of more business locations in the proximity to the needs of the credit departments of farmers and fishermen s associations to enhance the service quality to them.
- (8) Act in compliance with the new system under Basel II for maintaining BIS Ratio properly.
- (9) To develop foreign exchange business as the foundation for the establishment of an international banking department and assist the development of international trade in agricultural.

# Agricultural Bank of Taiwan

- (10) Enhance internal controls and the risk management mechanisms for quality assurance in operation.
- (11) Apply for credit rating for proper business development and establish the reputation of the Company.
- (12) Install a common platform for information sharing in order to integrate the channel value of farmers and fishermen's associations and the yield synergy in agricultural finance.



From left: Mr. K.F. Chu (Executive Vice President)  
Mr. C.N. Shen (Executive Vice President)  
Mr. H.C. Huang (Executive Vice President)





## Profile of the company



## II. Profile of the company

The establishment of Agricultural Bank of Taiwan can be traced back to November 30 2002. At that time, the government showed its concern about the opinions of farmers and fishermen's associations and held the National Agricultural Finance Conference for revitalizing the financial system for the agricultural sector. The meeting reached a common consensus and the company was thus established. 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 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 Company was launched and the company was successfully opened for service on May 26 2005.

The Agricultural Bank of Taiwan is the only professional bank for agricultural finance in the country and was granted special permission similar to that accorded to commercial banks. The company is responsible for satisfying the financial needs of all farmers and fishermen around the country. According to the Agricultural Finance Act, both the Agricultural Bank of Taiwan and the credit departments of all farmers and fishermen's associations are jointly named as agricultural financial institutions while the former is the superior unit to the latter. The company performs its function as an agricultural financial services network by cooperating with almost 1,150 credit departments of farmers and fishermen's associations scattering all over the country in order to implement the policy of supporting the agricultural sector from finance system and keep the stable development of the agricultural economy.



in the front row from left:

Mr. R.J. Woo (Executive Director)  
 Ms. H.H. Wang (Executive Director)  
 Mr. W.H. Ding (President)  
 Mr. L.Y. Huang (Chairman)  
 Mr. P.H. Shih (Resident Supervisor)  
 Mr. J.H. Lin (Consultant)  
 Mr. S.H. Chen (Executive Director)  
 Mr. S.L. Liu (Executive Director)

in the back row from left:

Mr. S.Y. Lee (Supervisor)  
 Mr. T.C. Hwang (Supervisor)  
 Mr. C.T. Chen (Supervisor)  
 Mr. S.L. Wang (Director)  
 Ms. L.J. Wang (Director)  
 Mr. C.M. Hsu (Director)  
 Mr. W.Y. Ting (Director)  
 Ms. H.C. Chen (Supervisor)

Mr. Y.T. Chang (Director)  
 Mr. M.Y. Huang (Director)  
 Mr. M.F. Chen (Director)  
 Mr. C.T. Yu (Director)  
 Ms. C.C. Hsia (Director)  
 Mr. Y.L. Ho (Director)



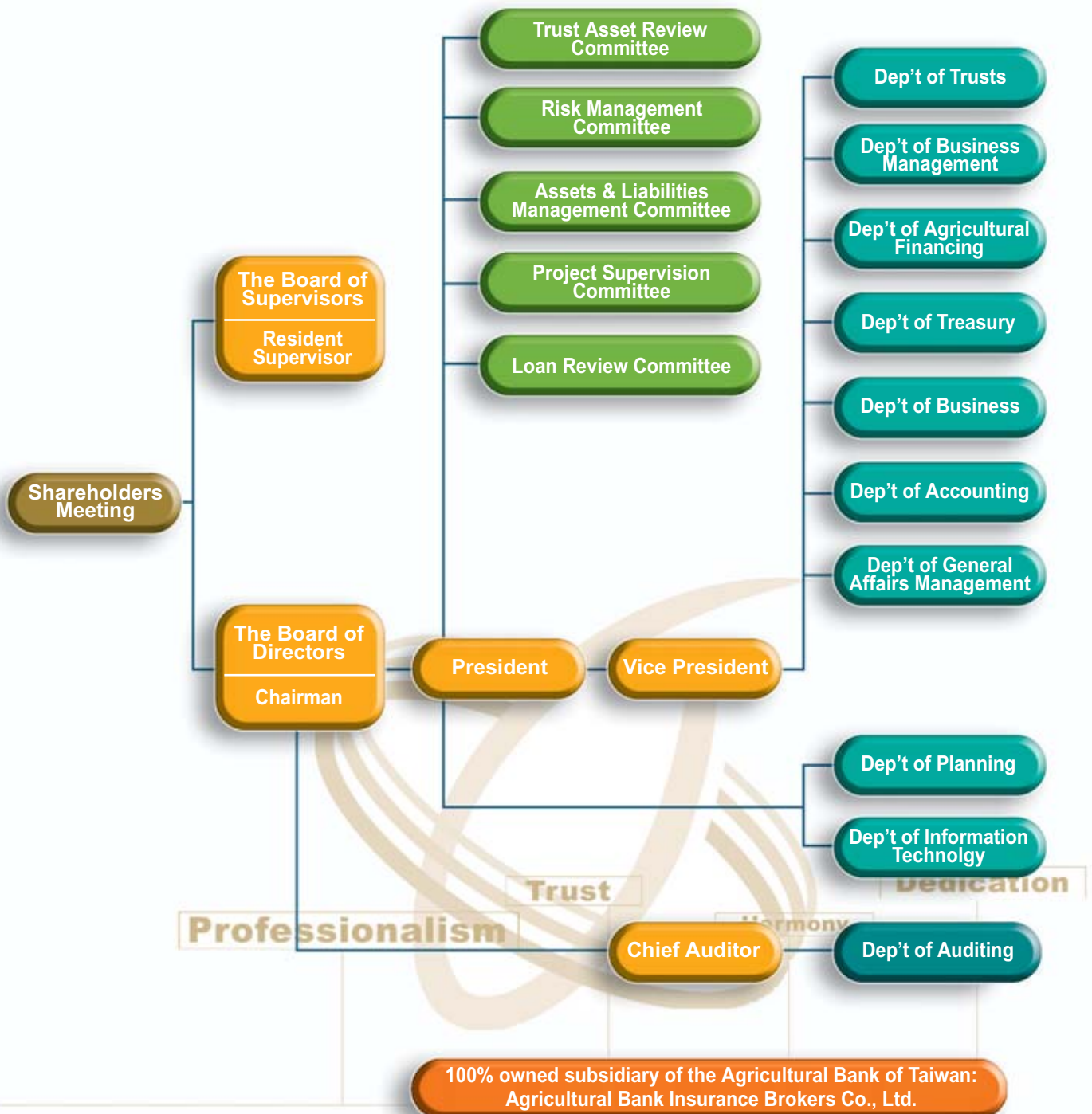
## Report on Corporate Governance



### III. Report on Corporate Governance

#### (I) Organizational structure

##### 1. The Organizational Chart





## 2. Functions and operations of major departments:

(December 31 2006)

<b>Department of Auditing</b>	Handles 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 company's assets, in charge of supervision and inspection of any related issue. Present audit reports to the Board.
<b>Department of General Affairs Management</b>	Handles the meeting arrangements for the Board of Directors and Supervisors, the study on legal cases, joint review of major internal regulations, operation manuals and contracts related to the Company, planning and execution of human resources development, training and utilization, design build and repair of civil works and related invitation for tenders, review and inspection for acceptance, disbursement of miscellaneous items and expenses.
<b>Department of Accounting</b>	Handles 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.
<b>Department of Information Technology</b>	Handles the planning, preparation and evaluation of computer operation plan, preparing budget on information service, computer and operation security planning, design, installation and maintenance of networks, execution, control of machine room, design, write and test computer programs.
<b>Department of Business Management</b>	Handles the planning and call for meetings of the Loan Review Committee and the Loan Approval Team of the Head Office. Institute rules and regulations governing syndicated loans, review, preliminary screening, secondary screening and report on credit information verification for loan applications exceeding specific amount for farmers' and fishermen's associations by facilities of the Company under proper authorization.
<b>Department of Planning</b>	Handles matters relating to the institution and amendment of the Company rules. Map out the business plan and guideline, execute and analyze and report the annual business plan, design and execute marketing strategy and related action plans, planning and tracking on risk management operation, supervision of branch operations, planning and management of direct investments
<b>Department of Treasury</b>	Handles 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 Company, 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.
<b>Department of Agricultural Financing</b>	Handles the planning and execution the governmental subsidizing plans for agricultural units of the government, coaching 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.
<b>Department of Business</b>	Handles 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.
<b>Department of Trusts</b>	Handles the planning, marketing and management of trust products, manage trustee accounts for investment domestic.

## (II) Profiles of Directors and Supervisors:

## 1. Information on Directors and Supervisors

December 31, 2006

Title	Name	Date elected (inauguration)	Initial term	Date of initial election	Status of shareholding at the time of election		Current status of shareholding		Shareholding by spouses and underage children		Shareholding under the title of third parties		Major experience (education)	Any other position in the company and other companies	Spouse or relative at the second tier under the Civil Code who is also an executive, director or supervisor of the Company		
					Quantity	Percentage	Quantity	Percentage	Quantity	Percentage	Quantity	Percentage			Title	Name	Relation
Chairman Name of institutional shareholder: Council of Agriculture, Executive Yuan	L.Y. Huang	2006.4.25	2006.4.25 - 2009.1.15	2006.4.25	0	0	0	0	0	0	0	0	Master degree, MBA, Asia Management College; Chairman, Agricultural Credit Guarantee Fund; Adjunct Associate Professor, Graduate school of Business Administration, Kainan University	Chairman of Agricultural Bank of Taiwan	None	None	
Executive Director Name of institutional shareholder: Council of Agriculture, Executive Yuan	S.H. Chen	2005.6.14	2005.6.14 - 2009.1.15	2005.6.14	0	0	0	0	0	0	0	0	Master degree, Horticulture, National Taiwan University; Chief Secretary, Council of Agriculture, Executive Yuan	Counselor, Council of Agriculture, Executive Yuan	None	None	
Executive Director (Independent Director)	R.J. Woo	Elected as Director: 2004.12.24 Elected as Executive Director: 2005.6.14	Director(Executive Director) Term: 2005.1.16 (2005.6.14)-2009.1.15 Elected as Executive Director: 2005.6.14	Elected as Director: 2004.12.24 Elected as Executive Director: 2005.6.14	0	0	0	0	0	0	0	0	Ph.D. in Economics, Iowa State University, USA; Professor, Dept of Agricultural Economics, National Taiwan University	Professor, Dept of Agricultural Economics, National Taiwan University	None	None	
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	0	0	0	0	0	0	0	0	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	None	None	
Executive Director Name of institutional shareholder: Ta Chia Farmers' Association, Taichung County	S.L. Liu	2004.12.24	2005.1.16 - 2009.1.15	2004.12.24	0	0	0	0	0	0	0	0	Master degree, Public Administration, Tung Hai University; General Manager of Ta Chia Farmers' Association, Taichung County	General Manager of Ta Chia Farmers' Association, Taichung County	None	None	
Director Name of institutional shareholder: Council of Agriculture, Executive Yuan	C.M. Hsu	2005.6.14	2005.6.14 - 2009.1.15	2005.6.14	0	0	0	0	0	0	0	0	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	None	None	
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	0	0	0	0	0	0	0	0	Master degree, Public Administration, National Chengchi University; Master degree, Urban Planning, Asian Institute of Technology; Fifth Directorate, Executive Yuan	Leader, Fifth Directorate, Executive Yuan	None	None	
Director Name of institutional shareholder: Council of Agriculture, Executive Yuan	M.Y. Huang	2006.12.24	2005.1.16 - 2009.1.15	2006.12.24	0	0	0	0	0	0	0	0	Master degree, Urban Planning, National Chung Hsing University; Director, Farmers' service Department, Council of Agriculture Executive Yuan	Director, Farmers' service Department, Council of Agriculture, Executive Yuan	None	None	
Director Name of institutional shareholder: Chung Ho Farmers' Association, Taipei County	Y.L. Ho	2006.12.24	2005.1.16 - 2009.1.15	2006.12.24	0	0	0	0	0	0	0	0	Graduate from Commercial Department; Kailan High School of Commerce and Industry; General Manager of Chung Ho Farmers' Association	General Manager of Chung Ho Farmers' Association	None	None	
Director Name of institutional shareholder: Dou Nan Farmers' Association, Yun Lin County	Y.T. Chang	2006.12.24	2005.1.16 - 2009.1.15	2006.12.24	0	0	0	0	0	0	0	0	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	None	None	

December 31, 2006

Title	Name	Date elected (inauguration)	Initial term	Date of initial election	Status of shareholding at the time of election		Current status of shareholding		Shareholding by spouses and underage children		Shareholding under the title of third parties		Major experience (education)	Any other position in the company and other companies	Spouse or relative at the second tier under the Civil Code who is also an executive, director or supervisor of the Company		
					Quantity	Percentage	Quantity	Percentage	Quantity	Percentage	Quantity	Percentage			Title	Name	Relation
Director Name of institutional shareholder: Jente Farmers' Association, Tainan County	M.F. Chen	2006.12.24	2005.1.16 - 2009.1.15	2006.12.24	0	0	0	0	0	0	0	0	Graduate of ChiaYi Zhihui High School; General Manager of Jente Farmers' Association of Tainan	General Manager of Jen Te Farmers' Association of Tainan	None	None	
Independent Director	C.T. Yu	2004.12.24	2005.1.16 - 2009.1.15	2004.12.24	0	0	0	0	0	0	0	0	Master degree, MBA, Baker University; Deputy Director General, Department of Banking, The Central Bank of China, Taipei	Deputy Director General, Department of Banking, The Central Bank of China, Taipei (promoted to be Director General, Department of Treasury in February 2007)	None	None	
Independent Director	L.J. Wang	2004.12.24	2005.1.16 - 2009.1.15	2004.12.24	0	0	0	0	0	0	0	0	PhD, Economics, University of Washington; Research Fellow, Taiwan WTO Center, Chung-Hua Institution for Economic Research	Research Fellow, Taiwan WTO Center, Chung-Hua Institution for Economic Research (promoted to be Director, the Center for Economic Forecasting in May 2007)	None	None	
Independent Director	W.Y.Ting	2004.12.24	2005.1.16 - 2009.1.15	2004.12.24	0	0	0	0	0	0	0	0	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	None	None	
Independent Director	S.L.Weng	2006.6.12	2006.6.12 - 2009.1.15	2006.6.12	0	0	0	0	0	0	0	0	PhD, PPP, University of Pittsburgh, USA; Professor, Public and Business Administration, National Taipei University	Professor, Public and Business Administration, National Taipei University	None	None	
Independent Supervisor	P.H.Shih	2005.10.11	2005.10.11 - 2009.1.15	2005.10.11	0	0	0	0	0	0	0	0	Master degree, Public Administration, National Taiwan University; Director of the Second Department, Directorate-General of Budget, Accounting and Statistics, Executive Yuan	Director of the Second Department, Directorate-General of Budget, Accounting and Statistics, Executive Yuan	None	None	
Supervisor Name of institutional shareholder: Council of Agriculture, Executive Yuan	H.C.Chen	2004.12.24	2005.1.16 - 2009.1.15	2004.12.24	0	0	0	0	0	0	0	0	Master degree, Accounting, National Chengchi University; Accounting Director of Accounting Office, Council of Agriculture, Executive Yuan	Accounting Director of Accounting Office, Council of Agriculture Executive Yuan	None	None	
Supervisor Name of institutional shareholder: Chuang Hua Fishery Association	C.T. Chen	2004.12.24	2005.1.16 - 2009.1.15	2004.12.24	0	0	0	0	0	0	0	0	Private United Institute of Technology; General Manager of Changhua Fishery Association,	General Manager of Changhua Fishery Association,	None	None	
Independent Supervisor	T.C. Hwang	2004.12.24	2005.1.16 - 2009.1.15	2004.12.24	0	0	0	0	0	0	0	0	PhD, Agricultural Economics and Rural Society, Ohio State University, USA; Professor, Applied Economics, National Chung Hsing University	Chair, Dept of Applied Economics, National Chung Hsing University	None	None	
Independent Supervisor	S.Y. Lee	2006.6.12	2006.6.12 - 2009.1.15	2006.6.12	0	0	0	0	0	0	0	0	PhD, Finance, Columbia University, NY, USA; Commissioner, Financial Supervisory Commission, Executive Yuan	Commissioner, Financial Supervisory Commission, Executive Yuan	None	None	

## 2. Major shareholders of institutional shareholders:

December 31 2006

Name of institutional shareholder	Major shareholders of the institutional shareholder
Council of Agriculture, Executive Yuan	Non-profit organization
Pan Chiao Farmers Association, Taipei County	Non-profit organization
Ta Chia Farmers Association, Taichung County	Non-profit organization
Chung Ho Farmers Association, Taipei County	Non-profit organization
Dou Nan Farmers Association, Yun Lin County	Non-profit organization
Jente Farmers Association, Tainan County	Non-profit organization
Changhua Fishery Association,	Non-profit organization

### 3. Information on Directors and Supervisors

Name	conditions	Have more than 5 years of experience and the following professional qualifications			Status of independence										Number of public companies where the person holds the title as independent director
		Lecturer or above in commerce, law, finance, accounting or subjects required by the business of the Company in public or private colleges or universities	Passed the qualification examination with proper licensing by the national government as court judge, prosecutor, lawyers, certified public accountant or other professional designations required by the business of the Company	Required Work experience in commerce, law, finance, accounting or others required by the Company	1	2	3	4	5	6	7	8	9	10	
L.Y. Huang		√		√	√	√	√	√	√	√	√	√	√	√	0
S.H. Chen				√	√	√	√	√		√	√	√	√		0
R.J. Woo		√		√	√	√	√	√	√	√	√	√	√	√	0
H.H. Wang				√	√	√	√	√	√		√	√	√		0
S.L. Liu				√	√	√	√	√	√		√	√	√		0
C.C. Hsia				√	√	√	√	√		√	√	√	√		0
M.Y. Huang				√	√	√	√	√		√	√	√	√		0
Y.L. Ho				√	√	√	√	√	√		√	√	√		0
M.F. Chen				√	√	√	√	√	√		√	√	√		0
Y.T. Chang				√	√	√	√	√	√		√	√	√		0
W.Y. Ting				√	√	√	√	√	√	√	√	√	√	√	0
L.J. Wang		√		√	√	√	√	√	√	√	√	√	√	√	0
C.M. Hsu				√	√	√	√	√		√	√	√	√		0
C.T. Yu				√	√	√	√	√	√	√	√	√	√	√	0
S.L. Weng		√		√	√	√	√	√	√	√	√	√	√	√	0
P.H. Shih				√	√	√	√	√	√	√	√	√	√	√	0
C.T. Chen				√	√	√	√	√	√		√	√	√		0
T.C. Hwang		√		√	√	√	√	√	√	√	√	√	√	√	0
H.C. Chen				√	√	√	√	√		√	√	√	√		0
S.Y. Lee		√		√	√	√	√	√	√	√	√	√	√	√	0

Note 1: Respective director and supervisor who meet the following qualifications 2 years before assumption of office or at the time of assumption office shall put a √ in the appropriate space.

1. Not an employee of a bank or its affiliates.
2. Not a director or supervisor of a bank or its affiliates (excluding the capacity of independent director to a subsidiary directly or indirectly held by the Company or the Company and its parent with more than 50% of the stakes).
3. Not a director or supervisor, his/her spouse, underage child, or under the title of a third party who holds more than 1% of the outstanding shares issued by the Company or among the top 10 natural person shareholders.
4. Not a spouse or relative(s) at the second tier under the Civil Code, or the next of kin within the fifth tier under the Civil Code as specified in (1) through (3).
5. Not a director, supervisor or employee of an institutional shareholder who holds more than 5% of the outstanding shares issued by the Company, or a director, supervisor or employee of an institutional shareholder who is among the top 5 shareholders.
6. Not a director, supervisor, manager or shareholder holding more than 5% of the outstanding shares of specific company or institution in business or financial relation with the Company.
7. Not a professional, owner, partner, director, supervisor, manager of proprietorship, partnership, company or institution that provide business, legal, financial and accounting services to the Company or a spouse to the aforementioned persons.
8. Not a spouse to or kin at the second tier under the Civil Code to any other director.
9. Not under any of the categories stated in Article 30 of Company Act.
10. Not being elected as representative to the government or an institution under Article 27 of Company Act.



### (III) Information on the managers

Dec.31 2006

Title	Name	Inauguration date	Status of shareholding		Shareholding by spouses, underage children		Shareholding under the title of third parties		Major experience (education)	Positions in other companies	A manager of the company with a relationship with spouses or siblings/grandparents		
			Quantity	Proportion of shareholding	Quantity	Proportion of shareholding	Quantity	Proportion of shareholding			Title	Name	Relation
President	W.H. Ding	2005/5/26	-	-	-	-	-	-	Graduate from Dept of Banking Insurance, Feng Chia University VP, Farmers Bank of China; Manager, Director of Secretariat, Land Bank of Taiwan	Chairman, Agricultural Bank Insurance Broker Co., Ltd.	-	-	-
Executive Vice President	C.N. Shen	2005/5/26	-	-	-	-	-	-	Graduate from Dept of Financial Management, National Defense University; Division manager, Farmers Bank of China	-	-	-	-
Executive Vice President and CFO	H.C. Huang	2005/5/26	-	-	-	-	-	-	Graduate school of Business Administration, National Taiwan University; President, E. Sun Securities General manager, E. Sun	Director, Agricultural Bank Insurance Broker Co., Ltd.	-	-	-
Executive Vice President	K.F. Chu	2006/2/24	-	-	-	-	-	-	Graduate from Dept of Agricultural Economics, National Taiwan University; Manager, Farmers Bank of China	Director, Agricultural Bank Insurance Broker Co., Ltd.	-	-	-
Chief Auditor	H.E. Chang	2006/2/24	-	-	-	-	-	-	College of Horticulture, Hannover University in Germany; Manager, Agricultural Credit Guarantee Fund Manager, Land Bank of Taiwan	-	-	-	-
General Manager, Department of Accounting	I.K. Hung	2005/5/26	-	-	-	-	-	-	Graduate school of Statistics, National Chengchi University; Deputy Manager, Planning Dept, Farmers Bank of China	Supervisor, Agricultural Bank Insurance Broker Co., Ltd.	-	-	-
General Manager, Department of General Affairs Management	C.H. Han	2005/5/26	-	-	-	-	-	-	Accounting and Statistics, Tamshui Industrial and Commercial Management School; Deputy Manager, Secretariat of the Land Bank of Taiwan.	-	-	-	-
General Manager, Department of Information Technology	M.S. Chen	2005/5/26	-	-	-	-	-	-	Dept of Computer Science, Feng Chia University; Professional commissioner, Fuhwa Commercial Bank	-	-	-	-
General Manager, Department of Business	Y.H. Chiu	2005/5/26	-	-	-	-	-	-	Dept of Land Administration, National Chung Hsing University; Manager, Land Bank of Taiwan	-	-	-	-
General Manager, Department of Business Management	H.T. Chen	2005/6/29	-	-	-	-	-	-	Credit courses in the Graduate School of International Business Management, Chinese Cultural University; Dept of Commerce, National Open University; Deputy manager, Review Dept, Land Bank of Taiwan	-	-	-	-
General Manager, Department of Agricultural Financing, and Planning	H.M. Yen	2005/5/26	-	-	-	-	-	-	Graduate School of Agricultural Economics, Kyosho University in Japan; Manager, Farmers Bank of China	-	-	-	-
General Manager, Department of Trusts	T.P. Weng	2006/2/22	-	-	-	-	-	-	Dept of Business Administration, Soochow University Manager, Trust Dept, E. Sun Bank	-	-	-	-

#### (IV) Remunerations to the Directors, Supervisors, President and the Vice Presidents

##### 1. Remunerations to the Directors

Unit: NT\$

Title	Name	Transportation subsidy		Remunerations		Remunerations paid from earnings		Employee bonus from earnings						Total of the 4 columns on the left side		Percentage of the total to EBT (%)		Amount of employee stock options obtained		Other remunerations	
		The Company	All companies contained in consolidated financial statements	The Company	All companies contained in consolidated financial statements	The Company	All companies contained in consolidated financial statements	The company						The Company	All companies contained in consolidated financial statements	The Company	All companies contained in consolidated financial statements	The Company	All companies contained in consolidated financial statements	The Company	All companies contained in consolidated financial statements
								Cash dividend	Stock dividend	Market price	Amount	Cash dividend	Stock dividend	Market price	Amount						
Chairman	L.Y. Huang	0	0	2,460,000	0	0	0	0	0	0	0	0	0	0	0	2,460,000	0	1.802	0	0	0
Executive Director	S.H. Chen	86,000	0	0	0	0	0	0	0	0	0	0	0	0	0	86,000	0	0.063	0	0	0
Executive Director	R.J. Woo	255,000	0	0	0	0	0	0	0	0	0	0	0	0	0	255,000	0	0.187	0	0	0
Executive Director	H.H. Wang	255,000	0	0	0	0	0	0	0	0	0	0	0	0	0	255,000	0	0.187	0	0	0
Executive Director	S.L. Liu	255,000	0	0	0	0	0	0	0	0	0	0	0	0	0	255,000	0	0.187	0	0	0
Director	C.C. Hsia	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Director	M.Y. Huang	96,000	0	0	0	0	0	0	0	0	0	0	0	0	0	96,000	0	0.070	0	0	0
Director	Y.L. Ho	170,000	0	0	0	0	0	0	0	0	0	0	0	0	0	170,000	0	0.125	0	0	0
Director	M.F. Chen	170,000	0	0	0	0	0	0	0	0	0	0	0	0	0	170,000	0	0.125	0	0	0
Director	Y.T. Chang	170,000	0	0	0	0	0	0	0	0	0	0	0	0	0	170,000	0	0.125	0	0	0
Director	W.Y. Ting	170,000	0	0	0	0	0	0	0	0	0	0	0	0	0	170,000	0	0.125	0	0	0
Director	L.J. Wang	170,000	0	0	0	0	0	0	0	0	0	0	0	0	0	170,000	0	0.125	0	0	0
Director	C.M. Hsu	96,000	0	0	0	0	0	0	0	0	0	0	0	0	0	96,000	0	0.070	0	0	0
Director	C.T. Yu	84,000	0	0	0	0	0	0	0	0	0	0	0	0	0	84,000	0	0.062	0	0	0
Director	S.L. Weng	110,000	0	0	0	0	0	0	0	0	0	0	0	0	0	110,000	0	0.081	0	0	0

Scale of remunerations to respective director of the Company	Number of Directors	
	Year	
	The Company	Companies included in consolidated financial statements
Less than NT\$2,000,000	14	-
NT\$2,000,000 (included) ~NT\$5,000,000	1	-
NT\$5,000,000 (included) ~NT\$10,000,000	-	-
NT\$10,000,000 (included) ~ NT\$50,000,000	-	-
More than NT\$50,000,000	-	-
Total	15	-

## 2. Remunerations to the Supervisors

Unit: NT\$

Title	Name	Transportation subsidies		Remunerations		Remunerations to supervisors from earnings		Total of the 3 columns on the left		The proportion of the total to Earnings (%)		Other remunerations	
		The company	Companies included in the consolidated financial statements	The company	Companies included in the consolidated financial statements	The company	Companies included in the consolidated financial statements	The company	Companies included in the consolidated financial statements	The company	Companies included in the consolidated financial statements	The company	Companies included in the consolidated financial statements
Supervisor	P.H. Shih	84,000	0	0	0	0	0	84,000	0	0.062	0	0	0
Supervisor	C.T. Chen	170,000	0	0	0	0	0	170,000	0	0.125	0	0	0
Supervisor	T.C. Hwang	134,000	0	0	0	0	0	134,000	0	0.098	0	0	0
Supervisor	H.C. Chen	96,000	0	0	0	0	0	96,000	0	0.070	0	0	0
Supervisor	S.Y. Lee	48,000	0	0	0	0	0	48,000	0	0.035	0	0	0

Brackets of remunerations to the supervisors of the company	Number of supervisors	
	Year-2006	
	The company	Companies included in consolidated financial statements
Less than NT\$2,000,000	5	-
NT\$2,000,000 (included) ~ NT\$5,000,000	-	-
NT\$5,000,000 (included) ~ NT\$10,000,000	-	-
NT\$10,000,000 (included) ~ NT\$50,000,000	-	-
More than NT\$50,000,000	-	-
Total	5	-

## 3. Remunerations to the President and Executive Vice Presidents

Unit: NT\$

Title	Name	Salary		Bonus and special subsidy		Amount of employee bonus from earnings							The total of the 3 columns on the left		The proportion of the total to Earnings (%)		Amount of Employee stock options acquired		Remunerations from investments other than subsidiaries
		The company	Companies included in the consolidated financial statements	The company	Companies included in the consolidated financial statements	The company			Companies included in the consolidated financial statements				The company	Companies included in the consolidated financial statements	The company	Companies included in the consolidated financial statements	The company	Companies included in the consolidated financial statements	
						Cash dividend	Stock dividend	Market price	Cash dividend	Stock dividend	Market price	Amount							
President	W.H. Ding	2,880,000	0	728,454	0	0	0	0	0	0	0	0	3,608,454	0	2.643	0	0	0	0
Executive Vice President	C.N. Shen	2,196,000	0	574,477	0	0	0	0	0	0	0	0	2,770,477	0	2.029	0	0	0	0
Executive Vice President	H.C. Huang	2,196,000	0	592,271	0	0	0	0	0	0	0	0	2,788,271	0	2.043	0	0	0	0
Executive Vice President	K.F. Chu	2,157,000	0	34,650	0	0	0	0	0	0	0	0	2,191,650	0	1.605	0	0	0	0
Chief Auditor	S.E. Chang	1,842,000	0	0	0	0	0	0	0	0	0	0	1,842,000	0	1.349	0	0	0	0

Brackets of remunerations to the president and vice presidents of the company	Number of President and Vice Presidents	
	Year-2006	
	The company	Companies included in the consolidated financial statements
Less than NT\$2,000,000	1	-
NT\$2,000,000 (included)~NT\$5,000,000	4	-
NT\$5,000,000 (included)~NT\$10,000,000	-	-
NT\$10,000,000 (included)~NT\$15,000,000	-	-
NT\$15,000,000(included)~NT\$30,000,000	-	-
NT\$30,000,000(included)~NT\$50,000,000	-	-
NT\$50,000,000(included)~NT\$100,000,000	-	-
More than NT\$100,000,000	-	-
Total	5	-

## (V) Practice of corporate governance

### 1. Status of The Board Operations

(1) The Board has held 11 sessions in 2006. The attendance of the directors and supervisors is shown as follows:

Occupational Title	Name	Attendance (attend as observer)	Attend through proxy	Attendance rate	Remarks
Chairman	L.Y. Huang	8	-	100%	Assumed on 2006.4.25
Acting Chairman	W.H. Ding	3	-	100%	Relieved on 2006.4.25
Director	S.L. Liu	10	1	91%	
Director	H.H. Wang	11	-	100%	
Director	Y.L. Ho	10	-	91%	
Director	Y.T. Chang	7	4	64%	
Director	M.F. Chen	11	-	100%	
Director	K.Y. Chang	3	6	33%	Relieved on 2006 .11.2
Director	C.C. Hsia	-	-	-	Assumed on 2006.12.21
Director	S.H. Chen	10	1	91%	
Director	M.Y. Huang	9	2	82%	
Director	C.M. Hsu	11	-	100%	
Independent Director	R.J. Woo	9	1	82%	
Independent Director	C.T. Yu	8	3	73%	
Independent Director	L.J. Wang	6	5	55%	
Independent Director	W.Y. Ting	10	1	91%	
Independent Director	T.M. Huang	3	1	75%	Relieved on 2006.4.25
Independent Director	S.L. Weng	5	-	83%	Assumed on 2006.6.12
Resident Supervisor	P.H. Shih	8	-	73%	
Supervisor	C.T. Chen	8	-	73%	
Supervisor	H.C. Chen	11	-	100%	
Supervisor	T.C. Hwang	2	-	18%	
Supervisor	S.Y. Lee	3	-	50%	Assumed on 2006.6.12



## (2) Important notice:

The status of the avoidance of conflict of interest by Directors.

- Motion No.8 proposed in the 19th session of the 1st Board held on April 25 2006  
Cause of motion: Ta Chia Farmers Association reported a loan applying from Marketing Department to its Credit Department. According to the Agricultural Finance Law, the Board of Agricultural Bank of Taiwan is required to consent and approve any loan which exceeds the upper limit.  
Resolution: In the presence of 15 Directors, the Board acted in favor of the resolution made by Credit Review Committee under unanimous consent of 14 members with the abstention of Executive Director S.L. Liu to avoid a conflict of interest.
- Motion No. 10 proposed in the 21st session of the 1st Board held on July 18 2006.  
Cause of motion: Tou Nan Farmers Association reported a loan for Marketing Department to its Credit Department. According to the Agricultural Finance Law, the Board of Agricultural Bank of Taiwan is required to consent and approve any loan which exceeds the upper limit.  
Resolution: According to the law, the Board of the Company acted in favor of the motion under unanimous consent of attending members in conformity with the decision of the Credit Review Committee with the abstention of Executive Director S.L. Liu who appoints the Executive Director Y.T. Chang on behalf of his name in his absence to avoid a conflict of interest.
- Motion No. 14 in the 23rd session of the 1st Board held on September 20 2006.  
Cause of motion: Chung Ho Farmers Association reported a non-member's loan.  
According to the Agricultural Finance Law, the Board of Agricultural Bank of Taiwan is required to consent and approve any loan which exceeds the upper limit.  
Resolution: The Board acted in favor of the resolution made by Credit Review Committee under unanimous consent of attending members with the abstention of Director Y.L. Ho to avoid a conflict of interest.
- Motions No. 10 and No. 11 in the 26th session of the 1st Board held on December 19 2006.  
Cause of motion: Chung Ho Farmers Association reported a sponsoring member's loan. According to the law, the Board of Agricultural Bank of Taiwan is required to consent and approve any loan which exceeds the upper limit.  
Resolution: The Board acted in favor of the resolution under unanimous consent of attending members in conformity with the decision of the Credit Review Committee with the abstention of Director Y.L. Ho to avoid a conflict of interest.
- Motion No. 11 in the 26th Session of the 1st Board held on December 19 2006.  
Cause of motion: Chung Ho Farmers Association reported a sponsoring member's loan. According to the law, the Board of Agricultural Bank of Taiwan is required to consent and approve any loan which exceeds the upper limit.  
Resolution: The Board acted in favor of the resolution under unanimous consent of attending members in conformity with the decision of the Credit Review Committee with the abstention of Director Y.L. Ho to avoid a conflict of interest.

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

Item	Status of Operations	Divergence from Corporate Governance Practice Principles for Banks and Reasons
1. Shareholding structure and Shareholders equity (1) Method of handling shareholders' suggestions and disputes. (2) Status of The Bank's control of lists of dominant shareholders and final decision-makers (3) Method by which the Bank established risk-management strategies and firewalls involving related enterprises.	(1) Particular person is appointed to handle suggestions and disputes of the shareholders (2) Special person at the General Affairs Management department is appointed to control the list of dominant shareholders and final decision-makers can be retrieved at any time. (3) The Company and affiliates are transparent and clear cut in personnel, assets and financial management, and duly observe and enforce applicable internal control systems.	None.
2. The Organization and responsibilities of the Board of Directors (1) Status of the establishment of independent directors for banks (2) Status of regular assessment of the independence of CPA	(1) Pursuant to Article 17 of the Agricultural Finance Act and determine the number of seats of directors as stated in the corporate stipulates, two-thirds of the directors shall be elected by Shareholders Meeting. The rest of the directors shall be assigned as independent directors. (2) The Company appoints the external CPA every year and the nomination should be presented for the approval of the Board of Directors.	None.
3. The organization and responsibilities of supervisors (1) Status of the establishment of independent supervisors for a bank (2) Status of communication between the supervisors and the employees and shareholders of the bank.	(1) Pursuant to Article 20 of the Agricultural Finance Act and determine the number of seats of directors as stated in the corporate stipulates, one-half of the supervisors shall be elected by Shareholders Meeting. The rest of the supervisors shall be assigned as independent supervisors. (2) Supervisors of the Company oversee the operation irregularly. They attend the annual Shareholders Meeting.	None.
4. Communication Channels with related parties	The Company has offered "Customers Comments Mailbox", "Farmers and Fishermen's Associations Interchange Network", Farmers and Fishermen's Associations Contact in public via the website for providing a channel for complaints and proper communications with customers and related parties.	None.
5. Disclosure of information (1) The bank has established its own website for the disclosure of financial position and status of operation and corporate governance (2) Other means of disclosures (e.g., setting up the English website, appointing particular persons for gathering and disclosing information of the bank, properly enforcing the spokesman system, placing the institutional investor conference proceeding on the bank's website).	(1) Company website: <a href="http://www.agribank.com.tw">http://www.agribank.com.tw</a> is maintained by appointed personnel. The Company makes important disclosures on the page titled "Mandatory Disclosures" on the website of the Company under law routinely. (2) The Company discloses its annual reports and related information on financial position and operations through the site. The Company also has a spokesman system for unifying public announcements.	None.
6. Status of Operations for the Bank's establishment of the Audit Review Committee and Other Functional committees	The Company has not yet established any functional committee such as an Audit Review Committee.	The Company will plan to establish such functional committee according to its corporate development status.
7. Please specify the status of corporate governance, its variation from the "Rules of Corporate Governance in the Banking Industry", and the reasons for variation: The status of corporate governance of the Company and its variation from industry practice has been stated as above point 1-6.		
8. Please specify the system or measure of the Company on social responsibility and the status of pursuit: The Company complies with the governmental policies to promote every kind of governmental policy loan for agricultural specialized project loans, and coach the credit departments of farmers and fishermen's associations for their healthy development leading to the prosperity of agricultural economy. In the future, the Company will proactively take part in social charity, show its concern for the community, value social responsibility and materialize its commitment of "Taking from Society, Feeding back to Society".		
9. Other important information that may be helpful for understanding the status of corporate governance (1) Continuing education of directors and supervisors: The directors and supervisors have participated in the "Seminar on Senior Executives in Trust Business" held by Taiwan Academy of Banking and Finance. (2) Attendance status of directors and supervisors at the Board of Directors: all directors of the Company eagerly attend all Board sessions and participated in the discussions. The Supervisors also attend the meetings and express opinions at the proper moment. (3) The directors avoid balloting against the issues that may involve their own interests to avoid a conflict of interest. (4) Status of liability insurance for the directors and supervisors: the Company does not buy liability insurance for directors and supervisors yet.		

### 3. Statement of Internal Control System

(1) Internal Control System Statement of Agricultural Bank of Taiwan Limited

On behalf of Agricultural Bank of Taiwan Ltd., we declare that, during the period from January 1, 2006 to December 31, 2006, the Company fully complied with the "Regulations Governing the Internal Control and Auditing System for Banks" to establish an internal control system and practice risk management, of which an impartial and independent auditing department conducted inspection, with the report periodically submitted to the Board of Directors and Supervisors (For securities business run by the Company, the auditing department also determined whether design and implementation of the internal control system were effective based on items for assessment of effectiveness of the internal control system pursuant to the "Regulations Governing Establishment of the Internal Control System by Service Enterprises in Securities and Futures Markets" established and promulgated by the Securities and Futures Bureau of the Financial Supervisory Commission.). After careful review, we find that internal control and legal compliance in all units for the year were fully and effectively implemented. The Statement will become part of the main contents of the annual report and the prospectus of the Company, and will be disclosed to the public. Any unlawful conduct such as misrepresentation or concealment involved in the aforesaid disclosed contents will incur legal liabilities under Article 20, Article 32, Article 171 and Article 174 of the Securities and Exchange Act.

Respectfully to:

The Council of Agriculture, Executive Yuan

Declarants:

Chairman

**L.Y. Huang**



President

**W.H. Ding**



Chief Auditor

**H.E. Chang**



Head Office Legal Compliance Head

**C.N. Shen**



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February 7, 2007

(2) Auditors' Report

To: The Board of Directors  
Agricultural Bank of Taiwan

Pursuant to Article 26 of the Act of Agricultural Finance, the Agricultural Bank of Taiwan appointed external auditors for an audit of internal control and compliance. The scope of the examination and others in compliance shall comply with Article 45-1 of Banking Act. Also according to Article 25 of the Regulation for the Implementation of Internal Control System and Audit System of Banks enacted by Ministry of Finance, R.O.C., stipulated that For a bank's fiscal year annual report which will be checked and certified by independent auditors, banks shall also appoint external auditors to examine their internal control system, and shall express opinions on the accuracy of the information contained in the statements to be declared with competent authority, the status of internal control and compliance in accordance with applicable legal rules, and giving the suitability opinions of the Allowance for bad debts Accounts .

We are appointed by the Agricultural Bank of Taiwan to conduct the aforementioned audit for fiscal year 2006, and have also presented the scope of examination, the sources and evidence, audit procedures and audit findings in accordance with Article 28 of the same law as attached.

This inspection report is only for reference purposes of your company or supervisory review of relevant authorities; do not use it for any other intention or distribute it to any irrelevant party..

Lu Ya-Che, CPA  
Solomon & Co., CPAs  
March 1 2007

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## Extract the Audit Findings and Scope of Examination Report of CPA

### (1) The design and implementation of the internal control system on major business

#### a. Loans

- (a) Scope of examination: There are short-term, medium and long-term loans, and consumer loans offered by the Company. The audit is conducted to ensure the compliance of the Company in accordance with legal rules of banking and finance and the bank's related regulations. The objective of checking the credit issues of borrowers is to evaluate their credit status and future liquidity, which will be used as determinants for approving loans. When verifying loan applications, the banks shall realize that all cases are in accordance with the standard operation procedure for correctly judging and deciding the granting of loans.
- (b) Audit findings: No significant material shortcoming has been discovered in the audit of the design and implementation of internal control system in the aspect of loans as mentioned.

#### b. Financial Derivatives

- (a) Scope of examination: These are new financial products deriving from conventional products including foreign exchange, interest rate, stocks or other financial instruments and indexes. The audit requires the examination of derivative trading by the Company for assuring security and stability in the proper monitoring of derivative trade by the Board of Directors and the senior management of the Company, related policies, procedures, operations and information for the suitability and for compliance with applicable legal rules and internal policies and internal regulations of the Company.
- (b) Audit findings: No significant material shortcoming has been discovered in the audit of the design and implementation of internal control system in the aspect of aforementioned financial derivatives.

#### c. Deposits:

- (a) Scope of examination: The Agricultural Bank of Taiwan offers checking account deposits, current account deposits, treasury deposits, other bank deposits, composite deposits, saving deposits (current account deposits, installment saving and lump disbursement saving deposits, lump saving and lump disbursement saving accounts, lump saving and installment disbursement saving accounts, and principal saving and interest bearing saving accounts).
- (b) Audit findings:  
As audited, there is occasional missing or incomplete information of deposit related supporting documents.
- (c) Recommendation: Proceed with the business in conformity with the standard operation procedure of the company.
- (d) Opinions of the management: corrective action has been taken accordingly, more attention will be made in the future.

#### d. Allocation of funds

- (a) Scope of examination: Fund allocation includes the transactions of funds between the Agricultural Bank of Taiwan and other banks. The gravity of audit should pay attention to the suitability of any kind of risk control measure regarding the funds allocation, ensuring to maintain the security of the assets, operate this business complying with policies and applicable legal rules and company regulations in processing, properly check to see if the operation matches the principle of internal control, also check if company's accounting records and management information are correct and right.
- (b) Audit findings: No significant material shortcoming has been discovered in the audit of the design and enforcement relating to the internal control system of funds allocation as above mentioned.

#### e. Investments

- (a) Scope of examination: The analysis of the categories of securities could be classified into 3 major categories:
  - ① Money market — this includes treasury bills maturing in 1 year, transferable bank CD, bank's acceptance bill, commercial bills, and all kinds of bonds...etc. with maturities of short-term

period in 1 year (i.e. government bonds, financial debentures and corporate bonds).

② Bond market — Financial instruments include corporate bonds, financial debentures with maturities of longer than 1 year, the same scope as those in the capital market.

③ Stock market — Financial instruments includes listed stocks, OTC (over-the-counter) stocks.

The audit requires the examination to assure the compliance of the staff who are in charge of the investments following applicable legal rules and standard operation procedure for asset security, maintaining security, income and liquidity of the investment assets that belongs to the Agricultural Bank of Taiwan.

(b) Audit findings: No significant material shortcoming has been discovered in the audit of the design and enforcement relating to the internal control system of investment operation as mentioned above.

f. Trust:

(a) Scope of examination: trust covers the investment of foreign securities by making use of Special Trust of Money, the investment in domestic securities investment trust funds by making use of Special Trust of Money, Special One-Purpose Management Trust of Money, the development of real-estate, running and management and selling of the real-estate, the business pertaining to the allocation of trust assets and return on trust. The audit requires the examination to assure the related persons who are in compliance with the trust regulations to act as the role of good-faith administrator who shall exercise due care and pay attention to their liability when executing the trust business relating to the separate or direct obligation of management for trust assets, the bank's own assets and other assets. They shall not take interest interfering with each other between the trust assets and the individual. In processing the trust matters, they shall not scheme to benefit themselves or the third parties. They shall prepare relevant statements and reports for their clients, the beneficiaries and related parties explaining the status of the trust accounts regularly.



(b) Audit findings: No significant material shortcoming has been discovered in the audit of the design and enforcement of internal control system in the aspect of trust operation.

g. IT system:

(a) Scope of examination: this includes to check if the organization and management of the management of computer equipment, system development and maintenance, server operation and processing, online management, program and data file management, producing management of PIN slips and banking card, Hardware Security Module management complies with applicable legal rules in financial banking and the internal regulations of the company.

(b) Audit findings: material facts

① As observed, personal items were placed in the server room at Information Management Office.

② Performed a random inspection to the connection log daily book of Business Department. There was occasional missing information in the login time on the daily book.

③ Performed a random inspection to the signing list of Workshop access card of the Business Department. There were occasional missing authorized signatures (seals) on the list.

(c) Recommendation from the auditor:

① Should avoid placing personal effects in the server room.

② Corrective action has been requested, will pay attention to it in the future.

③ Corrective action has been taken, will pay attention to it in the future.



## (d) Opinions of the management:

- ① Personal effects have been removed from the server room, will pay attention to it.
- ② Corrective action has been taken, will pay attention to it.
- ③ Corrective action has been taken, will pay attention to it.

## (2) Status of implementing the system of compliance officer who follows the regulation and law

- a. Scope of examination: the System of compliance officer assesses the compliance of the Agricultural Bank of Taiwan under applicable legal rules and requirements of competent authority. This assessment is to assure the effective compliance of written legal rules and the training of responsible banking officers in conformity with legal requirements, as well as the timely and correct reports presented by the management, the capacity of the management to identify and correct nonconformities, and the inclusion of examination on compliance in internal audit.
- b. Audit findings: No significant material shortcoming has been discovered in the execution status of following the system of compliance officer.

## (3) Suitability of the allowance for bad debts accounts.

- a. Scope of examination: to assure the Agricultural Bank of Taiwan has suitable policies and procedures in preparing for the allowance for bad debts accounts and has conducted regular assessment on its asset quality to reserve the proper bad debts accounts amount. Related assets are loans, investments, other assets and off balance sheet contingencies.
- b. Audit findings: No significant material shortcoming has been discovered in the audit of the execution status of aforementioned reserve for the allowance for bad debts accounts .

## (4) Accuracy in information contained in statements reported to competent authorities

- a. Scope of examination: to assure the complete, timely and accurate statistical figures and information presented by the Agricultural Bank of Taiwan to the Central Bank.
- b. Audit findings: No significant material shortcoming has been discovered in the audit of the accuracy in information which being applied to competent authorities.

**4. Any sentence by law, major shortcoming and status of corrective action in the last 2 year:**

None.

**5. Major resolutions of the Shareholders Meeting or the Board of Directors in the most recent year up to the day of this annual report printed:**(1) 12<sup>th</sup> session of the 1<sup>st</sup> Board of Executive Directors held on April 25 2006

Cause of motion: the executive directors were asked to elect one chairman from among themselves.

Result of the poll: Executive Director Huang Li-Yueh was elected as the Chairman.

(2) 19<sup>th</sup> session of the 1<sup>st</sup> Board of Directors held on April 25 2006

Cause of motion: According to the Letter Chin-Guan-Ren-Tzi No. 094006036 issued by Executive Yuan Financial Supervisory Commission, the change in the duties of Director Huang Tien-Mu resulted in one vacant seat of director in the Company. This seat was to be filled by a person appointed by competent authority at the national level. Election for a new director to the vacancy will be held in the Shareholders Meeting.

Resolution: Resolved, the directors in session acted in favor of the motion whereby election of a new director shall be referred to the Shareholders Meeting.

## (3) Regular session of the Shareholders General Meeting held on June 12 2006

Cause of motion: Election for new members to fill the vacancies of the 1<sup>st</sup> Board of Directors and Supervisors as Weng Hsing-Li, and Lee Shyan Yuan, respectively.

Result of the poll: Weng Hsing-Li was elected as an independent director. Lee Shyan-Yuan was elected as an independent supervisor.

**6. Adverse opinions of Directors and Supervisors over major resolutions of the Board in the most recent year up to the day of this annual report printed:**

None.

**7. The status of resignation or discharge of parties who are related with financial reports:**

Occupational Title	Name	Date of office	Date of discharge	Reasons for resignation or discharge
Acting Chairman	Ting Wei-Hao	2005.10.18	2006.4.25	Chairman L.Y. Huang reported to duty.
General Auditor	Chu Kuang-Fu	2005.11.24	2006.2.24	Transferred to the position of Vice President

**(VI) Information on accountant s fees**

Unit: in NT\$ thousand

Name of CPA firm	Name of CPA	Fee for audit service	Fee for non-audit services					Is the audit period covers a whole accounting period			Remarks
			System design	Business registration	Human Resources	Others	Subtotal	Yes	No	Audit period	
SOLOMON & Co., CPAs.	Lu Ya-Che	370				200	200	v		2006/01/01~ 2006/12/31	Fee for non-audit services: Internal control inspection, BIS review

**(VII) Information on replacement of external auditors**

**1. Former external auditor**

Date of replacement	2006.7.18		
Reasons and explanations for replacement	Open price bargaining		
Explain that it is the client or CAP to terminate or decline the acceptance of appointment	Situation \ Party concerned	CPA	Client
	Voluntary terminate the appointment		
	Decline to accept (continue) the appointment		v
Opinions beyond unqualified opinions in auditors' reports in the last 2 years and the reasons	None		
Any opinion different from that of the Company	Yes		Accounting principle or practice
			Disclosure in financial reporting
			Scope and procedure of audit
			Others
	None	v	
	Explanation:		
Other disclosures (To be disclosed under Article 10-5-1-4 of this standard)	None		

**2. Succeeding external auditor**

Name of CPA firm	Solomon & Co., CPAs
Name of CPA	Lu Ya-Che
Date of appointment	2006.07.21
Possible inquiry on audit opinions and the results on accounting principles or accounting methods of specific transactions and on financial reporting before being assigned	None
Written opinions of succeeding auditor different from former auditor	None

**3 Reply letter of former external auditor relating to Article 10-5-1 and 10-5-2-3 of Criteria for the presentation of specific events in financial reporting of banks :**

None.

**(VIII) Has the Chairman, President, Chief Financial Officer and Chief Accounting Officer been working with the branch of the current CPA servicing firm or its affiliates in the most recent year:**

None.

**(IX) Where Article 25-3 requires that Directors, Supervisors, and managers to declare their holding of equity, is there any change in the status of shareholding or any pledge of equity shares under lien:**

None.

**(X) Information on the affiliations among top 10 shareholders as stakeholder to one another under Financial Accounting Standard No. 6:**

None.

**(XI) The proportion of shareholdings by investees directly or indirectly controlled by the bank, Directors and Supervisors of the bank, President, Vice President, Assistant VP, Head of functional departments or branches and the bank:**

None.







## Particular notes on shares and dividends

## IV. Particular notes on shares and dividends

### (I) Sources of equity capital:

December 31 2006

Year Month	Issuing price	Authorized capital		Paid-in capital		Remarks	
		Quantity of shares	Amount	Quantity of shares	Amount	Source of equity capital	Others
April 2005	NT\$10/share	2 billion	NT\$20 billion	2 billion	NT\$20 billion	Cash	None

Type of share	Authorized shares			Remark
	Outstanding shares	Un-issued	Total	
Common stock	2 billion	0	2 billion	Not listed in TSE or GreTai

### (II) Shareholder structure

December 31 2006

Shareholder Structure Quantity	Governmental institutions	Financial institutions	Other institutional shareholders	Individuals	QFII and foreign nationals	Total
Number of party	1	0	322	0	0	323
Quantity of shareholding	980,000,000 shares	0	1,020,000,000 shares	0	0	2,000,000,000 shares
Proportion of shareholding	49%	0	51%	0	0	100%

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### (III) Diversification of shareholding (at NT\$10/share)

December 31 2006

Ranking in shareholding	Number of shareholders	Quantity of shareholding	Proportion of shareholding
1 to 999	0	0	0.000%
1,000 to 5,000	0	0	0.000%
5,001 to 10,000	0	0	0.000%
10,001 to 15,000	0	0	0.000%
15,001 to 20,000	1	20,000	0.001%
20,001 to 30,000	0	0	0.000%
30,001 to 50,000	6	300,000	0.015%
50,001 to 100,000	22	2,200,000	0.110%
100,001 to 200,000	10	1,900,000	0.095%
200,001 to 400,000	17	5,550,000	0.277%
400,001 to 600,000	12	6,700,000	0.335%
600,001 to 800,000	15	11,000,000	0.550%
800,001 to 1,000,000	16	15,300,000	0.765%
1,000,001 to 2,000,000	61	95,300,000	4.765%
2,000,001 to 4,000,000	80	236,730,000	11.837%
4,000,001 to 6,000,000	49	239,000,000	11.950%
More than 6,000,001	34	1,386,000,000	69.300%
Total	323	2,000,000,000	100.000%

### (IV) List of Dominant Shareholders

Shareholder	Quantity of shareholding	Proportion of shareholding
Council of Agriculture, Executive Yuan	980,000,000	49.000%
Pan Chiao Farmers Association, Taipei County	47,200,000	2.360%
Hsin Chuang Farmers Association, Taipei County	40,100,000	2.005%
Hsu Lin Farmers Association, Taipei County	26,200,000	1.310%
Tali Township Farmers Association, Taichung County	24,100,000	1.205%
Chung Ho Farmers Association, Taipei County	23,300,000	1.165%
San Chung Farmers Association, Taipei County	15,300,000	0.765%
Lou Chou Farmers Association, Taipei County	13,800,000	0.690%
Shi Jir Farmers Association, Taipei County	12,500,000	0.625%
Feng Shan Farmers Association, Taipei County	11,500,000	0.575%

## (V) Market price, net worth, earnings and dividend per share in the last 2 years and related information

Unit: in NT\$

Title \ Year		2006	2005	January 1 to March 31, 2007 (Note 3)
Market price per share (note 1)	High	-	-	-
	Low	-	-	-
	Average	-	-	-
Net value per share	Cum-dividend	10.14	10.04	10.16
	Ex-dividend	-	10.04	-
Earnings per share	Weighted average quantity of shares (in 1,000 shares)	2,000,000	2,000,000	2,000,000
	EPS	0.07	0.03	0.02
Dividend per share (Note 2)	Cash dividend	-	-	-
	Stock dividend	Retained earnings	0.055768	-
		Capital surplus	-	-
	Accumulated unpaid dividends		-	-
Analysis of ROI (note 1)	P/E ratio	-	-	-
	P/P ratio	-	-	-
	Cash dividend yield rate	-	-	-

Note 1: The Company is not a public company. Therefore, there is no information on Market price and ROI for reference.

Note 2: Dividend per share for 2006 is pending on the resolution of the Shareholders Meeting.

Note 3: Figures on March 31 2007 were unaudited.

## (VI) Dividend policy and status of implementation

### 1. Dividend policy

- (1) According to Article 44 of the Corporate Charter of the Company: Any profit from the settlement of the year shall be subject to applicable taxes as the top priority, followed by the offsetting of losses carried forward from previous years. Forty percent of the remainder of such profit shall be allocated as a statutory reserve, and, if necessary, a pool of special reserve. Profit net of the aforementioned allocations shall be added up to the retained earnings accumulated from the previous year and shall be paid out at the proposal of the Board and at the approval of the Shareholders Meeting. The Shareholders Meeting may resolve to retain the accumulated retained earnings in whole or in part not to be paid out depending on the actual needs of the Company.
- (2) Retained earnings (or incomes) shall be paid out in accordance with Article 45 of the Corporate Charter of the Company: 85% shall be paid out as dividend and bonus, 10% shall be paid out as mutual assistance fund, 5% shall be paid out as remunerations to the directors, supervisors and employees. If the amount of statutory reserve is less than the total capital of the Company, the amount of cash dividend shall not exceed 15% of the paid-in capital.

2. Proposal on income payout for current Shareholders Meeting: 40% shall be allocated as statutory reserve. The remainder shall be added up to the retained earnings carried forward and be paid out as income in the proportion specified in Article 45 of the Corporate Charter of the Company:

- (1) Dividend and bonus amounted to NT\$111,536K, dividend per share is NT\$0.05576816
- (2) Mutual assistance fund amounted to NT\$13,122K.
- (3) Remunerations to the directors, supervisors and employees amounted to NT\$6,561K.

**(VII) The effect of stock dividend paid out under the resolution of current Shareholders Meeting on the operation performance and earnings per share of the Company:**

Not applicable, as the Company is not a public company.

**(VIII) Employee bonus and remunerations to the directors and supervisors:**

**1. Percentage or scope of employee bonus, remunerations to the directors and supervisors as stated in the Corporate Charter of the Company:**

Pursuant to Article 45 of the Corporate Charter: Remunerations to the directors, supervisors and employees shall account for 5% of the incomes for payout.

**2. Information of Board resolution on proposal of employee bonus:**

- (1) Stock dividend and cash dividend for employees, remunerations to the directors and supervisors: NT\$ 6,561K.
- (2) Quantity of shares of stock dividend to be paid out to employees and its proportion to the total of new shares issued from capitalization of retained earnings: none.
- (3) Estimated earnings per share after the release of employee bonus, remunerations to the directors and supervisors: estimated at NT\$0.07/share.

**3. Retained earnings carried forward from the previous year as employee bonus, remunerations to the directors and supervisors:**

None.

**(IX) Repurchase of shares of the Company by the Company:**

None.

**(X) Issuance of debentures:**

None.

**(XI) Issuance of preferred shares:**

None.

**(XII) Issuance of GDR/ADR:**

None.

**(XIII) Issuance of employee stock options:**

None..

**(XIV) Acquisition or acceptance of other financial institutions:**

None.

**(XV) Status of execution of capital utilization plan:**

The Company has no plan on the issuance of debentures or raising capital by issuing new shares.





## Status of Operation





## V. Status of Operation

### (I) Content of Business

#### 1. 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.

#### 2. Coaching, inspection, performance evaluation and agricultural financing in favor of the credit departments of farmers and fishermen s associations

- (1) General coaching: The coaching will be given to credit departments with NPL ratio lower than 15% as follows:
  - (a) Establish rules of operation, management system and the concept of cost in order to upgrade their operation performance.
  - (b) Establish the internal control code and internal audit system.
  - (c) Appropriation of deposit reserve and liquidity reserve.
  - (d) Deposit of surplus funds and financing.
  - (e) Financing the plantation, forestry, fishery and livestock farming sectors and consumer loans.
  - (f) Service of financial instrument exchange and remittances.
  - (g) Collection services for the national treasury and other financial institutions.
  - (h) Audit on banking operation and correction of shortcomings.
  - (i) Vitalize the financial structure and upgrade the quality of assets.
  - (j) Handle nonperforming loans and the collection of overdue accounts.
  - (k) Accounting, bookkeeping and preparation of different statements and tables.
  - (l) Design standardized forms and information systems for improving data exchange and statistical analysis.
  - (m) Provide information on the operation of the agricultural financial institution and analysis of the capital needs in agricultural operation and the proper allocation of resources.
  - (n) Employee training and introduction of new business.
  - (o) Consultation service on related legal rules.
  - (p) Other works as designated by competent authority at the national level.
- (2) Special coaching: Special coaching will be given to credit departments with NPL ratio exceeding 15%. Credit departments under special coaching are expected to reduce their NPL ratio as projected in 2006. The scope of special coaching encompasses the content of general coaching and the following:
  - (a) Monitoring and providing suggestions of business policy and guideline for proper improvement.
  - (b) Monitoring and providing suggestions of shortcomings in operation and financial position for improvement.
  - (c) Monitoring and providing suggestions on the proper preservation of creditor rights on assets.
  - (d) Monitoring and providing suggestions of the internal control code and internal audit system.
  - (e) Monitoring and providing suggestions of the allocation of allowances for doubtful accounts or conversion of doubtful accounts to bad debts.
  - (f) Monitoring and providing suggestions of bookkeeping and accounting and the compilation of financial statements.

- (g) Monitoring and providing suggestions of asset acquisition and disposition.
- (h) Monitoring and coaching of credit granting and investment review and the management of assets and liabilities.
- (i) Attend meetings of the Board, Supervisors and Credit Review Committee and present opinions.
- (j) Demand the parent farmers and fishermen's associations of credit departments under coaching and correction to present report on operation, financial position and other topics as requested within the stipulated span.
- (k) Audit related accounting books, documents and assets.
- (l) Other works as designated by competent authority at the national level.

(3) Business and Financial Auditing

The Company has conducted 454 audits on the operation and financial status of the credit departments of farmers and fishermen's associations in 2006. The primary task of the audit was to review the shortcomings detected from financial examinations and their status of corrective actions. The audit reports were forwarded to the competent authority and related agencies. Audits on the liquidity of assets held by credit departments have also been conducted at the request of the local competent authority.

(4) Performance Evaluation

Evaluation has been conducted on the credit departments in accordance with the "CAMELS" system established by the Company on capital adequacy, asset quality, management capacity, profitability, liquidity and risk management. The results of the evaluation were forwarded to competent authorities at the respective government level and other agencies for reference.

(5) Other Coaching Issues

- (a) Security preservation at the credit departments have been inspected in supporting the "Scheme for the Strengthening of Counter Security at Credit Departments of farmers' and fishermen's associations" of the competent authority at the national level. Status reports will be presented at regular intervals. At the end of October 2006, the goal has been accomplished ahead of the schedule at 100% attainment rate.
- (b) Dispatched relevant banking personnel to assist the Chu Chi and Ta Pu farmers' associations in Chia Yi County on their voluntary merger, and supported the competent authority at the national level to clean up the credit department of the farmers' association at Ta Pu. The plan was accomplished in March 2007. The Company also assisted the 8 new farmers associations, which have been granted to set up credit departments in 2006 to install their operation system and design of works.
- (c) Installed WebPages on the training of cleaning up nonperforming loans in favor of the credit departments. In 2006, the Company prepared about 180 items of collection statements and practical samples for their reference. These samples have been posted on the Company website so that personnel of the credit departments may download them for reference and application. To broaden the channels for the credit departments to clean up nonperforming assets, the Company has completed the installation of the "Farmers' and Fishermen's Associations Auction Website".

(6) Business Liaison and Exchanges

In 2006, the Company has held 50 lectures and seminars for the farmers' and fishermen's associations on different topics including special agricultural project loans, practice in the collection of



overdue accounts, credit information check and granting, finance, insurance and trust. In addition, the Company has also worked in conjunction with the Agricultural Training Association in organizing seminars for the training of managerial staff for the farmers and fishermen's associations. The response was positive and there were 3,574 participants in the seminars.

(7) Agricultural Loans

- (a) In 2006, the Company has processed agricultural loans amounting to NT\$4,221,330K.
- (b) The Company is positive in granting policy loans for providing ample funds in agricultural development. In 2006, the Company offered loans for financing the reduction of fishing vessels by the Tuna Fishing Association, financing the operation of pleasure farms as part of the Sino-America Fund, financing the of standard class fishing vessels and the optimal and refined use of bamboo financing. In addition, the Company has also amended its policy for financing the rooting of the agricultural industry whereby an operation handbook of the agricultural development fund has been compiled for facilitating agricultural financing.
- (c) Since 2006, the Company has been entrusted to manage the Agricultural Development Fund to the extent that all available loans under the fund have been incorporated into the agricultural financial institution. This change contributed to the centralization of management, mutual support and assistance for coordinated use and has optimized the efficiency of the fund. At the same time, the Company will support the agricultural policy to utilize the coaching system of the Company more efficiently and proactively, and coach the credit departments to launch the financing of agricultural development under special projects. Under such efforts, farmers and fishermen's can successfully acquire the working capital at lower interest rate, and can improve their business skills for better incomes and a higher quality of living.

**3. Proportion of business assets and revenue to total assets and/or changes in proportion of business and growth:**

(1) Proportion of business

Unit: In NT\$ thousand; %

Title	2006	
	Amount	Percentage
Net profit	587,602	100.00%
Net interest income	345,332	58.77%
Net non-interest income	242,270	41.23%

(2) Proportion of business

(a) Proportion of deposits

Unit: In NT\$ thousand; %

Title	2006	
	Amount	Ratio %
Total deposits	317,089,086	100.00%
Current account deposits	1,589,895	0.50%
Time deposits	315,499,191	99.50%

## (b) Proportion of loans

Unit: In NT\$ thousand; %

Title	2006	
	Amount	Ratio %
Total loans	13,475,582	100.00 %
Short-term loans	411,420	3.05 %
Mid-term loans	8,669,378	64.34 %
Long-term loans	4,394,784	32.61 %

## (c) proportion of principal business to total assets

Unit: In NT\$ thousand; %

Title	2006	
	Amount	Ratio %
Total assets	352,877,205	100.00%
Cash and cash equivalence	10,052,779	2.85%
Nostro accounts and central bank deposits	168,149,913	47.65%
Reverse Repos and bond investment	8,300,000	2.35%
Discount and loans	13,455,582	3.81%
Financial instruments available for disposals	45,787,633	12.98%
Financial instruments held to maturity	99,759,093	28.27%
Other financial assets	4,490,226	1.27%
Others	2,881,979	0.82%

**4. Business plan for current year:**

Please refer to page 4 (II) on the Summary of the 2007 Business Plan.

**5. Market Analysis**

The latest statistical figures released by Directorate-General of Budget, Accounting and Statistics, of the Executive Yuan indicated economic growth at 4.62% in 2006, an increase of 0.53% from the same period of the previous year. Interest rate: affected by the sustained rise of the interest rate by the Central Bank, domestic interest rates rose incrementally in 2006. Financial statistics released by the Central Bank indicated that the overnight inter-bank interest rate was 1.55% on average throughout the year, which was 0.24% higher than the same period of the previous year. The average interest rate for commercial papers in the year was 1.54% or 0.27% higher than the same period of the previous year. In the domain of exchange rate: NTD depreciated against the USD in 2006, with average rate of USD / NTD 32.53, or at a depreciation rate of 1.09% from the same period of the previous year. Being significantly impacted by the storm of credit card debts, consumer banking shrunk substantially. Competition in corporate banking, syndicated loans and personal mortgage loans are still keen.

On 27 September 2006, the Executive Yuan passed the "Financial Market Scheme" as the 3-Year Intensive Plan in Phase I of the 2015 Economic Development Vision aimed at strengthening of competitive mechanism, establishing a diverse, international, stable and reliable financial market for the proper development of the banking and financial sector in the country. The most appealing program of the scheme is the "Financial Market VIP Flagship Project" whereby the banking market of the country will be restructured, protection-



guarantee and annuity products in insurance will be launched, and development in the international bond market. It is expected that the project will give a fresh look of "Value-added", "Innovation", and "Prosperity" in the financial sector and will be meaningful for the development of the domestic financial market in the future.

For the 2007 global economic scene, the financial stock market of the USA has been significantly affected by a surge of nonperforming rate of the secondary mortgage loans market. This triggered off a chain relation of nonperforming assets in the financial market. As such, the US economy performed below expectations in progress. The Japanese economy showed mild recovery. The Euros Zone and EU have successfully maintained continuous and stable economic growth. Economic development in China showed no sign of slow down and is expected to continue as the driving force for global economic growth. Economy in other newly developing countries is also expected to enjoy sustained growth.

Directorate-General of Budget, Accounting and Statistics of the Executive Yuan forecasted domestic economic growth of 4.30% for 2007, which was slightly lower than the 4.62% growth in 2006. The gradual improvement of unemployment and the substitution of domestic demand for the shrinking portion of export trade by volume will help to stabilize macro economic development. Banking in the country will be diversified to a greater extent, as foreign capital behaved more progressively in the banking industry of the country through strategic alliance, direct investment or open corporate takeover. As well, the repeated upward adjustment of interest rates by the Central Bank boosted the interest rate for deposits. Affected by the keen competition, the interest rate on loans continued to fall which resulted in narrower interest spread between loans and deposits.

Although the Company is just a beginner in the financial sector, however, the Company has been assigned a policy mission by the government and features a fresh image in the market with distinct segmentation. With the abundance of funds transferred as deposits from the farmers and fishermen's associations, the Company can create income with the proper use of such funds. Further, to practicing financial operations, the Company is also engaged in coaching the credit departments for the farmers and fishermen's association, money and wealth management, development of niche financial instruments, launching policy loan programs for financing agricultural development and installation of a common platform for information sharing. These will contribute to integrating the channel value of the farmers and fishermen's associations and yield synergy in agricultural banking.



## **6. Favorable and unfavorable factors for company development:**

### **Favorable factors**

- (1) Both the government and the farmers' and fishermen's associations are shareholders of the Company.  
The government holds 49% of the stakes that entails high stability in the management.
- (2) The principal business of the Company is registered as major agricultural establishment, financing business, agricultural special projects financing in line with government policies, policy-oriented financing business for the farming, forestry, fishery and livestock sectors in supporting the governmental policy of farming and fishery. These items of business featured distinctive market segmentation and granted the Company higher opportunities for access to borrowers in agricultural financing than others in the financial sector.
- (3) The Company 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 Company accepts abundant deposits from the credit departments of farmers' and fishermen's associations as transferred deposits. With proper use of such funds, the Company can be able to create good profits.

- (5) The Company features an integrated policy of agricultural financing. In addition, the Company also is a conglomerate of an agricultural bank and a commercial bank. In the future, the Company aims at transforming into an investment bank.

#### Unfavorable factors

- (1) The huge volume of deposit influx from the credit departments of farmers' and fishermen's associations compelled the Company 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 Company 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 which are not members of such holding companies.
- (4) The rising trend of interest rates will push up the bank's cost of funds. Accordingly, the loan accounts will have to bear higher burden in interest expenses. The risk of delinquency also increased.
- (5) The continued dislocation of domestic industries offshore and the keen competition in the domain of financing in corporate banking made it difficult to broaden the customer base. The keen competition also narrowed the profit margin from interest income, which in turn affected the profitability of the Company.

#### Countermeasures

- (1) Make the most flexible use of asset portfolios to enhance the profit of the Company 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 Company in the system of agricultural finance.
- (3) Develop new business in the direction of diversity for the diversification of risks.
- (4) Continue to attract good persons to strengthen the human resources of the Company and enhance the overall performance capacity.
- (5) Enhance the image of the Company in professional standing through the effective use of public relations, media and charity platforms

### 7. Short, medium and long-term development plans

#### (1) Short-term plan:

##### a. Deposits

Make additional efforts in attracting current account deposits and special account deposits from the national treasury department for reducing the cost of funds; improve the structure of deposits by putting up the proportion of current account deposits.

##### b. Loans

#### (a) Continue to support the government to offer Policy-Oriented Agricultural Loans.

- (i) Systematically visit the business units administered by the agricultural sector of the government.
- (ii) Make additional efforts in Agricultural Projects loans and enlarge the size of loans for special agricultural projects.

#### (b) Further cultivate relationships in the financial sector for the development of syndicated loans.

- (i) Keep positive relations with others in the financial sectors and proactively participate in the consortium of syndicated loans for a higher reputation in the market.
- (ii) Increase the proportion of personnel in financing services and intensify the training in credit verification, loan approval and other professional skills.
- (iii) Pay more external visits, and cultivate positive and stable partnership relations with lead banks of syndicated loans for business cooperation.

(iv) Speed up the processing of syndicated loan application and the procedure for review and approval.

c. Securities Investment:

For investment, the Company adheres to the principle of security, liquidity and yield, and makes investment in securities in incremental amounts in proportion to the increase in the volume of deposits and properly assets allocation.

d. Coaching the credit departments of farmers' and fishermen's associations:

Assist the credit departments in business development and enhance operation performance. Coach the credit department to improve in asset quality and financial structure through special projects to achieve the goal of reducing NPL ratio. Develop the market of financing special agricultural projects proactively and assist the farmers' and fishermen's associations in setting up credit departments after the approval of the competent authority.

e. Financial Market Activities:

Make optimal use of deposits transferred from farmers' and fishermen's associations as deposits under the principle of principal-guarantee and stable return. Make efforts in maintaining the capacity in paying interest for the transferred deposits on a perpetual basis. In this year, the Company seeks to invest a higher proportion of overseas assets for higher yield.

f. Trust:

Continue to work in conjunction with farmers' and fishermen's associations in launching real-estate trusts. The Company is also in the process of applying for the status as a custodian agent for providing custodian service of bond from bond trade conducted by the farmers' and fishermen's associations and the Company for broadening its base for trust service.

(2) Medium and long-term plans:

Install an information sharing system (including the accounting core system of the Company and the credit departments of farmers' and fishermen's associations' common system):

To enhance systematic operation and the mechanism of early warning, controlling and inspection on agricultural loan accounts, cross-checking of accounts, subsidizing of interest spread and related business, the Company seeks to design and install an account management system on agricultural loans as an effort to support the Bureau of Agricultural Finance. This will help to integrate an information system for real time response, and install the account system and the common system for the credit departments of farmers' and fishermen's associations.

## (II) The Employees

Year		December 31, 2005	December 31, 2006	March 31, 2007
Number of employees	Full-time employees <sup>130</sup>	102	132	
	Contract employees	7	3	6
	Total	137	105	138
Average age		38.6	37.8	38.8
Average term of service		1.5	0.5	1.7
Education	Doctorate	0	0	0
	Master	25	16	26
	College and university	107	84	107
	Senior high school and below	5	5	5

### (III) Corporate responsibility and ethics code:

The Company supports the policy of governing the agricultural projects and coaches the credit departments of farmers' and fishermen's associations for development. The goal is to ensure the prosperity of the agricultural sector. In the future, the Company will proactively participate in social charity for its concern of society. The Company values its social responsibility and is committed to "Take from society, feed back to society".

### (IV) IT Equipment

#### 1. The installation and maintenance of major IT hardware and software

- (1) The Company has outsourced the services to "Information Center of Farmers Association of South Taiwan" for the development, installation and day-to-day running of its account connection system. The Operation Department links to the NEC PX7800/323SV system of the server located at the center via private line for the execution of account transactions and statement processing.
- (2) In addition to the installation of the aforementioned account core system, the Company has also installed the bond and note management system, the capital management and investment audit control system, Treasury note system, farmers' and fishermen's supervision website management system and the supervisor management system for meeting the needs of the functional departments. In the future, the Company will develop additional systems in line with the development of new business for supporting the operation and achieving the goal of automation. Systems already online featured the following functions and efficiency. The prospects of these systems will be:
  - a. Bond and note management system
    - (a) Provide all functions for bond and note management and the function of selection by the credit departments of farmers' and fishermen's associations, including the proprietary trade of bonds and notes, all functions of application software needed by the brokers in the areas of bond and bill and note management, bond management, loans, custody of funds, custody management, accounting management, risk management and security control.
    - (b) As of February 27 2007, there were 89 farmers' and fishermen's associations conducting bond and RP trade via the system of the Company. The amount of the transactions was valued at NT\$6,518 million. Such transactions helped to enhance the utilization of funds in investment.
    - (c) In the future, the system will incorporate transactions of virtual securities under the central depository system in order to provide more channels and diversity for investment and hedging.
  - b. Funds management and investment audit control system
    - (a) Provide daily investment account management, accounting and bookkeeping management for investment in financial instruments like domestic securities, futures and options.
    - (b) Provide an integrated information system for data transmission, investment audit control, investment performance evaluation and related control statements on the transaction statements of assets required in the conduct of trade of financial instruments by the Company or through the discretionary accounts of asset management companies.
  - c. Agency service to the national treasury
    - (a) Provide the collection of revenue of the national treasury, cash in of treasury checks, reporting lost, stop payment and cancellation of treasury checks for the processing banks
    - (b) Provide data transmission service for the transfer banks on the statements of treasury revenue and cash in of treasury checks to the Central Bank
    - (c) Provide data receiving services for the transfer bank on information released by the national treasury



- (d) The transfer banks may comply with the format and schedule required by the national treasury on the processing of data on the transactions between the accounts of relevant agencies, collection of tax and reporting to the Central Bank
- d. Farmers' and fishermen's Associations Coaching Website and Management System
  - (a) Provide the users (including the Bureau of Agricultural Finance, credit departments of farmers' and fishermen's associations, agencies offering special agricultural project loans, governments at the county and city levels) with data interchange through the Internet or ISDN connection service, including the farmers' and fishermen's associations coaching website and management, monthly statistics on the work of agricultural project loans, website management and related information of the agencies
  - (b) Provide information on the profile of the Company, the latest news, service items, business locations, posted interest rates for deposits and loans, business regulation, download of forms, inquiry on legal rules, Q & A in business, procurement announcement, customer comment mail box, employment news, communication networks with the farmers' and fishermen's associations, announcement on auctions of farmers' and fishermen's associations, posted interest rate of the farmers' and fishermen's associations, registration of online education and training of farmers' and fishermen's associations, account transaction inquiry, monthly statistics and report on agricultural project loans, limit control, interest subsidy and processing and review of jumbo loans
  - (c) Provide a platform for data exchange and information conversion. Allow for format conversion, data transmission and transaction process control among the supervisor management system, bond and note system and the external systems of the sharing center of the farmers' and fishermen's associations and the Bureau of Agricultural Finance through online integration
- e. Document and human resources management systems
  - (a) Provide the employees of the Company in the maintenance, update, and search of basic information, changes, training, and salary
  - (b) Provide inquiries on document production and process management and others
  - (c) Provide documentation management. All documents will be stored in image files for online viewing and inquiry

## 2. Plans for development and acquisition in the future

For achieving the information sharing goal inherent to the Agricultural Finance Act, the Company will work jointly with sharing centers willing to proactively take part in the organization of the "National Farming and Fishery Industries and Financial Information Center". In the future, this organization will simultaneously design the farmers' and fishermen's association joint account service system and the account system for the Agricultural Bank of Taiwan. The installation is expected to be finished in the period of 2007 to 2008 and system conversion will take place in batches from 2009 to 2010

The credit departments of farmers' and fishermen's associations will be incrementally incorporated into the information sharing platform with their 1,150 business locations. These locations can fully integrated with new financial products for the development of potential customers and can fully integrate the niche of all farmers' and fishermen's associations and create a win-win situation for the Company and the farmers' and fishermen's associations.

### 3. Emergency backup and security of the server system

The Company has appointed "Information Center of Farmers Association of South Taiwan" to install and connect its account service system. The control and emergency backup and security of the server system, management in the change of application programs, change in connection files will be performed in conformity with the security control regulation of the center, the agreement of outsourced services, the internal "Regulation for Computer and Information Security Management" and "Important Notice on Computer and Information Operation" of the Company.

## (V) Labor-Management Relation

### 1. Employee Welfare Policy:

The Company has established an Employee Welfare Committee for administering employee welfare

### 2. Retirement System:

The retirement system of the Company has been instituted in accordance with the Labor Standards Law, Statute for Labor Retirement and the internal regulations of employee retirement, pension, and layoff. In addition, the Company Pension Reserve Monitoring Committee in accordance with the Labor Standards Law

### 3. Loss due to labor-management disputes in the last 2 years:

None.

### 4. Other important labor-management agreement:

None.



## (VI) Major Agreement:

None.

## (VII) Securitized products and related information:

None.

