

2014

Agricultural Bank of Taiwan

Annual Report



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AGRICULTURAL BANK OF TAIWAN

Core Values

Customer Satisfaction: Establishing value of services through a "customer always first" policy.

Shareholders' Equity: Proper control of risks to foster greater profits.

Honesty & Integrity: Fulfilling promises made on solid word of honor.

Proactive Actions: Instituting proper actions in fulfilling all responsibilities.

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I

Message to Shareholders

Global economy manifested a recovering trend in 2014; unfortunately, local economic growth in various regions of the country had been uneven and fell below expectations. This was mainly due to the sluggish recovery experienced in the European Community (EC) and some structural problems. On the other hand, Japan underestimated the negative impacts of its move to increase consumer taxes and thus, faced the threat of an unstable financial market. Furthermore, although the United States (US) realized projections and manifested more apparent economic recovery, recovery had been one quarter later than projections. Since performances of major economic bodies had been weak, and many regions experienced geopolitical tensions, the emerging economies posted weak growth rates, and the overall growth rate had been quite sluggish. Pursuant to the national statistics of the Directorate-General of Budget, Accounting and Statistics (DGBAS), annual growth rate in 2014 was merely 3.74%.

It is hoped that in 2015, with its strengthening economic recovery, US may become the locomotive that would pull the entire global economy to faster growths. Moreover, the downscaling oil prices are expected to offset pressures of bearish European and Japanese economies. Furthermore, central banks of many nations have started their easing monetary policies. Propped by the foregoing factors, the overall international trends continue to promise optimistic development. The International Monetary Fund (IMF) projected global economic growth rate this year to be 3.5%, which means that recovery of the US economy would be unable to overcome the slump gripping the Chinese, EC, and Japanese economy. On the other hand, under the boost of a relaxed domestic capital market and rock bottom oil prices, Taiwan may expect a growth in exports and a consequential rise in consumer spending. Pursuant to the latest projections of the Taiwan Institute of Economic Research (TIER), the real GDP of Taiwan in 2015 may post a growth rate of 3.67%; whereas, the DGBAS projected annual economic growth rate to be around 3.78%. In short, domestic economy is almost the same as that of the previous year; hence, this year's growth would be quite similar to last year's and thus, continue to post a mild growth.

We are under a legal obligation to accept redeposits from the credit departments of the farmers' associations and fisheries associations. Faced with still relaxed capital market, the massive redeposited funds continuing to flow into the bank started to impose a heavy pressure upon us. Hence, for an effective enhancement of capital utilization and allocation efficiency, we have strengthened internal management of our investment business operations and beefed up our capital structure. Moreover, we vitalized our asset allocation and maintained proper own capital adequacy ratio to avoid investments with excessive risk concentration. We also strengthened risk factor identification and raised the transaction authorization level to higher positions to upgrade efficiency of internal



MR. C.H. CHEN
CHAIRPERSON

control and the respective risk control measures. Furthermore, we reinforced the bond business operations and adjustment our asset structure to reduce the interest rate risks and to foster a stable development. On the matter of the loan operations, in line with the government policies, we aggressively promoted policy-based agricultural loans and provided management services for Agricultural Development Fund Loan. Also, we participated in financing of major government infrastructure projects, syndicated loans, and financing of mid-to-large-sized enterprises; moreover, we worked with the farmers' and fisheries associations to process the homeowner mortgage loans, develop new types of financial products for joint marketing, and strengthen customer relationship management, thereby upgrading the business and financial competitive power of the credit departments of farmers' and fisheries associations and consequently improving quality of their loans and fostering a win-win situation for the farmers and fishermen, the farmers' and fisheries associations, and ABT. On the matter of banking agent business, in order to boost the demand deposit ratio, increase risk-free transaction fees, develop new customer base, and provide the general public with fast and convenient payment services, we continued to integrate the channels of the farmers' and fisheries associations, encourage various institutions, organizations, and corporations to take advantage of our banking agent service, and work with other financial institutions in order to expand composite banking agent services. On the matter of credit card operations, we consolidated the sales of agricultural and seafood products with resources of leisure and tourism & travel industries to provide diversified financing services, and promoted the strategic cooperation with the issuing bank to issue joint credit card called the Agricultural Golden Card (with EasyCard functionality); to date, we have issued around 67 thousand cards. On the matter of new bank branch establishment, we continued to monitor the business performance of our business units and the local development prospects, and then aggressively evaluated and selected sites suitable for establishing new bank branches. The efforts aimed to expand the processing and release of loans to agricultural financial enterprises and regular enterprises. Furthermore, we consolidated the business offices of farmers' and fisheries associations and adjusted service areas of bank branches to reach a more appropriate scale. We also raised the financial services offered to customers, reduced business operating costs, and increased profitability of the company to foster stable business growth and optimize value of our channels, thereby fostering a balanced development of the agricultural financing system region.

With the globalization of the agricultural and fishing industries, ABT is currently planning to establish an international banking department and international banking branch office in the hope that the increase in foreign remittance transaction may strengthen our foreign currency asset and liabilities and enable us to assist farmers and fishermen in processing their product exportation, farm equipment importation, foreign currency deposit and loan transactions, and inward & outward foreign currency remittances. Moreover, in upgrading of the quality and efficiency of our information system operations and

MR. Y.H. CHIOU
PRESIDENT



strengthening of the system security and protective measures, we signed an agreement with the National Agriculture, Fishery and Finance Information Center and took over the construction, maintenance and operation of the "Farmers' and Fisheries Associations Shared Accounting System" and developed and promoted the "Farmer's' and Fisheries Associations Shared Accounting System" through which we gradually integrated business channels of farmers' and fisheries associations under a common information platform for a full optimization of the value of the financial system channels, thereby upgrading the competitive power of ABT and the farmers' and fisheries associations. We also conducted counseling services for the business and finance operations of the credit departments of the farmers' and fisheries associations and improve communication between the farmers' and fisheries associations and our loan account holders. The farmers and fisheries associations jointly marketed new products and endeavored to focus on the customer relationship management to improve customer satisfaction and chive the statutory goals of ABT. In 2014, the net income before tax amounted to NT\$ 612 million. Under the full support of ABT's Board of Directors and solid cooperation of our staff, we were able to continually realize our respective business drives and upgrade efficiency of our internal administrative operations. To date, business has gradually reached smooth running operations and stable development. In the future, we shall continue to push for more sophistication in our every business operating procedure and to maintain a performance-oriented employee evaluation system. Under the pretext of maintaining stable risk management, we have optimized the internal resource allocation, continuously strengthened operating performance, and enhanced the transparency and time efficiency of agricultural financial information in the hope that we may work hand-in-hand and share information with farmers' and fisheries associations and jointly create a mutually benefiting prosperous future. ABT hopes to receive the utmost encouragement and support from our stockholders.,

A. Business Report 2014

1. Operating Results

(1) Deposits

Balance of deposits as of yearend of 2014 amounted to NT\$682,371,797,000 an increase of NT\$9,568,171,000 or 1.42 % over the 2013 yearend balance; deposits of farmers' and fisheries associations amounted to NT\$669,540,997,000 or 98.12 % of total deposits, and current deposits amounted to NT\$8,094,964,000 or 1.19 % of total deposit.

(2) Loans

- a. Total loans as of yearend of 2014 amounted to NT \$ 232,751,804,000 an in crease of NT\$11,625,583,000 or 5.26 % over the 2013 yearend balance; wherein the agricultural loan amounted to NT\$10,320,699,000 or 4.43 % of total loans, and regular loans amounted to NT\$222,431,105,000 or 95.57 % of total loans.
- b. Total syndicated loans processed and managed with the farmers' and fisheries associations as of yearend of 2014 amounted to NT\$44,221,508,000 including syndicated loans to county and city governments and regular syndicated loans; total loan exposure of other syndication participant s amounted to NT\$19,703,563,000(or 44.56 %), whereas, our bank' s exposure in the loan syndication amounted to NT\$24,517,945,000(or 55.44 %).

2. Budget execution and operating performance of 2014 net profit before tax

(1) Budget Execution

The profit before tax of year 2014 amounted to NT\$612,052,000; against the originally estimated target of NT\$520,000,000, a goal achievement rate of 117.70 % was attained.

(2) Operating Performance

The CPA-audited net income for year 2014 amounted to NT\$2,508,155,000;divided into net interest revenue amounting NT\$1,876,261,000 and net non-interest revenue amounting NT\$631,894,000.

3. Achievements in guidance the credit departments of the farmers' and fisheries associations in 2014

(1) Operation related information of the credit departments of farmers' and fisheries associations in 2014 are provided below:

December 31, 2014

Unit in NTD Thousand

| Item | Year | 2014 | 2013 | Difference |
|--|------|---------------|---------------|-------------|
| Total Deposits | | 1,714,647,821 | 1,647,093,206 | +67,554,615 |
| Total Loans | | 954,394,265 | 885,747,379 | +68,646,886 |
| Amount of NPL | | 6,308,142 | 9,096,402 | -2,788,260 |
| Revenue | | 5,570,763 | 4,895,200 | +675,563 |
| Net Value | | 116,562,715 | 109,330,425 | +7,232,290 |
| Loan-to-Deposit Ratio | | 52.23% | 50.42% | +1.81% |
| NPL Ratio | | 0.66% | 1.03% | -0.37% |
| Capital Adequacy Ratio | | 12.87% | 13.12% | -0.25% |
| Number of associations with NPL ratio higher than 15 % | | 3 | 5 | -2 |

(2) General and project guidance business: In 2014, ABT conducted 5,954 general guidance, project counseling and financial audit sessions, including participation in related business meetings.

(3) Allocations for policy-oriented special agricultural loans in 2014 was initially set at NT\$29.5 Billion;the annual total value of loans released in the year amounted to NT\$20.316billion, or an implementation rate of 68.86%.

(4) Financial operation audit and performance evaluation:In coordination with the requirement of local competent authorities, ABT conducted 595 reviews (business inspections)of the financial examination deficiency rectification procedures of the credit departments and 162audits (including audit of the liquid assets)on the financing operations of the credit departments. In addition, in the Year 2013 credit department performance evaluation procedure, 303 copies of the performance evaluation reports were prepared.



MR. H.M. YAN
EXECUTIVE VICE PRESIDENT

- (5) In 2014, we held 36 seminars to the staff members of the credit departments of farmers' and fisheries associations, such as, the seminar on the agricultural finance for reestablishment of credit departments, the seminar on the farmland utilization regulations and case studies and the value estimation analysis for the credit departments of farmers' and fisheries associations, the seminar on financial laws and application for the credit departments of farmers' and fisheries associations, the seminar on collection practices for the credit departments of farmers' and fisheries associations, the seminar on the "Foreign Account Tax Compliance Act (FATCA)" of the US, the seminar on the additional and amended regulations governing the policy-based agricultural project loans and agricultural corporation credit investigation and loan practices, the seminar on foreign currency (Chinese Yuan) cash and travel check trading practices for the credit departments of farmers' and fisheries associations, the seminar on the joint promotion of syndicated loans and trust transactions of agricultural financial institutions, the seminar on loans to the construction firms and pressure test procedures of housing mortgage loans for the credit departments of farmers' and fisheries associations, and the seminar on annual report preparation for the credit departments of farmers' and fisheries associations. A total of 3,657 participants attended the seminars.
- (6) The bank continued providing assistance to the credit departments of farmers' & fisheries associations on the program for upgrading the loan-to-deposit ratio. The credit departments of all farmers' and fisheries associations posted a loan-to-deposit ratio of 52.23% as of December 31, 2014, an increase of 1.81% vis-à-vis the 50.42% posted on December 31, 2013.
- (7) In accordance with the related regulations of the Financial Supervisory Commission and in compliance with governing laws and regulations and requirements of the farmers' and fisheries associations, the related operation regulations and standard forms of the credit departments of the farmers' and fisheries associations had been either defined or revised for the reference of the respective credit departments to ensure uniformity of operations and enhancement of efficiency. Revisions effected in 2014 were as follows: General Agreement for New Account Applications (template) of the Credit Departments of Farmers' and Fisheries Associations, Demand (Savings) Deposit Contract (template) of the Farmers' and Fisheries Associations, Guidelines on Money Laundering Prevention (template) of the Credit Departments of Farmers and Fisheries Association, Fund Deposit Processing Procedure Manual of the Credit Departments of Farmers' and Fisheries Associations, Business Operations Procedure Manual of the Credit Departments of Farmers' and Fisheries Associations, Credit Investigation and Loan Operations Procedure Manual of the Credit Departments of Farmers' and Fisheries Associations, Standard Agreement for Unsecured Consumer Loans (template) of the Credit Departments of Farmers' and Fisheries Associations, Guidelines for Line and Scope of Business Operations Applications (template) of the Credit Departments of Farmers' and Fisheries Associations, Demand (Savings) Deposit Contract (template) of the Farmers' and Fisheries Associations, Guidelines for the Management of Deposit Accounts, Suspected Illegal Transactions, or Obvious Problematic Transactions (template) of the Credit Departments of Farmers' and Fisheries Associations, Reference of Questions of Dummy Bank Account Prevention Measures (template) and Teller Operations and Customer Concern Questions (template) of the Credit Departments of Farmers' and Fisheries Associations, Guidelines for Processing Homeowner's Loan and Land Mortgage Loan Applications (template) of the Credit Departments of Farmers' and Fisheries Associations, Regulations of New Accounts Opened under the Check Deposit Accounts for Visually Impaired Individuals of the Credit Departments of Farmers' and Fisheries Associations, Demand (Savings) Deposit Contract (template) of the Credit Departments of Farmers' and Fisheries Associations, General Agreement for

New Account Applications of the Credit Departments of Farmers' and Fisheries Associations, Fund Deposit Processing Procedure Manual: Elderly Farmer Pensions Dedicated Account Regulations of the New Account Processing Check List Template of the Credit Departments of Farmers' and Fisheries Associations, Fund Deposit Processing Procedure Manual: Financial Institution New Accounts Processing Assessment Procedure and Problematic Account Risk Control Operation Guidelines and New Account Processing Check List for Dormant Account Related Regulations of the Credit Departments of Farmers' and Fisheries Associations, Guidelines of the Simplification of the Savings Passbook and Accounts Clearing Operations (template), Application Form (template) for the Processing Regulations on Standardized Simplification of Savings Accounts Clearing Procedures, Guidelines of Money Laundering Prevention and Stamping of Terrorist Financing of the Credit Departments of Farmers' and Fisheries Associations (template).

4. Research and Development

ABT's research and development program is designed to strengthen the asset allocation planning and enhance the risk management proficiency. Its primary task is to employ consultants to assist in the construction of the risk management system modules. The program shall accomplish the following tasks: counterparty risk assessment, product evaluation and risk assessment, VaR control and management module. It's projected to continue the module verification, stress test and scenario analysis module, corporate loan account risk assessment, and planning of establishment of the risk management system. In 2014, ABT has poured NT\$720,000 as the R&D expenditure.

B. Summary of the 2015 Business Plan

1. Corporate Policy

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

2. Projected business goals for 2015 (year-end balance)

Deposits: NT\$ 697,500,000,000 (annual average business volume of NT\$ 691,500,000,000)

Loans: NT\$ 255,000,000,000 (annual average business volume of NT\$ 244,250,000,000)

Investments in Negotiable Securities: NT\$ 217,755,000,000 (annual average business volume of NT\$ 201,432,000,000)

Net profit before tax: NT\$ 800,000,000

3. Development strategies

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

- (2) Enhancement of finances to foster a sound capital structure, maintain an appropriate capital adequacy ratio, and enhance the internal control and risk control systems.
- (3) Active implementation of policy-oriented special agricultural loans, processing of management services for the Agricultural Development Fund Loan, and providing assistance in the development of agricultural and fishery industries.
- (4) Continued acceptance of redeposits from the credit departments of farmers' and fisheries associations and processing of financing loans; expansion of the loan business range (granting priorities to agricultural, forestry, fishery and livestock businesses) and financial investment; acceleration of the asset structure improvement work for the enhancement of ABT's business performance.
- (5) Implementation of the guidance sessions for the business and finance operations of the credit departments of farmers' and fisheries associations; development of new financial products for co-marketing; and strengthening of the competitive power of the agricultural financial institutions.
- (6) Emphasis on the customer relation management and strengthening of liaison and exchanges with the borrowers of farmers' and fisheries associations and ABT, thereby enhancing the customer satisfaction.
- (7) Work with the farmers' and fisheries associations in giving out home loans, thereby improving ABT's loan structure, helping the farmers' and fisheries associations maintain customer relationship, and hoping to adjust their loans structures.
- (8) In order to provide a diverse range of financial services, we will form strategic alliances with credit-card issuing institutions to jointly introduce co-branded credit cards that are agricultural-finance-system oriented, thereby combining the resources of the agriculture, fishing, recreation, and tourism industries and helping to drive economic growth in agricultural and fishing villages.
- (9) We plan to establish an international banking department in order to strengthen our foreign-currency assets and liabilities as well as to assist farmers and fishermen in the import and export operations, deposits and loans in foreign currencies, and inward and outward remittance in foreign currencies.
- (10) We will enhance the quality and efficiency of our information systems as well as strengthen the security and protection measures. We also plan to accept the commission of the "National Agriculture, Fishery and Finance Information Center" for establishing a shared accounting system for the farmers' and fisheries associations, in the hope of achieving diverse yet integrated development of finance, IT, and logistics, thereby enhancing the competitiveness of ABT and the farmers' and fisheries associations.

C. Credit Rating

| Date of Latest Credit Rating | Credit Rating Agency | Long-term Credit Rating | Short-term Credit Rating | Outlook |
|------------------------------|----------------------|-------------------------|--------------------------|---------|
| May 11, 2015 | Taiwan Ratings Corp. | twAAA | twA-1+ | Stable |



II

Company Profile

A. Introduction

The Agricultural Bank of Taiwan was established following the consensus resolved in the National Agriculture Finance Meeting which was convened by the government on November 30, 2002 in response to the opinions and needs of the agricultural and fisheries sectors and in order to create a sound agricultural finance system. Subsequent to the legislation of the Agricultural Finance Act on July 10, 2003, the Council of Agriculture established the Bureau of Agricultural Finance under its umbrella on January 30, 2004 and set the wheels in motion for the foundation of the Agricultural Bank of Taiwan for institution of a complete, safe, and independent agricultural finance system. Organization work for ABT's establishment started on July 16, 2004, and on May 26, 2005, ABT was officially incorporated for operation with a capital of NT\$20 billion; 49% of which came from government funding and 51% from farmers' and fisheries association funds. By the yearend of 2014, ABT posted a total assets valued at NT\$774.9 billion and had a net capital of NT\$23 billion; ratio of government capital was 39.98%, whereas that of farmers' and fisheries association fund was 59.99%.

The Agricultural Bank of Taiwan is the only officially authorized banking institution in the country that simultaneously functions as a professional agricultural bank and a commercial bank. It assists the government in attending to the financial requirements of farmers and fishermen. Pursuant to the provisions of the Agricultural Finance Act, the bank also serves as the regulatory organization of the credit departments of farmers' and fisheries associations; hence, the 1,170 head and branch offices of the credit departments of farmers' and fisheries associations comprise the province-wide agricultural financial service network of the bank, enabling the bank to implement the policy of the financial support to the agricultural industry and assist in fostering the stable development of the agricultural economy.

On August 28, 2006, ABT invested NT\$3 million into the Agricultural Finance Insurance Broker Co., Ltd. (AFIB), a fully owned subsidiary of ABT. In the yearend of 2014, AFIB posted a paid-in capital of NT\$83.75 million, and through the mobilization of the nationwide channel network of farmers' and fisheries associations, it gained strong price negotiation advantages and worked together with primary property insurance companies in the country for the allied marketing of insurance services. It opened a new door for the financial instruments and services of the farmers' and fisheries associations.

IN THE FRONT ROW FROM LEFT

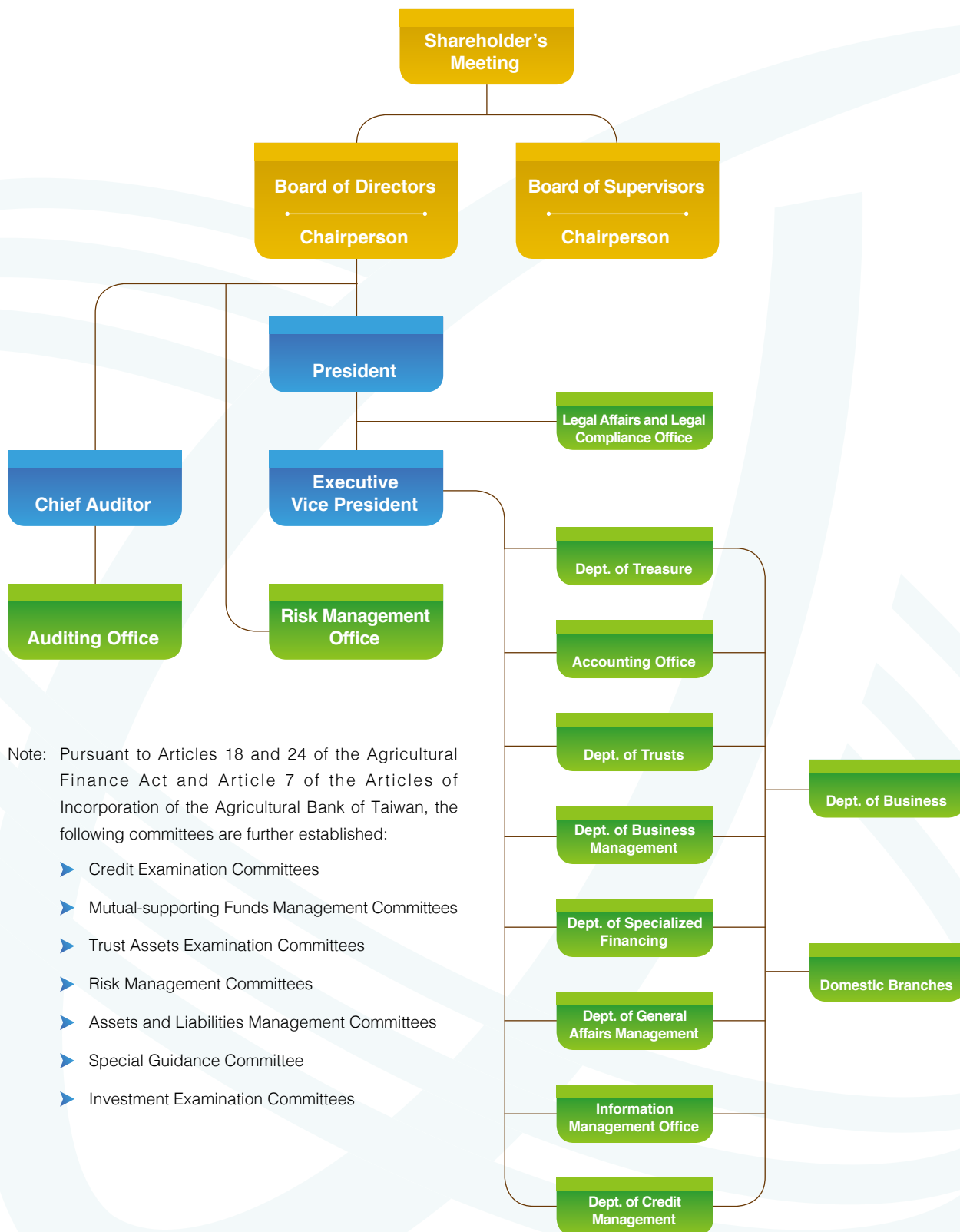
| | | |
|-------------------------------------|--------------------------------------|--|
| Ms. R.F. Wu (Director of the board) | Mr. M.G. Hsu (Director of the board) | Mr. C. Chen (Director of the board) |
| Mr. S.C. Yang (Supervisor) | Mr. C.H. Chen (Chairperson) | Mr. Y.C. Chang (Director of the board) |
| Mr. C.C. Yu (Director of the board) | Mr. Y.C. Lin (Director of the board) | Ms. H.M. Tasy (Director of the board) |

IN THE BACK ROW FROM LEFT

| | | |
|---------------------------------------|--|---------------------------------------|
| Mr. C.Y. Lin (Supervisor) | Mr. C.S. Lin (Supervisor) | Mr. C.C. Lin (Supervisor) |
| Mr. H.J. Yang (Director of the board) | Mr. C.Y. Hsiao (Director of the board) | Mr. C.H. Hsu (Director of the board) |
| Ms. J.W. Wann (Director of the board) | Mr. C.J. Wu (Supervisor) | Mr. W.W. Yang (Director of the board) |
| Mr. J.H. Wang (Director of the board) | Mr. L.P. Lu (Director of the board) | |



B. Organization Structure



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

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

Reinvestments:

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

Taiwan Mobile Payment Co., Ltd.(0.5% holdings)

C. Functions and Operations of Major Departments

| | |
|---|---|
| Auditing Office | The following were implemented under the direct authorization of the Boards of Directors: the planning and implementation of internal auditing procedures; tracking of the performance evaluation and participation in the definition and amendment of the respective business and administration bylaws and regulations; audit, bidding supervision and inspection supervision of construction projects and procurement, settings and property sales transactions; moreover, regular report shall be made to the Boards of Directors. |
| Risk Management Office | Planning of risk management operations; planning and implementation of credit rating operations; formulation and definition of risk index and risk measurement procedures; monitoring and control of risks; determination of the compliance of risk management operations with the related rules of Basel committee and the risk management related regulations of the national supervisory authority. |
| Legal Affairs and Legal Compliance Office | The audit of important company rules & regulations, operation manuals, and contracts and deeds; the audit, counseling, and deliberation of legal cases; the planning, supervision, and implementation of the law compliance system; the definition, implementation, and supervision of the annual law compliance evaluation; the provision of assistance, liaison, and counseling of legal cases; the study of financial legal affair and planning of law & regulation training of employees. |
| Dept. of Treasure | Planning and management of the appropriation of funds in local and foreign currencies, foreign currency exchange transactions, planning and management of medium and long-term capitals; planning and management of bills, bonds and asset investments in both local and foreign currencies; planning, subscription, and risk assessment of new financial products; study and planning of new capital solicitation and preferred share issuances of ABT; fund allocations, account transfers, account clearing and settlement matters with the Central Bank, banks and Financial Information Service Co., Ltd., clearing houses, and inter-bank transaction partners. |
| Dept. of Business | The processing of all types of deposits, bank remittances, and credit card and IC card matters; the processing of short-, medium-, and long-term loan and bank guarantee related matters; the banking agent business for national treasury matters and other agent services; the agency of distribution of a variety of funds, beneficiary certificates, gold bullion bars, gold coins, and silver coins; the provision of custodian services for negotiable securities and certifications of creditor's rights. |
| Dept. of Trusts | The development and planning, transaction management, and definition of operating procedures of trust instruments and its subsidiary financial instruments; the implementation of commissioned domestic and foreign negotiable security transactions and related processing and operations; the management of monetary trust and property related trust matters. |
| Dept. of Business Management | The amendment and compilation of bylaws and articles of association; the formulation of business policies and guidelines; the formulation, implementation, analysis report of the annual business plans and middle- and long-term business plans; the planning and management of deposits, remittances, banking agency businesses, card related businesses, online banking, and new businesses; the planning and implementation of marketing strategies and customer services; the establishment and reorganization of ABT branch offices and the supervision and management of business operations; the planning and management of reinvestment ventures; the implementation of marketing campaigns and planning and of corporate image advertisements; and the definition and implementation of operation performance evaluation. |
| Dept. of Specialized Financing | The formulation and implementation of subsidy plans for government agencies administering agricultural affairs; the provision of counseling services for the business operations and business and financial audit and performance evaluation of the credit departments of the farmers' and fisheries associations; the management of agricultural development fund loan processing matters; the financing of major agricultural infrastructure projects and agricultural projects; and the planning, promotion, and implementation of policy-based financing loans. |
| Dept. of General Affairs Management | The scheduling of Board of Directors and general stockholders meetings; the planning and implementation of ABT's human resource development, training, and utilization programs; the bid invitation for various equipment procurement, construction project and repair work projects; the procurement and management of office supplies; and the disbursement of general affairs, warehousing, budget and operating expenditures. |
| Information Management Office | The planning, formulation, and evaluation of computer operations plans; the preparation of budget allocation for information services; the planning of security plans for computer and information operations; the network design, construction and maintenance; the implementation and control of equipment room operations; the design, programming, and testing of computer programs; the planning and construction of network security system; and the management of system resources of various operations. |
| Accounting Office | Planning, review and compilation of the annual operating budget and financial forecasts; preparation and publication of monthly reports, quarterly reports, and accounting and clearing reports; formulation and amendment of the accounting system and the accounting procedure manuals; compilation and submission of financial statements and statistics charts; joint audit, supervision, and joint inspection and acceptance procedures implemented on completed construction projects and procurements. |
| Dept. of Credit Management | The planning and management of credit investigation and loan operations and the planning, formulation, and amendment of related bylaws, operation manuals, and operating procedures; the examination and approbation of loan applications amounting above the authorization limit of department managers and the loan application above the specified amounts of the credit departments of farmers' and fisheries associations; the assessment of loan assets and overdue loans; the compilation, statistical analysis, and report of collection and nonperforming loan information; the organization, preparation and planning of loan evaluation committee and head office loan evaluation taskforce; and the management of interest party information. |

D. Employees

| Year | | 2013 | 2014 | As of January. 31, 2015 |
|-------------------------------------|-----------------------------|------|------|-------------------------|
| Number of employees | Full-time employees | 184 | 224 | 222 |
| | Contract employees | 7 | 5 | 9 |
| | Total | 191 | 229 | 231 |
| Average age | | 43.1 | 42.7 | 42.7 |
| Average years of service | | 5.70 | 5.70 | 5.69 |
| Educational attainment of employees | Doctorate degree | 1 | 1 | 1 |
| | Master degree | 62 | 80 | 79 |
| | Bachelor degree | 124 | 144 | 147 |
| | Senior high school graduate | 4 | 4 | 4 |



III

Corporate Governance Report

A. Directors and Supervisors

| Title | Nationality / Registered Address | Name | Date Elected | Term | Date of first Appointment | Prime Experience & Education | Services Concurrently with the Other Company |
|---|----------------------------------|---------------|--------------------------------------|--------------------------|---------------------------|---|--|
| Chairperson Represented corporate shareholder: Council of Agriculture of the Executive Yuan | Taiwan (R.O.C) | C.H. Chen | 12/27/2013 | 12/27/2013 to 12/26/2017 | 12/27/2013 | B.A. of Tourism, Chinese Culture University; Secretary-General of Luchou District Farmers' Association | Chairperson of National Agriculture, Fishery and Finance Information Center |
| Director Represented corporate shareholder: Council of Agriculture, Executive Yuan | Taiwan (R.O.C) | C. Chen | 12/27/2013 | 12/27/2013 to 12/26/2017 | 12/27/2013 | Master of Public Administration, National Chengchi University; Legislator of the 5 th , 6 th , and 7 th session of the Legislative Yuan; the 13 th mayor of Changhua City | Chairman of Agricultural Credit Guarantee Fund |
| Director Represented corporate shareholder: Council of Agriculture, Executive Yuan | Taiwan (R.O.C) | J.M. Shyu | 12/27/2013 (dismissed on 07/15/2013) | 12/27/2013 to 12/26/2017 | 12/27/2013 | Master of Agricultural Economics, National Taiwan University; Deputy Director General, Bureau of Agricultural Finance, Council of Agriculture | - |
| Director Represented corporate shareholder: Council of Agriculture, Executive Yuan | Taiwan (R.O.C) | Mr. M.J. Shiu | 09/29/2014 | 12/27/2013 to 12/26/2017 | 09/29/2014 | Department of Insurance, Tamkang University; Deputy Director General, Bureau of Agricultural Finance, Council of Agriculture | Deputy Director General, Bureau of Agricultural Finance, Council of Agriculture |
| Director Represented corporate shareholder: Council of Agriculture, Executive Yuan | Taiwan (R.O.C) | R.F. Wu | 12/27/2013 | 12/27/2013 to 12/26/2017 | 12/27/2013 | Graduate School of Agricultural Economics, National Chung Hsing University; Technical Specialist of the Executive Yuan | Senior Executive Officer of the Economic Energy and Agriculture Department of the Executive Yuan |
| Managing Director Represented corporate shareholder: National Farmers' Association | Taiwan (R.O.C) | Y.C. Chang | 12/27/2013 | 12/27/2013 to 12/26/2017 | 12/27/2013 | Master of Management Science, Nanhua University; Secretary-General of National Farmers' Association | Secretary-General of Taiwan Provincial Farmers' Association; Chairperson of National Training Institute for Farmers' organizations |
| Director Represented corporate shareholder: National Farmers' Association | Taiwan (R.O.C) | C.H. Hsu | 12/27/2013 | 12/27/2013 to 12/26/2017 | 12/27/2013 | Dept. of General Business Studies, Ching-Chwan Commercial High School; Secretary-General, Hsin-Chuang District Farmers' Association, New Taipei City | Secretary-General, Hsin-Chuang District Farmers' Association, New Taipei City |
| Managing Director Represented corporate shareholder: National Farmers' Association | Taiwan (R.O.C) | Y.C. Lin | 12/27/2013 | 12/27/2013 to 12/26/2017 | 12/27/2013 | Dept. of Business Studies, Ling Tung Junior College of Commerce; Secretary-General of Tali District Farmers' Association, Taichung City | Secretary-General of Tali District Farmers' Association, Taichung City |
| Director Represented corporate shareholder: National Farmers' Association | Taiwan (R.O.C) | C.Y. Hsiao | 12/27/2013 | 12/27/2013 to 12/26/2017 | 12/27/2013 | Graduate School of International Business, Asia University; Secretary-General of Tao-Tun Township Farmers' Association, Nantou County | Secretary-General of Tao-Tun Township Farmers' Association, Nantou County |
| Director Represented corporate shareholder: National Farmers' Association | Taiwan (R.O.C) | H.J. Yang | 12/27/2013 | 12/27/2013 to 12/26/2017 | 12/27/2013 | Department of Mechanical Engineering, Far East College of Technology; Secretary-General of Tainan Farmers' Association, Tainan City | Secretary-General of Tainan Farmers' Association, Tainan City |

| Title | Nationality / Registered Address | Name | Date Elected | Term | Date of first Appointment | Prime Experience & Education | Services Concurrently with the Other Company |
|---|----------------------------------|-----------|--------------|--------------------------|---------------------------|--|--|
| Director Represented corporate shareholder: National Farmers' Association | Taiwan (R.O.C) | L.P. Lu | 12/27/2013 | 12/27/2013 to 12/26/2017 | 12/27/2013 | Open Business College Affiliated with National Taipei College of Business; Secretary-General of Ta-Yuan Township Farmers' Association, Taoyuan County | Secretary-General of Ta-Yuan Township Farmers' Association, Taoyuan County |
| Managing Director: Feng-Shan District Farmers' Association, Kaohsiung City | Taiwan (R.O.C) | C.C. Yu | 12/27/2013 | 12/27/2013 to 12/26/2017 | 12/27/2013 | Department of Chemical Engineering, National Chin Yi Institute of Technology; Secretary-General of Feng-Shan District Farmers' Association | Secretary-General of Feng-Shan District Farmers' Association |
| Director: (Independent Director) | Taiwan (R.O.C) | W.W. Yang | 12/27/2013 | 12/27/2013 to 12/26/2017 | 12/27/2013 | Ph.D.in Law, Duke University (U.S.); Associate Professor (full-time) Department of Law and School of Law, Kainan University | Associate Professor (full-time), Department of Law and School of Law, Kainan University; Chairperson of Hsing Yuan Power Corporation |
| Director: (Independent Director) | Taiwan (R.O.C) | H.M. Tsay | 12/27/2013 | 12/27/2013 to 12/26/2017 | 12/27/2013 | Bachelor of Economics, National Taiwan University; Executive Officer of Accounting & Statistics Office, Executive Yuan | Assistant Manager of Economic Research Department, Central Bank of the Republic of China (Taiwan) |
| Director: (Independent Director) | Taiwan (R.O.C) | C.W. Wan | 12/27/2013 | 12/27/2013 to 12/26/2017 | 12/27/2013 | Ph.D. Agricultural Economics, University of California; Professor, Department of Applied Economics, National Chung Hsing University | Professor, Department of Applied Economics, National Chung Hsing University |
| Director: (Independent Director) | Taiwan (R.O.C) | C.H. Wang | 12/27/2013 | 12/27/2013 to 12/26/2017 | 12/27/2013 | Developmental Economics and Agricultural Policy, University of Kassel, Germany; Associate Professor, Department of Bio-Industry Communications and Development, National Taiwan University | Associate Professor, Department of Bio-Industry Communications and Development, National Taiwan University |
| Supervisor Represented corporate shareholder: National Training Institute for Farmers' Organizations | Taiwan (R.O.C) | C.Y. Lin | 12/27/2013 | 12/27/2013 to 12/26/2017 | 12/27/2013 | Department of Business Administration, Tamkang University; Secretary-General of Sanchung District, New Taipei City | Secretary-General of Sanchung District, New Taipei City |
| Supervisor Represented corporate shareholder: National Training Institute of Farmers' Organization | Taiwan (R.O.C) | C.J. Wu | 12/27/2013 | 12/27/2013 to 12/26/2017 | 12/27/2013 | Department of Management, National Defense University; Secretary-General of Tainan City Farmers' Association | Secretary-General of Tainan City Farmers' Association |
| Supervisor (Independent Supervisor) | Taiwan (R.O.C) | S.C. Yang | 12/27/2013 | 12/27/2013 to 12/26/2017 | 12/27/2013 | Master of Accounting, Tamkang University; Director of the Accounting Office, Council of Agriculture | Director of Accounting Office, Council of Agriculture |
| Supervisor (Independent Supervisor) | Taiwan (R.O.C) | C.S. Lin | 12/27/2013 | 12/27/2013 to 12/26/2017 | 12/27/2013 | Master of Applied Statistics of Fu Jen Catholic University; Accounting Director of Academia Sinica; Senior Executive Officer of Directorate General of Budget, Accounting and Statistics, Executive Yuan | Accountant Officer cum Chief Executive Officer of Directorate General of Budget, Accounting and Statistics, Executive Yuan |
| Supervisor (Independent Supervisor) | Taiwan (R.O.C) | C.C. Lin | 12/27/2013 | 12/27/2013 to 12/26/2017 | 12/27/2013 | Graduate School of Management Sciences, Nan Hua University; Secretary-General, National Fishermen's Association, R.O.C. | Secretary-General, National Fishermen's Association, R.O.C. |

B. Profiles of Managers

December 31, 2014

| Title | Nationality | Name | Date appointer | Major experience (education) | Position in other companies |
|--|----------------|-------------|--|---|---|
| President | Taiwan (R.O.C) | Y.H. Chiou | 05/28/2013 | Bachelor in Land Economics, National Chung Hsing University; Manager of Land Bank of Taiwan | 1. Director of National Agriculture, Fishery and Finance Information Center 2. Managing Director of Agricultural Credit Guarantee Fund |
| Executive Vice President | Taiwan (R.O.C) | C.N. Shen | 05/26/2005 (Retired on Sept. 1, 2014) | Executive Master of Business Administration (EMBA), National Chiayi University; Division Manager, Farmers Bank of China | - |
| Executive Vice President Concurrently serving as the Director of the Risk Management Office of the Board of Directors | Taiwan (R.O.C) | H.M. Yan | 09/20/2011 07/26/2013 | Master of Agricultural Economics, Kyushu University, Japan; Manager of the Farmers Bank of China | Chairman of Agricultural Finance Insurance Broker Co., Ltd. |
| E.V.P. & General Manager, Auditing Office | Taiwan (R.O.C) | Y.K. Hung | 07/26/2013 | Master of Statistics, National Chengchi University; Deputy. Manager of the Planning Department, Farmers Bank of China | - |
| Manager of the Administrative Management Department | Taiwan (R.O.C) | C.C. Yeh | 07/26/2013 | Master of Technology Management, Asian Institute of Technology; Department of Economics, National Taiwan University | - |
| S.V.P. & General Manager Dept. of Business | Taiwan (R.O.C) | H.T. Chen | 05/03/2011 | Credit Program of the Graduate School of International Business Management, Chinese Culture University; Department of Business, National Open University; Vice Manager of Review Department, Land Bank of Taiwan | - |
| S.V.P. & General Manager, Dept. of Treasure | Taiwan (R.O.C) | S.C. Lai | 09/17/2008 | Bachelor of Business Administration, National Chengchi University; Senior Asst. Vice President, Taipei Fubon Bank | - |
| S.V.P. & General Manager, Information Management Office | Taiwan (R.O.C) | M.S. Chen | 05/26/2005 | Bachelor of Computer Science, Feng Chia University; Senior Executive Office of Fuhwa Commercial Bank | Director of National Agriculture, Fishery and Finance Information Center |
| S.V.P. & General Manager, Dept. of Business | Taiwan (R.O.C) | Y.L. Chiang | 12/27/2013 | School of Political Science, Chinese Culture University; Senior Administrator of the Audit Department, Financial Information Service Co., Ltd. | Director of Agricultural Finance Insurance Broker Co., Ltd. |
| V.P. & General Manager, Dept. of Specialized Financing | Taiwan (R.O.C) | C.J. Wen | 12/27/2013 | Bachelor of Public Finance, National Chung Hsing University; Asst. Manager, Tatung Branch of the Farmers Bank of China | Director of Agricultural Finance Insurance Broker Co., Ltd. |
| V.P. & General Manager, Department of Trusts | Taiwan (R.O.C) | S.H. Hsu | 05/20/2010 | Graduate school of Agricultural Economics, National Chung Hsing University; Manager of Hwa Tai Bank; Manager of the Bank of Panhsin | - |
| V.P. & General Manager of the Accounting Office | Taiwan (R.O.C) | L.L. Yang | 09/20/2011 | Bachelor of Accounting, National Chung Hsing University; Specialist of the Accounting Office of the Farmers Bank of China; Assistant Vice President of the Agricultural Bank of Taiwan | Supervisor of Agricultural Finance Insurance Broker Co., Ltd. |
| V.P. & General Manager Office of Taichung Branch | Taiwan (R.O.C) | T.Y. Lin | 10/12/2012 | Master of Insurance, Feng Chia University; Asst. Manager, Fengyuan Branch of the Land Bank of Taiwan | - |
| V.P. & General Manager Office of Kaohsiung Branch | Taiwan (R.O.C) | J.S. Jiang | 10/26/2012 (till Aug. 31, 2014) | Institute of Natural Resources Management, National Taipei University; Assistant Manager of the Loan Service Center of Ta Chong Bank | - |
| V.P. & General Manager Office of Kaohsiung Branch | Taiwan (R.O.C) | Y.L. Lian | 09/01/2014 | Doctorate Program of Kainan University in China; Senior specialist, Risk Management Dept., Huanan Financial Holdings Co., Ltd. | - |

C. The Practice of Corporate Governance

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

| Matters Evaluated | | Status of Operations | | Divergences from Corporate Governance Practices of the Banks and the Underlying Reasons of Divergences |
|---|--|----------------------|---|--|
| | | Y | N | |
| 1. Shareholding Structure & Shareholders' Rights | (1) Has the Bank adopted internal procedures for the handling of shareholder suggestions, questions, disputes, and litigation? Does the Bank act in accordance with such procedures? | ✓ | | None |
| | (2) Does the Bank know the identities of the main controlling shareholders, and of the ultimate controlling shareholder? | ✓ | | |
| | (3) Has the Bank established a risk management mechanism and “firewall” between the Bank and its affiliates? Is it implementing them? | ✓ | | |
| 2. Composition and Responsibilities of the Board of Directors | (1) In addition to the Remuneration Committee and the Audit Committee, is the Bank willing to establish other function-specific committees? | ✓ | | None |
| | (2) Does the Bank carry out regular evaluations of CPA independence? | ✓ | | |
| 3. Has the Bank established a communication channel with interested parties? | | ✓ | | None |
| 4. Information Disclosure | (1) Has a corporate website been established to disclose information regarding the Bank's financial, business, and corporate governance status? | ✓ | | None |
| | (2) Has the Bank established other information disclosure channels? | ✓ | | |
| 5. Does the Bank have other important information that would be conducive to a better understanding of the Bank's corporate governance operations? | | ✓ | | None |
| 6. Does the Bank carry out corporate governance self-assessment reports, or hire an outside institution to prepare corporate governance assessment reports? | | ✓ | | None |

2. Fulfillment of Social Responsibilities

| Matters Evaluated | | Status of Operations | | Summary Description | Variations in the Corporate Social Responsibilities Best Practice Principles for TWSE/GTSM listed companies and their underlying factors |
|---|---|----------------------|---|---|--|
| | | Y | N | | |
| 1. Implementation of Corporate Governance | (1) Has the Bank adopted a corporate social responsibility policy or system? Does the Bank review the effectiveness of its implementation thereof? | | ✓ | (1) ABT has not yet defined its social responsibility strategies or system. | Banks not listed in the stock market or OTC market are not required to fill out this column. |
| | (2) Does the Bank periodically hold social responsibility education and training sessions? | ✓ | | (2) ABT provided employees with corporate governance related training courses through in-house education and training programs; classes attended are counted as part of the required training hours of employees. | |
| | (3) Does the Bank have a unit (dedicated or otherwise) that is charged with responsibility for promoting corporate social responsibility? Does the board of directors specifically authorize senior management to handle corporate social responsibility matters, and does senior management report back to the board of directors on its handling of such matters? | | ✓ | (3) ABT has not established a department exclusively or conjointly attending to the promotion of social responsibility; however, the board directors, upon call of circumstances, participated in the corporate governance related training courses. Moreover, all directors are duly notified whenever an administrative order orientation is available. | |
| | (4) Has the Bank adopted a policy on reasonable remuneration? Are corporate social responsibility matters factored into employee performance evaluations? Are there clear and effective rewards and sanctions? | ✓ | | (4) ABT has established a rational salary remuneration system and "personnel performance evaluation regulations" with clearly and precisely defined reward and punishment measures. However, to date, the personnel performance evaluation has not been integrated with the corporate responsibility policies. | |
| 2. Development of a Sustainable Environment | (1) Does the Bank make efforts to enhance the efficiency of resource utilization, and use recyclable materials with a low environmental burden? | ✓ | | (1) ABT has properly implemented the waste sorting system which sorts the wastes into ordinary garbage, , recyclable paper, PET bottles, iron and aluminum cans, disposable paper cup, and retort pouch, thereby facilitating resource recycling and reuse and reducing the impact on the environmental load. | Banks not listed in the stock market or OTC market are not required to fill out this column. |
| | (2) Has the Bank established an appropriate environmental management system that is suited to the characteristics of the banking industry? | ✓ | | (2) ABT has established usage regulation for the respective office and activity areas. In addition to the smoking prohibition rules, it is also regulated that in-house air-conditioners shall maintain indoor temperature at 27 °C to conserve ventilation costs. Moreover, garbage classification and waste reduction measures have been implemented. | |
| | (3) Does the Bank pay attention to the impact of climate change on operating activities? Does it prepare greenhouse gas inventory reports? Has it adopted strategies for energy conservation and reduction of carbon and other greenhouse gases? | ✓ | | (3) ABT is categorized under the agricultural sector and thus, is obliged to coordinate with related government policies, such as, implementing energy conservation and carbon emission reduction measures, fulfilling social responsibilities of the corporation, etc. In the realization of these measures, ABT has implemented energy saving and water conservation measures, paper usage and gasoline conservation measures, and other policies involving individual habits of employees. Stringent supervision measures are implemented to monitor efforts of related departments. | |
| 3. Community Service Work | (1) Has the Bank adopted policies and procedures in accordance with applicable legislation and international human rights conventions? | ✓ | | (1) To safeguard the rights and obligations of management and labor and maintain a sound management system, ABT established a set of work regulations as prescribed under the Labor Standards Law and implemented said regulations after obtaining duly approval from the competent authority. A regular labor-management meeting is held every three months to safeguard the legitimate rights of ABT employees. | Banks not listed in the stock market or OTC market are not required to fill out this column. |
| | (2) Has the Bank established an employee complaint system, including a channel for lodging complaints? Is the system being properly implemented? | ✓ | | (2) ABT has set up an employee opinion box in the company to provide employees a channel through which they may express their opinions. | |
| | (3) Does the Bank provide a safe and healthy working environment for its employees, and offer them regular safety and health education? | ✓ | | (3) To ensure the effective prevention of occupational hazards and protection of employee safety and health, ABT not only provides employees with a safe and healthful work environment, but also organizes a labor health and safety training course for employees every two years. | |
| | (4) Has the Bank established a channel for periodic communication with employees? Does the Bank use reasonable methods to notify employees of operational changes with a potentially major impact upon them? | ✓ | | (4) ABT regularly holds labor-management meetings, employee welfare meetings, and labor safety meetings to maintain proper communication channels with and full understanding of representatives and employees. | |
| | (5) Has the Bank established a career skills development program for its employees? | ✓ | | (5) In addition to scheduling domestic and overseas education and training courses for employees, ABT also planned training programs for employees pursuant to their respective rankings and job descriptions and provided learning and career advancement subsidies to aid enhancement of their professional proficiency. | |
| | (6) Has the Bank adopted consumer protection policies and complaint procedures for its R&D, purchasing, operational, and service processes? | ✓ | | (6) ABT consciously safeguards the interests of its customers and defines related provisions pursuant to the regulations of competent authorities; moreover, said provisions are amended in response to the amendments of laws and regulations. To ensure proper processing of customer complaints received, ABT has established a customer opinion box and customer complaint section in the ABT website to obtain an effective grasp of customer opinions and institute immediate response to the customer complaint for the enhancement of the ABT's service quality. | |
| | (7) In its marketing and labeling of products and services, does the Bank comply with applicable legislation and international standards? | ✓ | | (7) ABT has regulated that product and service marketing and labeling should not violate any compulsory or prohibitive laws or regulations, peace and order, and good customs and traditions. Moreover, marketing and labeling shall comply with provisions and principles of Money Laundering Control Act, Personal Information Protection Act, Financial Consumer Protection Act, and other related laws. | |
| | (8) Before entering into a business relationship with a supplier, does the Bank first consider whether the supplier has previously harmed the environment or the interests of society? | ✓ | | (8) ABT conducted all procurement and vendor selection procedures and established manufacturer eligibility and procurement agreements according to the provisions of the Government Procurement Act and related company regulations. | |
| | (9) Do the Bank's contracts with major suppliers include a provision that allows for the Bank to terminate or rescind at any time if the supplier violates its corporate social responsibility policy in such a manner as to harm the environment or the interests of society? | ✓ | | (9) The same as above. | |

| Matters Evaluated | | Status of Operations | | Variations in the Corporate Social Responsibilities Best Practice Principles for TWSE/GTSM listed companies and their underlying factors |
|---|---|----------------------|---|---|
| | | Y | N | |
| 4. Strengthening of Information Disclosure | Does the Bank use its own website and the Market Observation Post System (MOPS) website to disclose relevant and reliable information on corporate social responsibility? | ✓ | | ABT regularly discloses corporate governance, commitment to customers, concern for employee, social participation, and other related accomplishments in the "Legal and open information disclosure" section of the ABT website. Hardcopy materials are also produced and distributed to the perusal of all ABT departments. |
| 5. If the Bank has compiled its own corporate social responsibility rules in accordance with the "Corporate Social Responsibility Best-Practice Principles for TWSE/GTSM Listed Companies," please explain their operation and their divergences: ABT is not a publically listed bank, so has not compiled its own corporate social responsibility rules. | | | | |
| 6. Other important information that would aid in understanding the Bank's ethical management operations: (1) ABT complies with the government policies to implement various policy-based agricultural loan program and provide guidance to the credit departments of farmers' and fisheries associations for their sound development, thereby enhancing the agricultural economic prosperity. ABT will actively participate in charitable activities, concern for the community, and take our social responsibilities seriously, thereby fulfilling our corporate commitment of "Whatever you take from the society; use them for the society." (2) In a move to give back to the society, we implemented a "CARE" program. ABT not only continues to pay close concern to various public welfare activities for disadvantaged groups to foster our image as a public welfare concerned corporation. Furthermore, in response to the agricultural policies of the government, ABT accepts the commission to manage the agricultural development fund project loans. | | | | |
| 7. If the Bank's product or corporate social responsibility reports include passage of certification standards by relevant certification agencies, please explain: ABT has not yet produced any corporate social responsibility reports. | | | | |

3. Measures to ensure the bank operates in good faith and their results:

| Matters Evaluated | | Status of Operations | | Variations in the Ethical Corporate Management Best Practice Principles for TWSE/GTSM listed companies and their underlying factors |
|--|---|--|----------|---|
| | | Y | N | |
| 1. Establishment of Ethical Management Policies and Programs | <p>(1) Is an ethical management policy clearly expressed in the Bank's charter and public documents? Are its board of directors and management committed to vigorous implementation of that policy?</p> <p>(2) Has the Bank adopted programs for the prevention of unethical behavior? Does each of these programs expressly set out operating procedures and a code of conduct, provide for punishment of unethical behavior, and establish a system for lodging complaints? Are the programs being properly implemented?</p> <p>(3) Has the Bank adopted preventive measures to ensure that the unethical behaviors set out in Article 7, paragraph 2 of the "Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies" will not occur, and that the Bank will not engage in business activities that pose a relatively high risk of unethical conduct?</p> | <p>✓</p> <p>✓</p> <p>✓</p> | | <p>(1) ABT's chairman, general manager, chief auditor, and managers in charge of ensuring regulatory compliance have signed the internal control system statements, which are posted on our website, stating that ABT indeed complies with the regulations governing the internal control policies pertaining to financial holdings companies and banking industry.</p> <p>(2) In order to prevent dishonest behavior, we define the ethical conduct regulations and all employees shall strictly abide by the regulations. In addition, ABT's Work Rule also defines that all employees shall strictly comply with the banking regulations and other related laws, and strictly keep ABT's and customer's information confidential.</p> <p>(3) It is clearly defined in the work regulations that staff members (employees) shall desist from, either through work implementation related actions or violation of occupational duties, accepting entertainment, complimentary gifts, rebates and other unlawful gains, or from taking advantage of job authorization for personal or third-party interests and desist from borrowing money from current customers or from obtaining loan with ABT under the name of another individual.</p> |
| 2. Implementation of Ethical Management | <p>(1) Does the Bank evaluate the ethics track record of parties with which it does business? Do the contracts that it enters into with such parties expressly set out provisions governing ethical conduct?</p> <p>(2) Does the Bank have a unit (dedicated or otherwise) that reports to the board of directors and is responsible for promoting ethical business practices? If so, does this unit report periodically to the board of directors on the status of its work?</p> <p>(3) Has the Bank adopted a conflict-of-interest policy, and provided an appropriate complaint channel? Is the policy being properly implemented?</p> <p>(4) Has the Bank established effective accounting and internal control systems designed to achieve ethical management? Does its internal audit unit carry out periodic audits, or if not, does the Bank retain a certified public accountant to carry out audits?</p> <p>(5) Does the Bank periodically hold in-house or out-of-house education and training sessions that focus on business ethics?</p> | <p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p> | <p>✓</p> | <p>(1) Prior to the public procurement, ABT always inquires the business operation conditions of its counterparts in order to avoid making transactions with counterparts having dishonest transaction records and promotes the moral and ethical behaviors among the procurement personnel. ABT irregularly conducts adjustment of the procurement positions when circumstances require. When processing the procurement procedures, ABT always asks for price quotations from a number of manufacturers or suppliers for price comparison and defines penalty provisions in the procurement contract. Manufacturers or suppliers who fail to fulfill the contract obligations shall make compensation as specified in the contract.</p> <p>(2) ABT has not established any dedicated full-time or part-time department under the direct jurisdiction of the Board of Directors for the implementation of corporate ethical management matters. Since corporate ethics is an integral part of our business ideals, ABT promotes and realizes the business ideals in various business operations and services in routine employee assemblies from time to time to enable employees to fully understand the core value of the corporation.</p> <p>(3) Recusal of directors from issues of conflict of interests have been specifically provided in the bylaws, articles of organization of the Board of Directors, Board of Directors Meeting Regulations, and other corporate regulations.</p> <p>(4) ABT has a well-established stringent accounting system and dedicated accounting department. The financial statements are subject to the audit review of certified public accountants to ensure the fairness of the financial statements. In full compliance of the Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries, ABT has established the related internal control system and all audit procedures are conducted by the Audit Office of the Board of Directors.</p> <p>(5) The pre-employment training course for new employees describes the moral and ethical principles expected of professionals in the banking industry and the related governing internal and government laws and regulations. Professional ethics and the related laws & regulations and general information are posted in a dedicated section of the ABT website for the immediate reference of employees.</p> |

| Matters Evaluated | | Status of Operations | | Variations in the Ethical Corporate Management Best Practice Principles for TWSE/GTSM listed companies and their underlying factors |
|---|--|----------------------|---|--|
| | | Y | N | |
| 3. Whistleblower system | (1) Has the Bank established a whistleblower system that provides for whistleblower incentives? Is there a convenient channel for whistleblowers to raise their concerns? Does the Bank assign appropriate personnel who are exclusively tasked with responsibility for interfacing with the persons against whom whistleblowers lodge complaints? | ✓ | | (1) ABT has defined the reward and punishment rules and established a Personnel Evaluation Committee through which ABT and the employee representatives jointly evaluate the reward and punishment matters of the employees; letters shall be issued to notify all employees of the reward and punishment decisions |
| | (2) Has the Bank adopted a standard operating procedure and a confidentiality regime for investigations launched in response to whistleblower complaints? | ✓ | | (2) The assistance of the competent departments is solicited to expedite treatment and solution of complaints not involving malfeasance or disciplinary issues. As for complaints involving illegal or criminal violations or law and regulatory violations, investigation procedures are immediately instituted, and upon discovery of attesting evidence, legal action shall be instituted. From time to time, recommendations for improvement are proposed for the reference and improvement action of the relevant departments. Moreover, rights of individuals filing complaints are safeguarded. |
| | (3) Has the Bank adopted measures to protect whistleblowers from retaliation? | ✓ | | (3) The Labor Standards Act (LSA) is applicable to the banking industry, and as provided in Article 74, an employer is not entitled to terminate employment, transfer, or institute actions detrimental to any employees in retaliation for labor complaints filed. |
| 4. Strengthening of Information Disclosure | Does the Bank disclose the content of its ethical best practice standards, and the state of their implementation, on its website and the Market Observation Post System (MOPS) website? | ✓ | | ABT discloses its implementation of ethical operations in the global website and open information observation station or annual report of the company. |
| 5. Please describe any differences in operations and rules of ethical management regulations that the Bank has established in accordance with the "Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies": ABT is not a publically listed bank, so this item is not applicable. | | | | |
| 6. Other important information that would aid in understanding the Bank's ethical management operations (such as the Bank's review and revision of ethical management regulations): None. | | | | |



4. Disclosures on the Implementation Conditions of the Internal Control Systems

(1) Internal Control System Implementation Status Statement

On behalf of the Agricultural Bank of Taiwan, we hereby certify that from January 1, 2014 to December 31, 2014, the Bank has duly complied with the "Implementation Rules for the Internal Control and Internal Audit Systems of Financing Holding Companies and Banks" in establishing the internal control system and implementing the risk management procedures. The Bank has been audited by the independent auditors who regularly submit reports to the Boards of Directors and Supervisors (The Bank also engages in the securities business, and has conducted evaluation of the effectiveness of the design and implementation of its internal control system in accordance with the criteria described in the "Regulations Governing the Establishment of Internal Control Systems by Service Enterprises in Securities and Futures Markets", promulgated by the Securities and Futures Bureau, Financial Supervisory Commission). After prudent evaluation, the Bank's each department has implemented effective internal control and complied with related laws and regulations during the year to which this statement relates. (This Statement is a major part of the Bank's annual report and will be disclosed to the public. For any false statement or any act of concealment, the Bank shall be subject to the penalty of perjury of Articles 20, 32, 171 and 174 of the Securities Exchange Law.)

To: Council of Agriculture, Executive Yuan

Chairperson: C.H. Chen



(authorized signature)

President: Y.H. Chiou



(authorized signature)

Chief Auditor: Y.K. Hung



(authorized signature)

Compliance Officer: C. H. HUANG



(authorized signature)

March 4, 2015

(2) CPA Audit Report



安侯建業聯合會計師事務所

KPMG

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The Board of Directors

Agricultural Bank of Taiwan, Ltd.

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

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

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

To: Agricultural Bank of Taiwan

KPMG Taiwan

CPA: Chung Dan-Dan



March 24, 2015



IV

Capital Structure

A. Sources of Equity Capital

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

December 31, 2014

Unit: in 1,000 shares; in NTD Thousand

| Year / month | Issue price | Authorized Capital | | Paid-in Capital | | Remarks | |
|---------------|-------------|--------------------|------------|--------------------|---------------|---|--|
| | | Quantity of shares | Amount | Quantity of shares | Amount | Source of capital | Others |
| April 2005 | 10 | 2,000,000 | 20,000,000 | 2,000,000 | 20,000,000 | Cash | The change registration is approved by the Ministry of Economic Affairs by the letter no. Ching-shou-shang-tzu-ti-09401062340 dated April 19, 2005. |
| July 2007 | 10 | 2,011,154 | 20,111,536 | 2,011,154 | 20,111,536 | Capital increase out of earnings 111,536 | The change registration is approved by the Ministry of Economic Affairs by the letter no. Ching-shou-shang-tzu-ti-09601192630 dated August 16, 1997. |
| July 2009 | 10 | 1,000,000 | 10,000,000 | 1,000,000 | 10,000,000 | Capital reduction 10,111,536 | The change registration is approved by the Ministry of Economic Affairs by the letter no. Ching-shou-shang-tzu-ti-09801290140 dated December 18, 1999. |
| December 2009 | 10 | 2,000,000 | 20,000,000 | 2,000,000 | 20,000,000 | Capital increased by cash 10,000,000 | |
| July 2010 | 10 | 2,008,014 | 20,080,139 | 2,008,014 | 20,080,139 | Capital increase out of earnings 80,139 | The change registration is approved by the Ministry of Economic Affairs by the letter no. Ching-shou-shang-tzu-ti-09901194320 dated August 27, 2000. |
| July 2011 | 10 | 2,024,428 | 20,244,280 | 2,024,428 | 20,244,280 | Capital increase out of earnings 164,141 | The change registration is approved by the Ministry of Economic Affairs by the letter no. Ching-shou-shang-tzu-ti-10001206180 dated September 6, 2011. |
| July 2012 | 10 | 2,040,126 | 20,401,256 | 2,040,126 | 20,401,256 | Capital increase out of earnings 156,976 | The change registration is approved by the Ministry of Economic Affairs by the letter no. Ching-shou-shang-tzu-ti-10101164220 dated August 17, 2012. |
| July 2013 | 10 | 2,048,405 | 20,484,054 | 2,048,405 | 20,484,054 | Capital increase out of earnings 82,798 | The change registration is approved by the Ministry of Economic Affairs by the letter no. Ching-shou-shang-tzu-ti-10201164140 dated August 12, 2013. |
| December 2013 | 10 | 3,000,000 | 30,000,000 | 2,048,405 | 20,484,054 | - | A resolution was passed in the interim shareholders' meeting on Dec. 27, 2013 to change the company capital to 30 billion NTD. |
| July 2014 | 10 | 3,000,000 | 30,000,000 | 2,054,845.624 | 20,548,456.24 | Capital increase out of earnings 64,402.24 | The change registration is approved by the Ministry of Economic Affairs by the letter no. Ching-shou-shang-tzu-ti-10301164260 dated August 8, 2014. |
| August 2014 | 10 | 3,000,000 | 30,000,000 | 2,304,845.624 | 23,048,456.24 | Capital increased by cash 2,500,000 | The change registration is approved by the Ministry of Economic Affairs by the letter no. Ching-shou-shang-tzu-ti-10301176400 dated September 5, 2014. |
| December 2014 | 10 | 3,000,000 | 30,000,000 | 2,304,845.624 | 23,048,456.24 | Conversion of preferred stock to common stock | The change registration is approved by the Ministry of Economic Affairs by the letter no. Ching-shou-shang-tzu-ti-10301257970 dated January 16, 2015. |

December 31, 2014

Unit: share

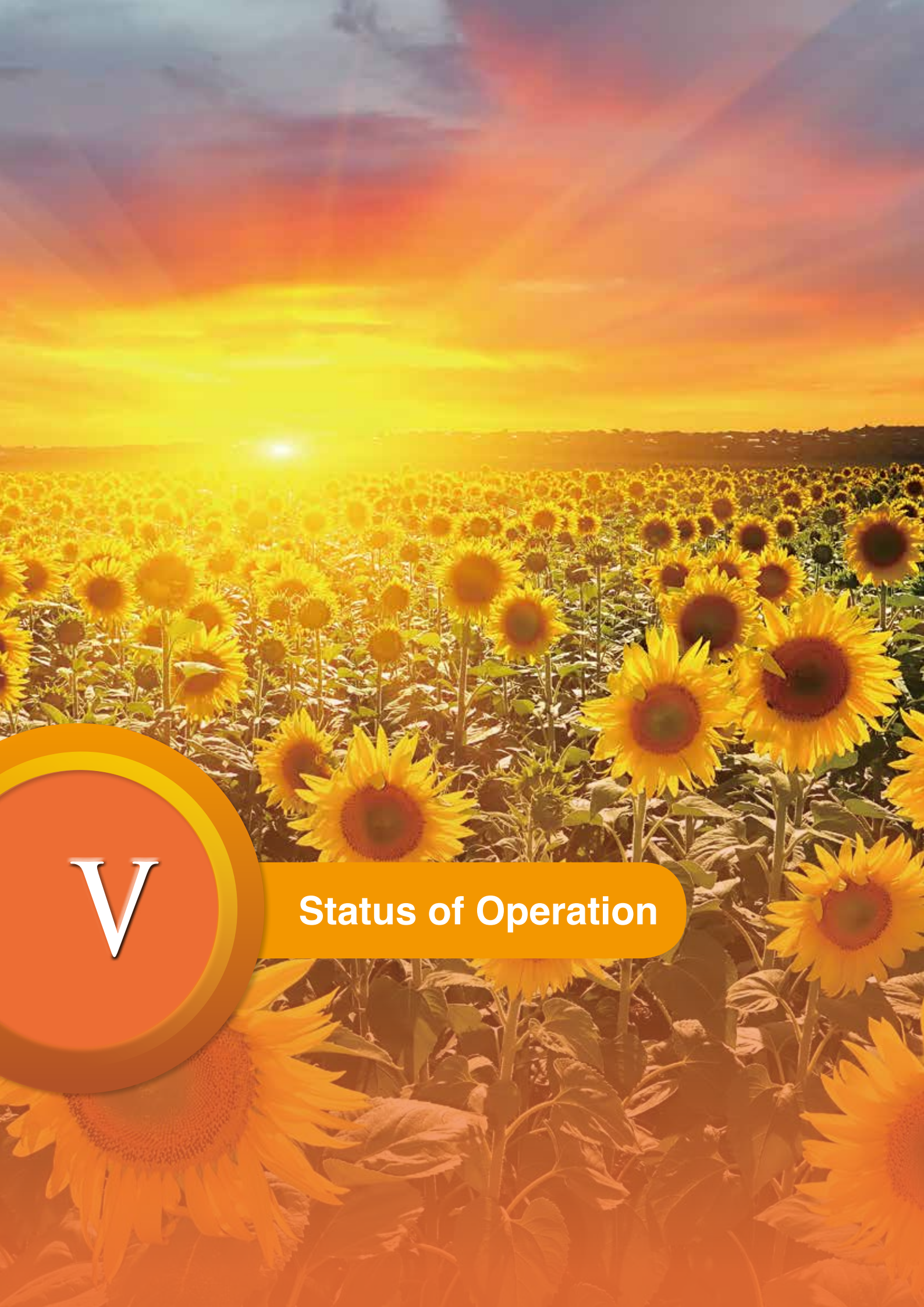
| Types of stock | Authorized Capital | | | Remarks |
|----------------|--------------------|-----------------|---------------|-------------------------|
| | Outstanding Shares | Unissued shares | Total | |
| Common Stock | 2,304,845,624 | 695,154,376 | 3,000,000,000 | Non-listed or OTC stock |

B. List of Major Shareholders

December 31, 2014

Unit: Share; %

| Shareholder | Shareholding | Shares held | Percentage |
|--|--------------|--------------------|------------|
| Council of Agriculture, Executive Yuan | | 921,491,959 shares | 39.98% |
| Agricultural Credit Guarantee Fund | | 98,850,352 shares | 4.29% |
| National Farmer's Association, R.O.C.(including the Supply and Marketing Department) | | 88,365,335 shares | 3.83% |
| Shulin District Farmers' Association, New Taipei City | | 42,231,358 shares | 1.83% |
| Tou-Nan Township Farmers' Association, Yunlin County | | 35,752,916 shares | 1.55% |
| Panchiao District Farmers' Association, New Taipei City | | 34,435,065 shares | 1.49% |
| TsaoTun Farmer's Association, Nantou County | | 28,604,341 shares | 1.24% |
| Tali District Farmers' Association, Taichung City | | 25,722,376 shares | 1.12% |
| Luzhou District Farmers' Association, New Taipei City | | 22,585,706 shares | 0.98% |
| Yung-Kang District Farmers' Association, Tainan City | | 22,109,610 shares | 0.96% |



V

Status of Operation

A. Principal Business

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

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

1. **General guidance services:**The guidance service on the following matters is provided to the credit departments posting a NPL ratio lower than 15%:
 - (1) Definition of regulations governing business operations;formulation of essential management systems and cost concepts for the enhancement of the establishment' s operating performances.
 - (2) Establishment of the internal control and internal audit systems.
 - (3) Appropriation of deposit reserve and liquidity reserve.
 - (4) Re-disposition of surplus and provision of financing.
 - (5) Financing agriculture, forestry, fishery and livestock industries and consumer loans.
 - (6) Processing of financial instrument exchange and fund remittances.
 - (7) Processing of payment collection and disbursement payment for the national treasury and other financial institutions.
 - (8) Implementation of corrective measures for deficiencies discovered during bank audit procedures.
 - (9) Procedures for the reinforcement of the financial structure and upgrading of asset quality.
 - (10)Processing of nonperforming loans and the collection of overdue accounts.
 - (11)Institution of accounting, banking, and worksheet and report preparation procedures.
 - (12)Creation of standardized forms and information systems for the enhancement of data sharing and statistical analysis.
 - (13)Compilation of information updates on the business operations of the agricultural financial institutions and analysis of the fund requirements and rational allocation of resources in agricultural operations.
 - (14)Employee training and introduction of new business.
 - (15)Consultation service on related laws and regulations.
 - (16)Other guidance related matters designated by the central competent authority.
2. **Project Guidance Service:**Service is provided to the credit departments having a NPL ratio exceeding 15% in an effort to assist these credit departments to reduce the NPL ratio. In addition to the matters covered by the general guidance services, the project guidance service also caters to the following matters:
 - (1) Monitoring of the directions of business operations and provision of improvement advices.
 - (2) Monitoring of deficiencies in business and financial operations and provision of improvement advices.

- (3) Supervision of and guidance on the creditor's rights.
- (4) Supervision of and guidance on the internal control and the internal audit systems.
- (5) Supervision of and guidance on appropriations of allowances for possible losses or write-off of amounts as bad debts.
- (6) Supervision of and guidance on banking and accounting procedures and the preparation of financial statements.
- (7) Supervision of and guidance on asset acquisition and disposition matters.
- (8) Supervision of and guidance on the review procedures of loans and investment projects and the management of assets and liabilities.
- (9) Attendance of meetings of the Boards of Directors and Supervisors and meetings of the loan review committee, and presenting opinions on meeting issues.
- (10) Imposing a deadline on the farmers' and fisheries associations to which the credit departments placed under restructuring belong for the presentation of their operating performance reports, financial positions, and other related financial reports.
- (11) Audit examination of related account books, documents and assets.
- (12) Other matters designated by the competent authorities.

3. Audit Examination of Business and Financial Operations:

In 2014, ABT has conducted 757 audit procedures on the business operations and financial status of the credit departments of farmers' and fisheries associations. The primary objective of the audit procedure was to determine whether corrective actions have been taken on the deficiencies discovered in the examination procedure and understand circumstances of the corrective actions. Audit reports were included in the quarterly financial reports forwarded to the competent authorities and related agencies. Moreover, audit procedures on the liquid assets had been implemented in compliance with the notices or requests of the respective local competent authorities.

4. Performance Evaluation:

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

5. Other matters of guidance services:

- (1) In cooperation with 227 credit departments and their subordinate 284 business offices, we started handling Renminbi bills trading operations in July 2011 for the convenience of residents of Taiwan and China and to aid the sales of local farm and fishery products. As of the end of December, a total of 212 credit departments provide the exchange service of Renminbi bills, with 2,049 purchase transactions (11,438,000 RMB) and 7,286 sale transactions (37,826,000 RMB), bringing a total transaction volume to 49,264,000 RMB. This provides local residents with diverse financial services and raises the income on the service fees of the credit departments of farmers' & fisheries associations.
- (2) For hosting the 8th Agricultural Golden Award of the Council of Agriculture of Executive Yuan, ABT participated in the pre-awarding ceremony planning meeting, task force, Agricultural Golden Award Committee meeting, Agricultural Golden Award Review Committee meeting, and discussion meetings, studied and amended

related operating procedures, assessment standards and screening related matters, provided counseling to the credit department on matters of registration procedure, awarding ceremony, and produced the feature reports of the award winners.

- (3) We provided counseling service to credit departments to handle the consolidated fund loan services commissioned by the Council of Indigenous Peoples and to expand the range of business operations. In 2014, there were ten more farmers' associations participating in the program, namely, the Taimali Farmers' Association of Taitung County, the Chang-Pin Township Farmers' Association of Taitung County, the Man-Chou Township Farmers' Association of Pingtung County, the Taitung Area Farmers' Association of Taitung County, the Tung-Ho Township Farmers' Association of Taitung County, the Guanshan Township Farmers' Association of Taitung County, the Chi-An Township Farmers' Association of Hualien County, the Hsin-Yi Township Farmers' Association of Nantou County, the Jen-Ai Township Farmers' Association of Nantou County, and the Fu-Hsing Township Farmers' Association of Taoyuan County.
- (4) ABT served as the liaison window for the "preliminary negotiation talks of the Consumer Debt Clearance Regulations" between the credit departments and the banks and participated in the Consumer Debt Clearance Regulations Preliminary Negotiation Coordination Meeting of the Bankers Association of the R.O.C.
- (5) ABT compiled the "2013 Annual Business Operations Analysis of the Credit Departments of Nationwide Farmers' & Fisheries Associations." Copies were forwarded to the competent central authorities and related banking supervisory authorities (bodies) for reference information.
- (6) ABT conducted a spot audit on the auditors' regular audit reports and working papers of 303 credit departments, provided counseling to the credit departments for implementing internal control operation audit, instituted effective measures to prevent occurrence of negligence, and reduced financial losses.
- (7) In response to the implementation of the Foreign Account Tax Compliance Act (FATCA) of the US, retained services of KPMG Taiwan for assistance in planning of related operations and organization of related educational training programs, and thereafter, assisted credit departments of farmers' and fisheries associations in implementing related operating procedures and provided counseling on registration matters.
- (8) In assessment of the impacts of fluctuations in the real estate market on the loans business of the credit departments of farmers' and fisheries associations and understanding of the risk assumption conditions of the credit departments of farmers' and fisheries associations in the financing loans to the construction industry and mortgage loans to homeowners, and following the pressure test program for domestic banks planned by the Banking Bureau of Financial Supervisory Commission, ABT provided counseling services to the credit departments of 41 farmers' and fisheries associations having a quite high loan ratio to the construction Industry.



6. Business Liaison and Exchanges:

- (1) ABT held a total of 60 counseling office service review meetings in 2014. The participating counselors jointly discussed situations encountered during the counseling work and exchanged ideas on the subject; related matters were reported to the information of the competent central authorities. Furthermore, in January and June of 2014, we hosted 1 counseling service seminars together with the competent central authority. The counseling work related information relayed and ideas exchanged in the seminar served as reference information for future administration or supervisory procedures.
- (2) In 2014, we provided 36 seminars to the staff members of the credit departments, such as, the seminar on the agricultural finance for reestablishment of credit departments, the seminar on the farmland utilization regulations and case studies and the value estimation analysis for the credit departments of farmers' and fisheries associations, the seminar on financial laws and application for the credit departments of farmers' and fisheries associations, the seminar on the "Foreign Account Tax Compliance Act (FATCA)" of the US, the seminar on the additional and amended regulations governing the policy-based agricultural project loans and agricultural corporation credit investigation and loan practices, the seminar on foreign currency (Chinese Yuan) cash and travel check trading practices for the credit departments of farmers' and fisheries associations, the seminar on the joint promotion of syndicated loans and trust transactions of agricultural financial institutions, the seminar on loans to the construction firms and pressure test procedures of housing mortgage loans for the credit departments of farmers' and fisheries associations, and the seminar on annual report preparation for the credit departments of farmers' and fisheries associations. A total of 3,657 participants attended the seminars.
- (3) In 2014, we assisted the National Farmer's Association of the R.O.C. in entertaining 100 guests from the All China Federation of Supply and Marketing Cooperatives, the Tianjin Supply and Marketing Cooperatives, the Shandong Province Supply and Marketing Cooperatives, the Hainan Supply and Sales Cooperation, the Agricultural Development Bank of China, the Beijing Agricultural Tour Group, the Zhejiang Rural Credit Union Tour Group, the Philippines Development College, and the Asian Development Bank. The activity was beneficial in building goodwill with the visiting parties.

7. Policy-oriented Special Agricultural Loans:

- (1) In response to the agricultural policies of the government, ABT accepted the commission to manage the agricultural development fund project loans and proactively provided counseling to the credit departments of farmers' and fisheries associations for processing special project loans. Moreover, the farmers and fishermen may avail funding through low-interest loans; whereas, credit departments of farmers and fisheries associations receive subsidies for interest differentials from the government. In 2014, we processed reimbursement of institutional loan interest differential twice to 318 applicants and released interest differential subsidies amounting to NT\$ 2.8 billion.
- (2) In 2014, ABT processed dozens of written request and inquiry calls from farmers. In addition to helping farmers who are unable to pay the loan amortizations on schedule due to difficulties encountered in their operations process loan extension or moratorium applications, thus enabling them to solve their operating problems. ABT also proactively negotiated with borrowers for the resolution of loan application processing related disputes, thereby enabling farmers and fishermen to obtain the funds needed for their operations.
- (3) ABT appointed guiding officers to attend the various local agricultural operations related seminars, lectures, or training programs; such as, agricultural improvement stations, agricultural research institutes, sales and marketing seminars, employee training for farmers' and fisheries associations, etc. The seminars provided information and explanation of the agricultural policies of the government, thereby enabling fishermen and farmer organizations to understand the policies and to cooperate with the government in implementing matters and to achieve the objectives and the desired results of the policies.

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

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

Unit in NTD Thousand

| Title | 2014 | | 2013 | |
|--|------------|--------------|------------|--------------|
| | Amount | Percentage % | Amount | Percentage % |
| Total Revenue | 14,324,612 | 100.00 | 12,759,078 | 100.00 |
| Interest income | 10,590,379 | 73.93 | 10,145,364 | 79.52 |
| Service Fee | 197,728 | 1.38 | 146,820 | 1.15 |
| Gain on financial assets and liabilities at fair value through profit and loss | 230,215 | 1.61 | 158,579 | 1.24 |
| Realized gain on held-to-maturity financial assets | 194,382 | 1.36 | 315,147 | 2.47 |
| Gain on Foreign Exchange | 3,036,951 | 21.20 | 1,951,127 | 15.29 |
| Gain on Reversal of Impairment Loss | - | - | 7,512 | 0.06 |
| Other non-interest gains (loss), net | 74,957 | 0.52 | 34,529 | 0.27 |

Underlying factors of changes:

- (1) The interest income was increased, as compared to that of the previous year, which is primarily due to increase in interest earnings from loans and investments in securities.
- (2) The gain on financial assets and liabilities at fair value through profit and loss decreased, as compared to that of the previous year; the main reason is that a decrease is noted in the gain on disposal of financial assets at fair value through profit or loss.
- (3) An increase in realized gain on available-for-sale financial assets posted this year against the previous year total is a result of the reduction in the gain on the sale value of financial assets.
- (4) An increase in the gain on foreign exchange posted this year against the previous year total is a result of the foreign exchange rate fluctuations experienced in the year.
- (5) For others, a decrease is noted comparing with that of the previous year; the underlying cause is that the gain on the non-active market debt instruments decreases.

2. Business Ratio

(1) Distribution of deposits

Unit in NTD Thousand

| Title | 2014 | | 2013 | |
|------------------|-------------|--------------|-------------|--------------|
| | Amount | Percentage % | Amount | Percentage % |
| Total deposits | 682,371,797 | 100.00 | 672,803,626 | 100.00 |
| Current deposits | 8,094,964 | 1.19 | 5,757,659 | 0.86 |
| Time deposits | 674,276,833 | 98.81 | 667,045,967 | 99.14 |

(2) Ratio of loans

Unit in NTD Thousand

| Title | 2014 | | 2013 | |
|------------------|-------------|--------------|-------------|--------------|
| | Amount | Percentage % | Amount | Percentage % |
| Total loans | 232,751,804 | 100.00 | 221,126,221 | 100.00 |
| Short-term loans | 24,117,443 | 10.36 | 32,951,569 | 14.90 |
| Medium-term loan | 176,685,024 | 75.91 | 159,248,595 | 72.02 |
| Long-term loans | 30,599,359 | 13.15 | 26,720,030 | 12.08 |
| Delinquent loans | 1,349,978 | 0.58 | 2,206,027 | 1.00 |

(3) Ratio of major business assets again total assets

Unit in NTD Thousand

| Title | 2014.12.31 | | 2013.12.31 | |
|---|-------------|--------------|-------------|--------------|
| | Amount | Percentage % | Amount | Percentage % |
| Total assets | 774,877,902 | 100.00 | 769,861,239 | 100.00 |
| Cash and cash equivalents | 322,035 | 0.04 | 405,461 | 0.05 |
| Due from The Central Bank and other banks | 342,991,046 | 44.26 | 359,172,947 | 46.65 |
| Financial assets at fair value through income statement | 6,205,039 | 0.80 | 9,110,294 | 1.18 |
| Discounts and loans, net | 229,554,132 | 29.62 | 218,120,983 | 28.33 |
| Available-for-sale financial assets | 137,739,245 | 17.78 | 127,526,261 | 16.57 |
| Held-to-maturity financial assets | 28,400,843 | 3.67 | 32,700,348 | 4.25 |
| Other financial assets | 21,947,399 | 2.83 | 18,627,516 | 2.42 |
| Others | 7,718,163 | 1.00 | 4,197,429 | 0.55 |

D. Market Analysis

1. Area of operations

The Agricultural Bank of Taiwan is the only officially authorized banking institution in the country that simultaneously functions as a professional agricultural bank and a commercial bank. Although the bank has opened only one branch bank in the country to date, it has established a province-wide agricultural loan service network through links with around 1,170 credit departments of farmers' and fisheries associations established in various localities, thereby enabling the bank to implement the policy of the financial support to the agricultural industry and to assist in fostering the stable development of the agricultural economy.

2. Future market supply-demand status and development

The domestic financial market is becoming saturated with the presence of too many banks and close similarity of financial instruments. Based on the statistics released by the Financial Supervisory Commission as of December 31, 2014, there are now 39 established banks in the country operating a total of 3,460 branch establishments nationwide. Business competition among banks had been stiff, especially as domestic banks faced not only competition from foreign capital backed banks but also the pressure of impending competition from Chinese capital backed banks soon to enter the market. Moreover, no improvement might be expected from the present low interest-rate spread conditions in the banking sector within the near future and thus, profit margins of banks would continue to be compressed. ABT accepted redeposits from the farmers' and fisheries associations, and thus, absorbed the huge pressure created by the massive funds transferred into ABT. Therefore, ABT stabilized the revenue sources through the core financial asset allocation, and activated fund utilization by means of financial operations under the principal-guaranteed principle, as well as established interest rate hedging instruments to reduce the interest rate risks; ABT also endeavored to spur the loan businesses. In addition to the policy-oriented agricultural, forestry, fishery, and livestock farming loans, ABT also aggressively participated in syndicated loan programs of other banking institutions. Furthermore, in terms of syndicated loan referrals of credit departments of the farmers & fisheries associations, although our loan operations merely constitute a small slice of the loan market pie, after the establishment of two branch banks, we look forward to some

significant growth in our loan operations that shall become important business venues for the redeposits we receive from the credit departments of the farmers' & fisheries associations. The interest revenues shall likewise constitute a principal revenue source of the bank.

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

(1) Beneficial factors

- a. The government and the farmers' and fisheries associations are the major shareholders of ABT. The government holds 39.98 % shares of the bank, and bank operations have been highly stable.
- b. The main official line of business of ABT include financing the major agricultural infrastructures, financing special agriculture cases by the government, and financing agriculture, forestry, fishery and livestock industries that are in line with policies of agriculture and fishery associations, thus clearly defining the market segregation of ABT. Hence, ABT has more opportunity than other banks in obtaining a greater slice of the agricultural loans pie.
- c. ABT has consolidated the business of credit department of farmers' and fisheries associations, and thus, we may fully utilize their branch offices and human resources to expand the business transactions and channels of our new financial instruments for better combined results, thereby creating an important foundation for the future development of our business operations.
- d. ABT is licensed to accept the massive fund deposits of the credit departments of farmers' and fisheries associations;hence, it holds a vast, highly liquid capital resource.
- e. At the moment, no specific pull-out time has been set for the quantitative easing of the currency policies of advanced economies, and this is beneficial to the financial operations of financial instruments, such as exchange rate and bond.
- f. ABT distinguishes itself from other banks in the sense that it is a comprehensive and policy-implementing agricultural bank;that is, an agricultural bank and a commercial bank in one comprehensive system.

(2) Unfavorable Factors

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

- g. As demand for compliance with governing laws is becoming more stringent, consequential increases in operating cost is expected. Effective 2015, the ratio of reserves for allowance for bad debts for loans secured on properties shall be raised gradually to reach an increase of at least 1.5% by yearend of 2016, and such shall affect our profitability.

(3) Countermeasures

- a. Optimized the utilization of asset portfolio allocation is implemented to ameliorate company profits and maintain the momentum of our operations as coordinator of the government's agricultural policies.
- b. Consolidation of the product, marketing channel, and clientele resources of the credit departments of farmers' and fisheries associations to foster the optimal performance of ABT in the agricultural finance system.
- c. Expand the current deposit base, and strengthen ABT's cash flow services.
- d. ABT aggressively promotes participation in domestic and international syndicated loan business to diversify credit risks.
- e. Development of new and varied business lines to diverse the operating risks.
- f. ABT aggressively applies for license to operate branch locations with strong business potentials in a move to expand territory of business operations and national visibility of ABT.
- g. ABT continues to implement organizational restructuring endeavors, strengthen personnel training, and realize our motto of "service first". Moreover, we continue to recruit outstanding human resource to reinforce our human resource pool and enhance our overall competitive power.
- h. Efficient utilization of public relations, media, and public welfare platforms for the construction of a positive professional image for ABT.



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

1. Principal financial instruments and new business departments, including scale of operations, launched in the past two years: none
2. Research and development expenditures and accomplishments of the past two years, and research and development projects of 2014:

Research and development expenses of ABT in the past two years amounted to NT\$720,000 for 2014 and NT\$720,000 for 2013, mainly constituted by expenses due to the employment of consultants for the construction of ABT's asset allocation and risk management system module. The consultants were employed for the following duties: assessment of the credit risks of transaction counterparts, product evaluation model verification and risk assessment, VaR module as well as pressure scenario and historic scenario analysis. In 2015, ABT shall continue to update and maintain the aforementioned modules and plan a risk management system to cater to the need of the ABT's business operation.

F. Short-term and Long-term Business Development Projects

1. Short-term Development Projects

(1) Loans business

ABT shall continue to expand its loan business to ensure a stable source of revenue. The annual objective for loan business in 2015 is set at NT\$255 billion, and the strategies for implementation are as follows:

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

(2) Investment business

a. Investment in negotiable securities

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

b. Thrusts of Financial Operations

- (a) Concentration of operating strategies on stable profit margins as primary consideration and capital gains as secondary consideration.
- (b) Enhancement of investment risk management to ensure a stringent control over the risk exposure of financial instruments.
- (c) Enhancement of internal control to ensure the timely adjustment of the credit line.
- (d) Adjustment of the asset structure for reducing the interest rate risk.
- (e) Construction of a core asset allocation program for the diversification of revenue sources.

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

a. The overdue loan ratio reduction goal for all credit departments in year 2015

The goal is to reduce the overdue loan ratio of all credit departments to below 0.55% by yearend of 2015.

b. Implementation of the annual financial evaluation procedure and performance assessment procedure on 306 credit department offices.

c. Processing and Management of the Agricultural Development Fund Loan

ABT accepted the commission to manage the agricultural development fund loan and assisted in implementing the agricultural policies. Moreover, ABT provides counseling service to the credit departments to help them process the policy-oriented project loans, thereby achieving the goal of 2015 policy-oriented special agricultural loans of the agricultural authorities.

d. Organization of training courses for the credit department personnel

In 2015, ABT plans to hold around 30 business operation related seminar sessions for the credit departments of farmers' and fisheries associations.

e. Presenting recommendations to and coordination with the competent authority for amendment of the agricultural finance related laws

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

f. Amendment of guidance regulations

Guidance operations are evaluated periodically to gather opinions of the competent authority, credit departments, and related institutions on the matter. Data gathered serve as basis for the amendment of the ABT guidance regulations for the enhancement of the quality of guidance operations and providing appropriate responses to credit department requirements.

g. Compilation of the "Guidance Operations Plan for Credit Departments" and the "Plan of Operations for the Trust Programs of the Agricultural Development Fund".

h. Implementation of mutual support fund operations

ABT processed the budget allocations of the mutual support fund and provided financial support to the credit departments.

i. The suggestions and feedbacks of the credit departments collected every month were studied for the formulation of response actions, which are then presented to the Bureau of Agricultural Finance for supervision and guidance reference.

j. Counseling Service on the Consumer Debt Clearance Act related matters of the credit departments.

k. Sustained assistance to the credit departments in processing Renminbi cash currency exchange business.

l. In line with the promotion campaign of the agricultural finance policy, ABT assisted in the organization of the 9th Agricultural Golden Award related activities.

- m. Counseling service was provided for the reestablishment of sound credit department operations

ABT provided business recommendations and increased the counseling service frequency to reestablish the credit departments of the farmers' & fisheries associations and to assist in the development of their business operations.

- n. Counseling of the credit departments for the enhancement of internal control operations

ABT supervises the implementation of internal audit and internal control operations of credit departments of farmers' and fisheries associations. Spot audit is conducted on the credit department of every association once a year.

- o. Aggressive information dissemination to assist the transition and upgrade of the agricultural industry in response to the implementation of agricultural project loans to agricultural enterprises launched by the Council of Agriculture.
- p. Agency of processing the 2015 Power-Up Plan of the Comprehensive Development Fund Loan Program for Indigenous Peoples.
- q. Assistance provided to the counseling department of the Council of Agriculture in the implementation of its Interest Subsidy Plan for Startup Farming Business Loans to Youth.

(4) Trust businesses

- a. Real Estate Development and Real Estate Ownership Management Trust

This type of trust mainly focuses on the construction period of a development project under loan application. The land on which the project is based, the building under construction, and the building construction fund trust are turned over to ABT, thereby isolating the risks during the building construction period and enabling control over the dedicated use purpose of the building construction fund. This assures security of loan and fosters an increase in revenues.

- b. Real Estate Presale Price Trust

This type of trust focuses on the presale real estate selling period of the borrower in compliance with the "price trust" related regulations of Article 7-1 of the Matters for Inclusion and Exclusion in the Standardized Contract for Presale Housing Sale promulgated by the Ministry of the Interior on March 24, 2011. The borrower shall turn over the presale real estate fund trust to ABT during the building construction period to safeguard the rights and interests of the homeowner. This fosters an increase in revenues.



c. Sale Price Transaction Agency Service

To assist the farmers' and fisheries associations in increasing their processing fee revenues, solicit demand deposit account customers and loan business from real estate purchasing customers, and safeguard real estate transactions of current customers, ABT established partnerships with the farmers' and fisheries associations in providing the real estate sale price transaction agency service, thereby expanding business operations with the farmers' and fisheries associations and safeguarding security of transaction, and at the same, enabling ABT to generate operating revenues in the process.

(5) Insurance agency

It is projected that in year 2015, the insurance business performance (total insurance premium revenues) would reach around NT\$ 4.996 billion.

(6) Credit card

In an effort to diversify financial services, ABT jointly launched a strategic cooperation with the card issuing institutions to issue joint credit card, "Agricultural Golden Card" to expand its credit card business operations. Moreover, with meticulous care, we developed new customer base and opened cross-marketing opportunities. Through the efforts to consolidate the farming & fishery industries and the leisure & tourism related resources, ABT launched a variety of credit card shopping marketing campaigns, thereby providing the grass-root farmers' and fisheries association customers more diversified payment instruments, and at the same time, increasing credit card usage rates and opening new credit card clientele groups for ABT, as well as generating processing fee revenues for the farmers' and fisheries association and fostering the economic development of farming and fishing villages.

(7) Planning of Establishment of an International Banking Department

ABT plans to establish an international banking department to strengthen the foreign currency assets and liabilities and to foster the fund allocation and utilization efficiency. We also provide counseling service to the agricultural and fishery business operators for processing their import / export operations, foreign currency deposit / loan transactions, and foreign currency inward / outward remittances. Moreover, it enables farmers and fishermen and the employees of farmers' and fisheries associations to acquire professional foreign exchange related information and services and to upgrade the competitive power of the industry under the umbrella of good international banking services. In the future, we shall be applying for licenses to open international banking branch offices under our International Banking Department and through this platform, open new sources of income for ABT.

(8) Expansion of the ABT core banking system

In response to the continued launching of new business services, we continued to add new operating functions to our core accounting system, thus enabling system to cope with the rapid growth of business operations and to meet management efficiency requirements. Actions taken included the preparation and construction of related systems for the International Banking Department and the conversion and installation of the information system and accounting system of the financial affairs department.

(9) Establishment of the Farmers' and Fisheries Associations Shared Accounting System

ABT received the commission to implement the construction, maintenance and operation of the "Farmers' and Fisheries Associations Shared Accounting System". In the hope of expediting the sharing of farmers and fisheries association information and integration of the financial operation platforms of nationwide farmers'

and fisheries associations, ABT earnestly infused professional human resources and implemented the software program design, data conversion, and system transfer operations pursuant to the timetable plan.

(10) Enhancement of remote backup service and security measures

In line with the new collection agencies, we reinforced the function and operations of agency service provided to the farmers' and fisheries associations and realized the computerization of the accounting procedures of the collection platform, thereby providing the farmers' and fisheries associations with more complete, fast, and accurate services. Moreover, we continued to acquire more collection delegation commissions to provide farming and fishing folks with better services and to upgrade the competitive power of farmers' and fisheries associations as well as increase their revenues from processing fees.

(11) Planning and Construction of the Syndicated Loan Management System and Risk Management System

In response to the syndicated loan file management requirements of the Agricultural Bank of Taiwan and farmers and fisheries associations, the ABT management system was made available to farmers and fisheries associations serving as the main processing institution of syndicated loans. The ABT system was also rendered available for the use of syndicated loan participant banks to inquire the case status update information, thereby upgrading their syndicated loan case processing efficiency. Furthermore, ABT attended to the planning and construction of a risk management system to enable efficient risk control and maintenance of good asset quality.

(12) Participation in the Operation of the "National Agriculture, Fishery and Finance Information Center"

ABT signed an agreement with the National Agriculture, Fishery and Finance Information Center on August 8, 2013 and took over the construction, maintenance and operation of the "Farmers' and Fisheries Associations Shared Accounting System". Hoping to expedite the sharing of farmers and fisheries association information and integrate financial operation platforms of the nationwide farmers and fisheries associations, starting from the 4th quarter of 2013, ABT has infused professional human resources to realize software program design, data conversion, and system transfer operations according to the timetable plan. The entire software development work and testing procedures of the project are slated to be completed on January 31, 2016. In the future, system shall be gradually expanded to accommodate operations of farmers and fisheries associations nationwide.



2. Medium and Long-term Development Projects:

(1) Loans business

ABT has annually adjusted the loan structure to enhance the stability of profits. Furthermore, we have strengthened processing of agriculture related financing and regular loan businesses. Moreover, we shall continue to participate in the syndicated loan system of other banks and strengthen the loan business jointly transacted with the credit departments of the farmers' and fisheries associations. We set the 2015 goal for loan businesses at NT\$255 billion and hope to reach a goal of NT\$280 billion in year 2016. We also hope to see a stable growth in loan business in the subsequent years.

(2) Investment business

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

a. Effective Control of the Interest Rate Risk

The quantitative easing policy of the United States has already ended; however, that of Europe and Japan are still being enforced. On the other hand, commodity prices took a sharp drop; thus in the future, economies shall have to face rising deflation risks. Hence, we are contemplating to balance the interest earnings and future interest rate risks, and then adjust investment strategies in response to the market conditions, thereby reducing the problem of decreasing earnings rates.

b. Gradual Adjustment of the Bond Positions based on the Market Trends

Regarding the government bond position, ABT will adjust its strategies according to the fluctuations in interest rate, and look for opportunities to adjust inventory or engage in purchasing of additional bonds. In terms of corporate bonds and financial debentures, ABT will obtain bonds through primary and secondary markets according to the allocation plan.

c. Dividends are the primary goal for stock investments, while the capital gains are the secondary goal.

ABT strengthened the financial trend forecast capability and flexible manipulations, thereby establishing a stock portfolio with the primary goal of obtaining stock dividends as well as a secondary goal of obtaining capital gains.

d. Make Additional Purchases of Foreign Bonds with Good Credit Ratings at the Right Time

The Federal Reserve of the United States is likely to start increasing interest rates; on the other hand, central banks of many nations are taking quite divergent currency policies. Thus, ABT shall study conditions in the international bond market and purchase additional bonds issued or guaranteed by foreign governments or financial institutions with good credit ratings at the appropriate time. ABT will also look for the right opportunities to purchase US-dollar-based product portfolio positions, thereby maintaining an adequacy in investment income.

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

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

(4) Counseling Services to Credit Departments of Farmers' and Fisheries Associations for Processing their Agricultural Project Loans

ABT provided counseling services to the credit departments of farmers' and fisheries associations aggressively processing agricultural project loans under the dictates of government policy and thus, needing to implement credit investigation, loan application approval, and loan follow-up and related management procedures to ensure that loan funds were indeed employed to finance farming operations and to bolster the annual budget implementation rate.

(5) Implementation of the Information Sharing System

ABT has assumed responsibility to undertake the construction, maintenance and operation of the "Farmers' and Fisheries Associations Shared Accounting System" of the National Agriculture, Fishery and Finance Information Center. The system shall be promoted in stages for the use of 306 farmers and fisheries associations nationwide. Gradually, credit departments of farmers and fisheries associations around the country shall convert their systems to the new shared accounting system, enabling the integration of 1,170 business channels of the farmers and fisheries associations through a shared information platform. Looking forward, ABT will continue to develop the agricultural finance information exchange platform and the capital clearance system and to integrate related systems to facilitate the early assumption of credit department reserve fund deposit and withdrawal operations, check clearing operations, payment collection operations, bank note allocation operations, and inter-bank clearance operations currently under the administration of the Taiwan Cooperative Bank. ABT also assumed agency of the collection of taxes, official fees and charges and established a seal / stamp sharing system. Through the full integration of our information system and business operations, we hope to realize the true integration of "cash flow," "logistics," and "information flow."

(6) Aggressive Implementation of Service Computerization

In view of the growing Internet transaction frequency and rising permeability of mobile technology plus the liberalization of third-party payment regulations, ABT is aggressively planning to provide customers with service and fund management APP for small consumer and authorized store transaction. It is hoped that through growing innovation and betterment, we shall be able to provide customers with divergent electronic platform services and reinforce the Internet banking transaction services, thereby providing easy operating interfaces and safe transaction system. We expect to break through time and space limitations and drastically raise the degree of customer satisfaction.

(7) Selection and Establishment of Branch Offices for Wider Channel Distribution

ABT opened branch offices in Taichung and Kaohsiung in 2012; to date, we have a total of three branch offices. Currently, we established partnerships with representative farmers and fisheries associations of the region under the purpose of expanding business operations and upgrading service quality. In the future, we shall enhance the performance of our business channels and broaden national visibility rate through the establishment of additional branches. Unfortunately, performance levels of these new branches failed to reach goal due to the current international banking trends and economic changes. In an effort to prevent the foregoing factors from creating risks for ABT, before opening any branch office, we shall conduct an analysis of the demographic and commercial activities, industrial attributes, distribution of other bank branches and offices, and mobility trends related data of the area and conduct related inspection surveys pursuant to the National Comprehensive Development Plan of the Council for Economic Planning And Development. We shall carefully assess and schedule establishment of our branches and adjust branch banks service area to a more comfortable scale, and optimize cluster advantage to reduce operating costs and bolster our capacity to pay the redeposit interests, thereby fostering the stable growth of ABT business operations and balanced development of the agricultural financing system region.



VI

Financial Summary

A. Five-Year Financial Summary

1. Condensed Balance Sheet and Comprehensive Income Statements—IFRS

Condensed Balance Sheet—Consolidated

Unit in NTD Thousand

| Account | Year (Note 2) | December 31, 2014 | December 31, 2013 | December 31, 2012 |
|---|---------------------|-------------------|-------------------|-------------------|
| Cash & Equivalents, Due from CBC and Loans to Banks | | 343,420,115 | 359,595,693 | 368,332,489 |
| Financial Assets at Fair Value through Profit & Loss | | 6,205,039 | 9,110,294 | 13,360,086 |
| Available-for-sale financial assets | | 137,739,245 | 127,526,261 | 119,244,471 |
| Accounts Receivable – Net | | 5,774,354 | 2,878,916 | 2,847,069 |
| Income Tax Asset of Current Period | | 1,385,468 | 984,165 | 998,937 |
| Discounts & Loans – Net | | 229,554,132 | 218,120,983 | 192,472,198 |
| Held-to-maturity Financial Assets | | 28,400,843 | 32,700,348 | 25,899,169 |
| Other Financial Assets – Net | | 21,947,399 | 18,627,516 | 10,274,298 |
| Real Estate & Equipment – Net | | 82,917 | 96,027 | 86,402 |
| Intangible Assets – Net | | 13,211 | 10,943 | 14,348 |
| Deferred Income Tax Asset – Net | | 330,549 | 122,763 | - |
| Other Assets | | 23,649 | 23,418 | 20,626 |
| Total Assets | | 774,876,921 | 769,797,327 | 733,550,093 |
| Due to CBC & Banks | | 19,669,592 | 21,250,928 | 12,785,612 |
| Financial Liabilities at Fair Value through Profit & Loss | | 3,146,244 | 2,000,808 | 1,896,611 |
| Bills & Bonds Sold under Repurchase Agreements | | 34,549,649 | 41,562,816 | 32,798,224 |
| Accounts Payable | | 1,574,316 | 1,122,536 | 1,039,940 |
| Income Tax Liabilities of Current Period | | 2,596 | 1,202 | 592 |
| Deposits & Remittances | | 682,340,606 | 672,712,462 | 653,508,209 |
| Bonds Payable | | 5,000,000 | 5,800,000 | 5,800,000 |
| Other Financial Liabilities | | 1,329,277 | 1,630,964 | 1,933,483 |
| Liability Reserve | | 233,311 | 160,925 | 113,327 |
| Deferred Income Tax Liabilities | | 344,567 | 122,651 | - |
| Other Liabilities | | 256,240 | 224,106 | 184,386 |
| Total Liabilities | Before Distribution | 748,446,398 | 746,589,398 | 710,060,384 |
| | After Distribution | - | 746,825,555 | 710,309,442 |
| Equity attributable to Owners of Parent Company | | 26,430,523 | 23,207,929 | 23,489,709 |
| Capital Stock | Before Distribution | 23,048,456 | 20,484,054 | 20,401,256 |
| | After Distribution | - | 20,548,456 | 20,484,054 |
| Retained Earnings | Before Distribution | 2,678,352 | 2,379,463 | 2,180,512 |
| | After Distribution | - | 2,078,904 | 1,848,656 |
| Other Equity | | 703,715 | 344,412 | 907,941 |
| Total Equity | Before Distribution | 26,430,523 | 23,207,929 | 23,489,709 |
| | After Distribution | - | 22,971,772 | 23,240,651 |

Note 1: The above financial information was prepared in accordance with IFRSs and certified by a CPA.

Note 2: No consolidated statements were produced before IFRSs became applicable to ABT.

Comprehensive Income Statement—Consolidated

Unit in NTD Thousand

| Account | Year (Note 2) | 2014 | 2013 | 2012 |
|--|---------------|-------------|-------------|-------------|
| Interest Income | | 10,591,256 | 10,145,416 | 9,397,629 |
| Less: Interest Expense | | (8,713,483) | (8,772,273) | (8,571,632) |
| Net Interest Income | | 1,877,773 | 1,373,143 | 825,997 |
| Non-interest Income— Net | | 678,961 | 553,319 | 1,063,999 |
| Net Income | | 2,556,734 | 1,926,462 | 1,889,996 |
| Bad Debt Expense and Reserves for Guarantor Responsibilities | | (1,141,023) | (767,197) | (741,486) |
| Operating Expenses | | (799,377) | (598,371) | (580,983) |
| Net Income from Continuing Operations before Income Tax | | 616,334 | 560,894 | 567,527 |
| Income Tax Expenses | | (18,153) | (32,467) | (15,040) |
| Net Profit of Current Period | | 598,181 | 528,427 | 552,487 |
| Other Comprehensive Profit & Loss (net after tax) | | 360,570 | (561,149) | 395,296 |
| Total Comprehensive Profit & Loss of Current Period | | 958,751 | (32,722) | 947,783 |
| Net Profit Attributable to Owners of Parent Company | | 598,181 | 528,427 | 552,487 |
| Net Comprehensive Profit / Loss Attributable to Owners of Parent Company | | 958,751 | (32,722) | 947,783 |
| Earnings per Share | | 0.28 | 0.26 | 0.27 |

Note 1: The above financial information was prepared in accordance with IFRSs and certified by a CPA.

Note 2: No consolidated statements were produced before IFRSs became applicable to ABT.

B. Annual Financial Analysis

Financial Analysis—Consolidated

| Entries (Note 2) | | Year | 2014 | 2013 | 2012 |
|--|---|------|-----------|-------------|-----------|
| Operating Capacity | Loan-to-deposit Ratio (%) | | 34.11 | 32.87 | 29.80 |
| | NPL Ratio (%) | | 0.98 | 1.42 | 1.30 |
| | Ratio of interest payments against annual average deposit balance (%) | | 1.23 | 1.25 | 1.26 |
| | Ratio of interest revenue against annual average loan balance (%) | | 1.89 | 1.82 | 1.76 |
| | Total assets turnover rate (times) | | 0.003 | 0.003 | 0.003 |
| | Average operating revenue per employee (in NTD thousand) | | 11,164.78 | 10,086.19 | 10,799.98 |
| | Average earnings per employee (in NTD thousand) | | 2,612.14 | 2,766.63 | 3,157.07 |
| Profitability | Return rate of Tier 1 capital (%) | | 2.85 | 3.25 | 3.50 |
| | Return rate of assets (%) | | 0.08 | 0.07 | 0.08 |
| | Return rate of equity (%) | | 2.41 | 2.26 | 2.38 |
| | Net income rate (%) | | 23.40 | 27.43 | 29.23 |
| | Earnings per share (in NTD) | | 0.28 | 0.26 | 0.27 |
| Financial structure | Ratio of liabilities against total assets (%) | | 96.59 | 96.99 | 96.80 |
| | Ratio of real estate & equipment against equity (%) | | 0.31 | 0.41 | 0.37 |
| Growth rate | Growth rate of assets (%) | | 0.66 | 4.94 | 2.63 |
| | Growth rate of profitability (%) (Note 1) | | 9.88 | (1.17) | - |
| Cash Flow | Ratio of cash flow (%) | | 8.67 | (14.48) | 16.32 |
| | Cash flow adequacy ratio (%) (Note 1) | | - | - | - |
| | Cash flow satisfied ratio (%) | | - | (27,822.25) | 29,884.70 |
| Ratio of liquid reserves (%) | | | 55.15 | 54.02 | 62.08 |
| Total secured loans to related parties (in NTD thousand) | | | 36,080 | 43,373 | 34,209 |
| Ratio of total secured loans to related parties against total loans (%) | | | 0.01 | 0.02 | 0.02 |
| Scale of Operations | Market share of assets (%) | | 1.76 | 1.88 | 1.93 |
| | Equity market share (%) | | 0.91 | 0.87 | 0.94 |
| | Deposit market share (%) | | 2.20 | 2.29 | 2.36 |
| | Loan market share (%) | | 0.99 | 0.99 | 0.90 |
| Please explain the reasons for any changes in financial ratios in the past two years.(Analysis is not required if the changes were smaller than 20%) | | | | | |
| 1. Non-performing loans ratio is lower than that of the previous year mainly due to a decrease in the amount of non-performing loans. | | | | | |
| 2. Ratio of Real estate & Equipment against equity is lower than that of the previous year mainly due to a rise in equity volume. | | | | | |
| 3. Asset growth rate is higher than that of the previous year primarily due to a modest increase in total asset growth. | | | | | |
| 4. Profitability is higher than that of the previous year primarily due to an increase in income before tax. | | | | | |
| 5. Cash flow is higher than that of the previous year primarily due to an increase in the net cash flow of business operations. | | | | | |

Note 1: Abt has been producing consolidated statements for less than 5 years, and therefore this rate does not apply.

Note 2: Investment activities this year were limited to cash inflow.

Note 3: Computation equations employed for the financial analysis entries:

1. Operating ability

- (1) Ratio of loans to deposits = total loans / total deposits
- (2) Ratio of overdue =(loans overdue + other overdue) / total loans
- (3) Ratio of interest cost to annual average deposits = interest cost / annual average deposits
- (4) Ratio of interest income to annual average loans outstanding = interest income / annual average loans outstanding
- (5) Total assets turnover = net operating revenue / average of total assets
- (6) Average operation revenue per employee = net operating revenue / number of employees
- (7) Average profit per employee = after-tax income / total number of employees

2. Profitability

- (1) Return on tier i capital = before-tax earnings or losses / Net Average Tier I Capital
- (2) Return on assets = net income / average of total assets
- (3) Return on equity = net income / average of total equity
- (4) Ratio of net income = net income / total revenue
- (5) Earning per share =(net income – preferred stock dividend)/average weighted outstanding stock

3. Financial structure

- (1) Ratio of liabilities to assets = liabilities / total assets
- (2) Ratio of real estate & equipment to equity = real estate & equipment assets / equity

4. Growth rate

- (1) Asset growth rate = (total assets of the year – total assets of previous year) / total assets of previous year
- (2) Profit growth rate = (before-tax earnings or losses of the year – before-tax earnings or losses of previous year) / before-tax earnings or losses of previous year

5. Cash flow

- (1) Ratio of cash flow = net cash flow from business activities / (call loans and overdrafts from banks + commercial paper payable + financial liabilities measured at fair value through profit or loss (fvtpi)+ bonds and bills sold under repurchase agreements + current portion of payables)
- (2) Ratio of cash flow to dividend and expenditures = net cash flow from business activities for the past five years / (capital expenditures + cash dividends) for the past five years
- (3) Ratio of cash flow for operating to cash flow from investing = net cash flow from business activities / net cash flow from investing activities

6. Liquidity reserves ratio = liquid assets stipulated by cbc / reserves appropriated for various types of deposits

7. Operating scale

- (1) Market share of asset = total assets / total assets of the major financial institutions
- (2) Market share of net worth = net worth / total assets of the major financial institutions
- (3) Market share of deposit = total deposits / total assets of the major financial institutions
- (4) Market share of loan = total loans / total assets of the major financial institutions
- (5) Financial institutions capable of operating deposits and loans, including the local banks, branches of china's banks in taiwan , branches of foreign banks in taiwan, credit cooperatives, credit departments of farmers' association and fishermen's association.

Capital Adequacy

Unit in NTD Thousand

| Entries | | | Year | Year 2014 | | Year 2013 | |
|----------------------------|------------------------------|--|-------------|-------------|--------------|-------------|--------------|
| | | | | ABT | Consolidated | ABT | Consolidated |
| Regulatory Capital | Common Equity | | 25,138,152 | 25,194,984 | 17,971,183 | 18,017,563 | |
| | Additional Tier 1 Capital | | - | - | - | - | |
| | Tier 2 Capital | | 3,726,252 | 3,783,086 | 8,843,679 | 8,890,058 | |
| | Regulatory Capital | | 28,864,404 | 28,978,070 | 26,814,862 | 26,907,621 | |
| Risk-weighted Assets | Credit Risk | Standardized Approach | 267,226,988 | 267,263,562 | 251,101,828 | 251,117,672 | |
| | | Internal Ratings-based Approach | - | - | - | - | |
| | | Asset Securitization | 21,785,418 | 21,785,418 | 21,396,218 | 21,396,218 | |
| | Operational Risk | Basic Indicator Approach | 3,544,025 | 3,544,025 | 2,982,913 | 2,982,913 | |
| | | Standardized Approach/ Alternative Standardized Approach | - | - | - | - | |
| | | Advanced Measurement Approach | - | - | - | - | |
| | Market Risk | Standardized Approach | 14,988,292 | 14,988,292 | 19,818,113 | 19,818,113 | |
| | | Internal Model Approach | - | - | - | - | |
| | Total Risk-weighted Assets | | 307,544,723 | 307,581,297 | 295,299,072 | 295,314,916 | |
| | Total Capital Adequacy Ratio | | | 9.39 % | 9.42 % | 9.08 % | 9.11 % |
| Tier 1 Capital Ratio | | | 8.17 % | 8.19 % | 6.09 % | 6.10 % | |
| Common Equity Tier 1 Ratio | | | 8.17 % | 8.19 % | 6.09 % | 6.10 % | |
| Leverage Ratio | | | 2.49 % | 2.49 % | 2.07 % | 2.07 % | |

Note 1: Capital adequacy ratio equations employed are as shown below:

1. Regulatory Capital= Common Equity+ additional Tier 1 Capital + Tier 2 Capital.
2. Total Risk-weighted Assets= Risk-weighted Assets for Credit Risk + the capital requirements for (operational risk+ market risk)x12.5
3. Total Capital Adequacy Ratio= Regulatory Capital/ Total Risk-weighted Assets
4. Tier 1 Capital Ratio =(Common Equity+ additional Tier 1 Capital) / Total Risk-weighted Assets
5. Common Equity Tier 1 Ratio = Common Equity / Total Risk-weighted Assets
6. Leverage Ratio= average of the monthly Tier 1 Capital over the quarter / average of the monthly Exposure Measurement over the quarter

Note 2: ABT's and consolidated Total Capital Adequacy Ratio as of December 31,2014 & December 31,2013 is processed pursuant of the "Regulations Governing the Capital Adequacy and Capital Category of Banks" implemented on January 1,2013



C. The Supervisor's Evaluation Report of the 2014 Financial Statements

Supervisor's Report

We have examined the Agricultural Bank of Taiwan's 2014(January 1, 2014~December 31, 2014) financial statements balance sheets, statements of income, statements of changes in stockholder's equity and statements of cash flows), as well as the Bank's 2014 business report and proposal for earnings distribution in the third-term 3rd supervisor's meeting held on March 24, 2015 and third-term 10th supervisor's meeting held on May 19, 2015 and did not find any nonconformity. The aforementioned financial statements were presented to us by the Bank's Board of Directors and have been audited by Chung Dan-Dan, Certified Public Accountant, KPMG Taiwan.

To

2015 General Shareholder's Meeting

Agricultural Bank of Taiwan

Resident Supervisor:Yang, Shun-Cheng



(authorized signature)

Supervisor:Lin, Shi-Jie



(authorized signature)

Supervisor:C.T. Lin



(authorized signature)

Supervisor:C.J. Wu



(authorized signature)

Supervisor:C.Y. Lin



(authorized signature)

May 19, 2014

D. The CPA's Audit Report of the 2014 Financial Statements



安侯建業聯合會計師事務所

KPMG

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Independent Auditor's Report

The Board of Directors

Agricultural Bank of Taiwan, Ltd.

We have audited the accompanying consolidated balance sheets of Agricultural Bank of Taiwan, Ltd. as of December 31, 2014 and 2013, and the related consolidated statements of comprehensive income, consolidated changes in equity and cash flows for the years ended on December 31, 2014 and 2013. The preparation of the above financial statements was the responsibility of the management of the company; our responsibility as an auditor was to express an opinion based on our audit.

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and Generally Accepted Auditing Standards in the Republic of China. Those regulations and standards require that we plan and perform the audit to obtain reasonable assurances about whether the financial statements are free of material misstatement. This audit also involved random verifications of supporting evidence for the amounts and disclosures presented in the financial statements, assessments of accounting principles and major accounting estimates used by the management in their preparation of financial statements, and evaluations toward the overall representation of the financial statements. We believe that the audit procedures provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Agricultural Bank of Taiwan, Ltd. as of December 31, 2014 and 2013, and the results of its consolidated operations and its consolidated cash flows for the years ended on December 31, 2014 and 2013, in conformity with Regulations Governing the Preparation of Financial Reports by Public Banks and the International Financial Reporting Standards, International Accounting Standards, and relevant interpretations and interpretative bulletins (collectively referred to herein as IFRSs) that are ratified by the Financial Supervisory Commission, R.O.C.(FSC).

Agricultural Bank of Taiwan, Ltd. has already prepared entity financial statements for years 2014 and 2013, and we, the auditing CPAs, have furnished unqualified opinions with modification for reference.

Taipei, Taiwan, R.O.C.

March 24, 2015



Note to Readers

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

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

(English Translation of Financial Report Originally Issued in Chinese)

AGRICULTURAL BANK OF TAIWAN, LTD AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2014 AND 2013

(Amounts Expressed in Thousands of New Taiwan Dollars)

| | 2014.12.31 | | 2013.12.31 | |
|---|-----------------------|------------|--------------------|------------|
| | Amount | % | Amount | % |
| ASSETS | | | | |
| Cash and cash equivalents (Note 6 (1)) | \$ 429,069 | - | 422,746 | - |
| Deposits with the Central Bank and call loans to banks (Note 6 (2)) | 342,991,046 | 44 | 359,172,947 | 47 |
| Financial Assets Measured at FVTPL (Note 6 (3)) | 6,205,039 | 1 | 9,110,294 | 1 |
| Receivables, net (Note 6 (4), (7)) | 5,774,354 | 1 | 2,878,916 | - |
| Income Tax Assets | 1,385,468 | - | 984,165 | - |
| Discounts and loans, net (Note 6 (5), (7)) | 229,554,132 | 30 | 218,120,983 | 28 |
| Available-for-sale financial assets, net (Note 6 (6)) | 137,739,245 | 18 | 127,526,261 | 17 |
| Held-to-maturity financial assets, net (Note 6 (8)) | 28,400,843 | 4 | 32,700,348 | 4 |
| Other financial assets, net (Note 6 (9)) | 21,947,399 | 2 | 18,627,516 | 3 |
| Real Estate and Equipment, net (Note 6 (10)) | 82,917 | - | 96,027 | - |
| Intangible Assets, net (Note 6 (11)) | 13,211 | - | 10,943 | - |
| Deferred Income Tax Assets, net (Note 6 (20)) | 330,549 | - | 122,763 | - |
| Other Assets, net | 23,649 | - | 23,418 | - |
| TOTAL ASSETS | \$ 774,876,921 | 100 | 769,797,327 | 100 |
| LIABILITIES AND EQUITY | | | | |
| Liabilities | | | | |
| Deposits from the Central Bank and other banks (Note 6 (12)) | \$ 19,669,592 | 3 | 21,250,928 | 3 |
| Financial Liabilities Measured at FVTPL (Note 6 (3)) | 3,146,244 | - | 2,000,808 | - |
| Bonds and Securities Sold Under Repurchase Agreements (Note 6 (13)) | 34,549,649 | 5 | 41,562,816 | 6 |
| Payables (Note 6 (14)) | 1,574,316 | - | 1,122,536 | - |
| Income Tax Liabilities (Note 6 (20)) | 2,596 | - | 1,202 | - |
| Deposits and remittances (Note 6 (15)) | 682,340,606 | 88 | 672,712,462 | 87 |
| Financial bonds payable (Note 6 (16)) | 5,000,000 | 1 | 5,800,000 | 1 |
| Other financial liabilities (Note 6 (17)) | 1,329,277 | - | 1,630,964 | - |
| Reserve for Liabilities (Note 6 (18), (19)) | 233,311 | - | 160,925 | - |
| Deferred Income Tax Liabilities (Note 6 (20)) | 344,567 | - | 122,651 | - |
| Other liabilities | 256,240 | - | 224,106 | - |
| Total Liabilities | 748,446,398 | 97 | 746,589,398 | 97 |
| Equity Attributable to Owners of The Parent Company: | | | | |
| Capital stock (Note 6 (21)) | | | | |
| Common stock | 23,048,456 | 3 | 15,984,054 | 2 |
| Preferred stock | - | - | 4,500,000 | 1 |
| Retained earnings: | | | | |
| Legal reserve | 1,553,763 | - | 1,353,390 | - |
| Special reserve | 525,141 | - | 525,141 | - |
| Unappropriated retained earnings (Note 6 (20), (21)) | 599,448 | - | 500,932 | - |
| Other Equities | 703,715 | - | 344,412 | - |
| Total Equity | 26,430,523 | 3 | 23,207,929 | 3 |
| TOTAL LIABILITIES AND EQUITY | \$ 774,876,921 | 100 | 769,797,327 | 100 |

(English Translation of Financial Report Originally Issued in Chinese)

AGRICULTURAL BANK OF TAIWAN, LTD AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

(Amounts Expressed in Thousands of New Taiwan Dollars)

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VI. Financial Summary

| | 2014 | | 2013 | | Variance % |
|---|--------------------|-------------|------------------|-------------|---------------|
| | Amount | % | Amount | % | |
| Interest revenue | \$ 10,591,256 | 414 | 10,145,416 | 527 | 4 |
| Less: Interest expense | (8,713,483) | (341) | (8,772,273) | (455) | (1) |
| Net interest income (Note 6 (23)) | <u>1,877,773</u> | <u>73</u> | <u>1,373,143</u> | <u>72</u> | <u>37</u> |
| Non-interest income, net | | | | | |
| Commissions and handling fee, net (Note 6 (24)) | 54,988 | 2 | 39,400 | 2 | 40 |
| Financial Assets and Liabilities Measured at FVTPL | (1,441,370) | (56) | (191,530) | (10) | (653) |
| Realized gains on available-for-sale financial assets | 183,058 | 7 | 296,348 | 15 | (38) |
| Foreign exchange gains | 1,838,698 | 72 | 548,397 | 28 | 235 |
| impairment loss on assets | - | - | (139,679) | (7) | 100 |
| Others non-interest income, net | <u>43,587</u> | <u>2</u> | <u>383</u> | <u>-</u> | <u>11,280</u> |
| Net revenue | <u>2,556,734</u> | <u>100</u> | <u>1,926,462</u> | <u>100</u> | <u>33</u> |
| Bad debt expense and reserve for guarantees | <u>(1,141,023)</u> | <u>(45)</u> | <u>(767,197)</u> | <u>(40)</u> | <u>49</u> |
| Operating expenses: | | | | | |
| Employee benefits expenses (Note 6 (25)) | (304,510) | (12) | (268,852) | (14) | 13 |
| Depreciation and amortization expenses | (29,637) | (1) | (27,908) | (1) | 6 |
| Other selling and administrative expenses | <u>(465,230)</u> | <u>(18)</u> | <u>(301,611)</u> | <u>(16)</u> | <u>54</u> |
| Total operating expenses | <u>(799,377)</u> | <u>(31)</u> | <u>(598,371)</u> | <u>(31)</u> | <u>34</u> |
| Earnings from continuing operations before income tax | <u>616,334</u> | <u>24</u> | <u>560,894</u> | <u>29</u> | <u>10</u> |
| Income tax expenses (Note 6 (20)) | <u>(18,153)</u> | <u>(1)</u> | <u>(32,467)</u> | <u>(2)</u> | <u>(44)</u> |
| Net income | <u>598,181</u> | <u>23</u> | <u>528,427</u> | <u>27</u> | <u>13</u> |
| Total Comprehensive Income: | | | | | |
| Unrealized gain (loss) on available for sale financial assets | 359,303 | 14 | (563,529) | (29) | 164 |
| Other comprehensive income, before tax, actuarial gains on defined benefit plans | 1,526 | - | 2,380 | - | (36) |
| Subtract: Income tax benefit relating to components of other comprehensive income | <u>259</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Other Comprehensive Income | <u>360,570</u> | <u>14</u> | <u>(561,149)</u> | <u>(29)</u> | <u>164</u> |
| Total Comprehensive Income | <u>\$ 958,751</u> | <u>37</u> | <u>(32,722)</u> | <u>(2)</u> | <u>3,030</u> |
| Consolidated net income attributed to: | | | | | |
| Owners of The Parent Company | <u>\$ 598,181</u> | <u>23</u> | <u>528,427</u> | <u>27</u> | <u>13</u> |
| Total comprehensive income attributed to: | | | | | |
| Owners of The Parent Company | <u>\$ 958,751</u> | <u>37</u> | <u>(32,722)</u> | <u>(2)</u> | <u>3,030</u> |
| Basic earnings per share (Unit in NT dollars) (Note 6 (22)) | <u>\$ 0.28</u> | | <u>0.26</u> | | |
| Diluted earnings per share (Unit in in NT dollars) (Note 6 (22)) | <u>\$ 0.28</u> | | <u>0.26</u> | | |

(English Translation of Financial Report Originally Issued in Chinese)

AGRICULTURAL BANK OF TAIWAN, LTD AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

(Amounts Expressed in Thousands of New Taiwan Dollars)

| | Equity Attributable to Owners of the Company | | | | | | Total Equity |
|--|--|-----------------|-------------------|-----------------|-------------------------|---|--------------|
| | Capital Stock | | Retained Earnings | | | Other Equity | |
| | Common stock | Preferred stock | Legal Reserve | Special Reserve | Unappropriated Earnings | Unrealized Gains on Available-for-sale Financial Assets | |
| Balance at January 1, 2013 | \$ 15,901,256 | 4,500,000 | 1,132,152 | 525,141 | 523,219 | 907,941 | 23,489,709 |
| Profit for the period | - | - | - | - | 528,427 | - | 528,427 |
| Other comprehensive income (loss) for the period | - | - | - | - | 2,380 | (563,529) | (561,149) |
| Total comprehensive income for the period | - | - | - | - | 530,807 | (563,529) | (32,722) |
| Appropriation and distributions: (Note) | | | | | | | |
| Legal reserve | - | - | 221,238 | - | (221,238) | - | - |
| Common stock-cash dividends | - | - | - | - | (71,555) | - | (71,555) |
| Preferred stock-cash dividends | - | - | - | - | (116,550) | - | (116,550) |
| Common stock-stock dividends | 82,798 | - | - | - | (82,798) | - | - |
| Contribution to mutual support fund | - | - | - | - | (16,931) | - | (16,931) |
| Promotion and assistance fee on various Farmers' and Fishery Association | - | - | - | - | (44,022) | - | (44,022) |
| Balance - December 31, 2013 | 15,984,054 | 4,500,000 | 1,353,390 | 525,141 | 500,932 | 344,412 | 23,207,929 |
| Profit for the period | - | - | - | - | 598,181 | - | 598,181 |
| Other comprehensive income (loss) for the period | - | - | - | - | 1,267 | 359,303 | 360,570 |
| Total comprehensive income for the period | - | - | - | - | 599,448 | 359,303 | 958,751 |
| Appropriation and distributions: (Note) | | | | | | | |
| Legal reserve | - | - | 200,373 | - | (200,373) | - | - |
| Common stock-cash dividends | - | - | - | - | (64,402) | - | (64,402) |
| Preferred stock-cash dividends | - | - | - | - | (116,550) | - | (116,550) |
| Common stock-stock dividends | 64,402 | - | - | - | (64,402) | - | - |
| Contribution to mutual support fund | - | - | - | - | (15,335) | - | (15,335) |
| Promotion and assistance fee on various Farmers' and Fishery Association | - | - | - | - | (39,870) | - | (39,870) |
| Capital increased by cash | 2,500,000 | - | - | - | - | - | 2,500,000 |
| Conversion of convertible preferred stocks | 4,500,000 | (4,500,000) | - | - | - | - | - |
| Balance - December 31, 2014 | \$23,048,456 | - | 1,553,763 | 525,141 | 599,448 | 703,715 | 26,430,523 |

Note: The employees' compensations are recognized in the consolidated statements of comprehensive income in 2014 and 2013.

(English Translation of Financial Report Originally Issued in Chinese)

AGRICULTURAL BANK OF TAIWAN, LTD AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

(Amounts Expressed in Thousands of New Taiwan Dollars)

| | 2014 | 2013 |
|--|--------------------|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income before income tax | \$ 616,334 | 560,894 |
| Adjustments: | | |
| Adjustments to reconcile profit (loss) | | |
| Depreciation expenses | 25,116 | 23,553 |
| Amortization expenses | 4,639 | 4,473 |
| Provision of bad debt expenses | 1,081,866 | 719,588 |
| Net gain on financial assets and liabilities at fairvalue through profit or loss | 316,173 | 31,445 |
| Interest expenses | 8,772,523 | 8,831,313 |
| Interest income | (10,661,981) | (10,247,841) |
| Dividends income | (164,645) | (98,626) |
| Provision for guarantee reserve | 70,345 | 47,609 |
| losses on retirement | - | 33 |
| Impairment losses on financial assets | - | 139,679 |
| Gain on sale of Bad Creditor's Right | (294,170) | - |
| Total adjustments to reconcile profit (loss) | (850,134) | (548,774) |
| Changes in operating assets: | | |
| Decrease in due from the Central Bank and call loans to banks | 16,181,901 | 7,697,794 |
| Decrease in financial assets at fair value through profit or loss | 3,734,517 | 4,322,544 |
| Increase in receivables | (2,886,963) | (88,802) |
| Increase in discounts and loans | (12,672,163) | (26,368,459) |
| Increase in available-for-sale financial assets | (9,853,680) | (8,845,319) |
| decrease (Increase)in held-to-maturity financial assets | 4,299,505 | (6,801,179) |
| Increase in other financial assets | (3,322,420) | (8,494,773) |
| Increase in other assets | (231) | (2,792) |
| Total changes in operating assets | (4,519,534) | (38,580,986) |
| Changes in operating liabilities: | | |
| Increase (decrease)in due to the Central Bank and banks | (1,581,336) | 8,465,316 |
| Increase in payables | 484,312 | 83,229 |
| Increase in deposits and remittances | 9,628,144 | 19,204,253 |
| Decrease in other financial liabilities | (301,687) | (302,519) |
| Increase in employee benefits | 3,567 | 2,369 |
| Increase in other liabilities | 16,799 | 22,789 |
| Total changes in operating assets and liabilities | 8,249,799 | 27,475,437 |
| Cash generated from operations | 3,496,465 | (11,093,429) |
| Interest received | 10,652,816 | 10,306,758 |
| Dividend received | 164,645 | 98,626 |
| Interest paid | (8,805,055) | (8,831,945) |
| Income taxes paid | (404,191) | (17,198) |
| Net cash flows generated from operating activities | 5,104,680 | (9,537,188) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Acquisition of property and equipment | (12,006) | (33,211) |
| Acquisition of intangible assets | (6,907) | (1,068) |
| Value of Bad Creditor's Right Sold | 454,545 | - |
| Net cash generated from investing activities | 435,632 | (34,279) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Repayment of bank notes | (800,000) | - |
| Increase (decrease)securities sold under repurchase agreements | (7,013,167) | 8,764,592 |
| Cash dividends distributed | (180,952) | (188,105) |
| Capital increased by cash | 2,500,000 | - |
| Promotion and assistance fee on various Farmers' and Fishery Association | (39,870) | (44,022) |
| Net cash flows generated from financing activities | (5,533,989) | 8,532,465 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 6,323 | (1,039,002) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 422,746 | 1,461,748 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | \$ 429,069 | 422,746 |



VII

Risk Management

A. Credit Risk Management System and Capital Requirement

1. Credit Risk Management System

Year 2014

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

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

December 31, 2014

Unit in NTD Thousand

| Type of exposure | Exposure after risk reduction | Capital Requirement |
|---|-------------------------------|---------------------|
| Sovereign | 490 | 8 |
| Public sector other than the Central Government | 51,315,910 | 821,055 |
| Banks (including multilateral development banks) | 73,910,975 | 3,135,146 |
| Corporations (including securities and insurance companies) | 209,821,647 | 14,171,389 |
| Retail | 29,223,134 | 2,310,512 |
| Residential mortgages | 1,641,442 | 112,203 |
| Equity | 2,021,025 | 485,046 |
| Other assets | 4,598,634 | 339,339 |
| Total | 372,533,258 | 21,374,696 |

B. Asset Securitization Risk Management System, Exposure, and Capital Requirement

1. Asset Securitization Risk Management

Year 2014

| Item | Description |
|---|--|
| Management strategies and procedures for asset securitization | <ol style="list-style-type: none"> 1. ABT is not an originating bank of asset securitization commodities and thus, related operations are merely in the form of investments. 2. ABT's investments in asset securitization commodities, and the related management strategies and procedures, are implemented according to ABT's investment policies, the regulations governing the authorization of investments in negotiable securities, the regulations governing the authorization of investments in foreign currency assets, and the regulations governing risk limits, and other related company regulations. |
| Asset securitization management organization and structure | ABT is not an originating bank of asset securitization commodities. All probable consequential risks of investments in asset securitization commodities (including credit risks, market risks, and operating risks) are processed and instituted according to the respective established risk management the organization and framework. |
| Scope and features of the asset securitization reporting and assessment system | The Risk Management Office prepares a monthly risk management statistics report, periodic information updates on the changes in the credit ratings of the asset securitization commodities on which ABT has investments and the ratio of every particular asset securitization commodity against ABT's total investments. Moreover, it identifies asset securitization commodities whose credit ratings are likely to be downgraded for proper tracking and control. |
| The risk hedging or mitigation policies on asset securitization and the strategies and implementation procedures for ensuring the sustained effectiveness of risk hedging and mitigation instruments | ABT is not an originating bank of capitalized security commodities; hence, ABT defined the standard credit rating limitations and investment limits for investments in asset securitization commodities. Moreover, ABT regularly keeps track of the changes in the credit ratings of asset securitization commodities in an effort to mitigate possible risks of its investments in asset securitization commodities. |
| Procedure for Regulatory Capital Requirement | ABT adopts the standardized approach to securitization for calculating capital charges. |
| 6. Overall qualitative disclosure requirements include: <ol style="list-style-type: none"> (1) The purpose of engaging in securitization activities, as well as the risk types sustained and retained by the bank due to engagement in re-securitization activities (2) Other risks contained in the securitization of assets (such as liquidity risk) (3) The various roles the bank plays in the process of securitization as well as the degree of involvement of the bank in each process (4) The monitoring and control procedures employed to respond to the changes in credit and market risks involved in the securitization exposure. (5) The credit risk mitigation management policies employed when mitigating the risks retained in securitization and re-securitization. | N/A |
| 7. Bank securitization accounting policies | N/A |
| 8. External Credit Assessment Institution (ECAI) name used for securitization in the banking book, and the status of the securitization exposure of each capital tier type | N/A |
| 9. Any major changes in quantitative information since the last reporting period (such as assets moving between the banking book and trading book) | N/A |

Note: For items 6 to 9, since ABT is not a founding bank having outstanding position, there's no need to fill in this portion.

2. Status of asset securitization:none

3. Asset Securitization Exposure and Capital Requirement

December 31, 2014

Unit:Thousand NTD

| Role of the Bank | Book Type | Risk Exposure Type | Type of Asset | Traditional Securitization | | | | Synthetic Securitization | | Total | | |
|----------------------|--------------|--------------------|---------------|----------------------------|-----------------------------------|---------------------------------|-------------------------|---------------------------|-------------------------|--------------------------------|---------------------------------|---|
| | | | | Note Amount of Exposure | | | (2) Capital Requirement | Amount of Exposure | (4) Capital Requirement | (5)=(1)+(3) Amount of Exposure | (6)=(2)+(4) Capital Requirement | Capital Requirement before Securitization |
| | | | | Reserved or Purchased | Provision of Liquidity Facilities | Provision of Credit Enhancement | | (3) Reserved or Purchased | | | | |
| Non-originating Bank | Banking Book | CBO | | 2,519,513 | - | - | 2,519,513 | 453,512 | - | - | 2,519,513 | 453,512 |
| | | CMO | | 18,761,230 | - | - | 18,761,230 | 600,359 | - | - | 18,761,230 | 600,359 |
| | | RMBS | | 688,694 | - | - | 688,694 | 688,694 | - | - | 688,694 | 688,694 |
| | Trading Book | | | - | - | - | - | - | - | - | - | - |
| | Subtotal | | | - | 21,969,437 | - | 21,969,437 | 1,742,566 | - | - | 21,969,437 | 1,742,566 |
| Originating Bank | Banking Book | | | - | - | - | - | - | - | - | - | - |
| | Trading Book | | | - | - | - | - | - | - | - | - | - |
| | Subtotal | | | - | - | - | - | - | - | - | - | - |
| Total | | | | - | - | - | 21,969,437 | 1,742,566 | - | - | 21,969,437 | 1,742,566 |

Descriptions:

1. The column "Type of Asset" is further subdivided according to the type of securitized assets (such as credit card, home equity loan, or car loan) or the type of invested securities (such as, mortgage backed securities, commercial mortgage backed securities, asset backed securities, or CDOs).
2. The amount of exposure of the banking book is the amount of exposure after risk deduction, and does not include the amount of deductions already included in the capital.

C. Operational Risk Management

1. Operational Risk Management System

Year 2014

| Item | Description |
|--|--|
| Strategies and procedures for operating risks management | <ol style="list-style-type: none"> 1. The respective departments of ABT implement appropriate countermeasures, such as hedging, transfer or offsetting, control, or acceptance, on the various probable risk incidents of daily operating activities and management procedures and conduct a comprehensive assessment of their respective rates of occurrence and severity of impacts to mitigate occurrence rates of substantial losses and events. 2. Procedures for the operational risk management include identification, assessment, control and reporting procedures. In consideration of the internal and external factors, such as, nature of businesses, personnel, systems and operational environments, a risk self-assessment procedure is implemented based on the primary operating activities or products for the identification of the various operating risks involved in the daily operating activities and management procedures. Moreover, ABT conducts an analysis of causes, event classification, and impact outcomes to understand operational risk incidents, and at the same time establishes a reporting system for operating risk incidents and a database for operating risk losses to enhance the operational risk assessment capacity of the bank. Furthermore, a regular compilation and analysis of the various operational risk management procedure implementation conditions are conducted, and findings reports are submitted to the information of the senior management, the Risk Management Committee, and the Board of Directors. Related reports are periodically disclosed pursuant to the regulations of the competent authorities. |
| Operating risk management organization and structure | <ol style="list-style-type: none"> 1. The Board of Directors is the final decision-making body on matters of operational risk management. Pursuant to the overall operational strategies and operational environment of ABT, the Board of Directors approves the management procedures and significant policies governing operational risks, monitors the effective implementation of operational risk management systems, and conducts regular evaluation procedures on the matters. 2. The senior management level is responsible for the following:supervision of the implementation of operational risk management criteria and systems;ensuring that the respective management levels understand their respective roles and responsibilities in the management of operational risks;examination of internal and external reports to determine their compliance with the related regulations on operational risk management;and coordination of interdepartmental communications on operational risk related management operations. 3. The Risk Management Committee implements a control over the operational risk management systems of ABT and deliberates on the related operational risk management criteria of the bank, including the formulation and amendment of risk indicators and assessment procedures, pursuant to the resolved operational risk management policies of the Board of Directors. 4. The staff members of the respective divisions of ABT are obliged to observe the related regulations governing operational risks and to actively understand and control the operation risks involved in the matters and operations assigned to their responsibility. Moreover, staff members shall attend to all consequential operational risks immediately and report matters to the designated authorities as regulated. 5. The Risk Management Office is responsible for the following:formulation of the operational risk management strategies and procedures;design and introduction of operational risk identification procedures;management systems of assessment, control, and reporting procedures;and establishment and centralization of the operational risk loss events database of the company. |

Year 2014

| Item | Description |
|--|---|
| Scope and features of the operating risk reporting and assessment system | ABT has established a reporting system and a loss events database for operational risk related incidents. Moreover, it has implemented self-assessment procedures on operational risks through the systematic self-determination and self-assessment of operational risks conducted by the respective divisions on the business and operational procedures they are implementing on existing businesses. Furthermore, ABT has formulated the necessary corrective actions to enhance risk control measures. All assessment results obtained are compiled into reports and submitted to the information of the Risk Management Committee and the Board of Directors. |
| The risk hedging or mitigation policies on operating risks, and strategies and implementation procedures for ensuring the sustained effectiveness of risk hedging and mitigation instruments | ABT established the sound criteria for operations and stringent internal control and external audit procedures for the mitigation of operational risks, and pursuant to completed control and audit reports, formulate the necessary corrective actions. Moreover, ABT avails of insurance protection and meticulously selects insurance outsourcing contractors for its risk transfer and offsetting pursuits. ABT continues examination, modification, and enhancement of its operational risk management procedures to achieve a higher level of efficiency in its operations. |
| Procedure for Regulatory Capital Requirement | ABT adopts the basic indicator approach to operational risk for calculating capital charges. |

2. Capital Requirement for Operational Risk

December 31, 2014

Unit in NTD Thousand

| Year | Gross profit | Capital Requirement |
|-------|--------------|---------------------|
| 2014 | 2,281,511 | - |
| 2013 | 1,739,806 | |
| 2012 | 1,649,115 | |
| Total | - | 283,522 |

D. Market Risk Management System and Capital Requirement

1. Market Risk Management System

Year 2014

| Item | Description |
|---|---|
| Management strategies and procedures for market risks | <ol style="list-style-type: none"> ABT implements appropriate countermeasures, such as risk hedging, risk transfer, risk control, and risk acceptance, on the various market risks to which daily operating activities and management procedures are exposed pursuant to the occurrence rates and severity of the risks. For instance, ABT has regulated that the bank shall not process a particular type of transaction, closing a position, or sale, or shall see to the transfer of a portion or the entirety of a particular risk to a third party through swaps, offsets or other methods. ABT has defined credit line for commodities, stop loss or stop privilege systems, and over limit processing procedures to ensure an effective control of market risks. The market risk management procedures of ABT include the identification, evaluation, assessment, monitoring, and reporting of risks. ABT needs to effectively identify the interest rates for traded products or transaction matters, stock prices, foreign exchange and commodity transaction prices, and other key risk factors. A uniform price assessment system has been used for an accurate evaluation of the incomes and losses of positions. Assessment procedures such as statistical analysis procedures and sensitivity analysis procedures have been established. Complete risk monitoring procedures have been defined and upon the discovery of over exposures and other risk management deficiencies or other special circumstances, matters are reported immediately. At the same time, we monitor general and specific transaction procedures, including transactions of the Finance Department and financial instruments, to determine whether changes of positions, changes in gains and loss, modes of transaction, and matters of transactions comply with regulations and are conducted within the authorized limits and scopes. Furthermore, through an internal reporting system, the Finance Department and the Risk Management Office regularly furnish a report to the information of the senior management level, the Risk Management Committee, and the Board of Directors. |



| Item | Description |
|--|--|
| Market risk management organization and structure | <ol style="list-style-type: none"> 1. Pursuant to the overall operating strategies and operating environment of ABT, the Board of Directors decides on management procedures and significant policies governing market risks to ensure the effective operation of market risk systems and conducts regular evaluation procedures on the matters. 2. The senior management level is responsible for the following: implementation of market risk related management policies and structures of the Board of Directors; monitoring and inspection of appropriateness of the respective management procedures; and coordination of interdepartmental communications on market risk related management operations. 3. The Assets and Liabilities Management Committee is composed of the president, the executive vice president, and the heads of the Finance Department, the Business Development Department, and the Risk Management Office; the president serves as the meeting convener. The Committee is responsible for review of ABT's policies governing deposits, loans, foreign exchange, and capital market transactions, sensitivity ratios of interest rates, distribution of principal assets and liabilities upon maturity, and other significant policies. 4. The Investment Examination Committee is composed of the president, the executive vice president, and the heads of the Business Development Department, Risk Management office, Accounting Office, and Finance Department; the president serves as the meeting convener. The Committee is responsible for review of the ABT's investments in beneficiary securities, asset-based securities, foreign currency assets, convertible bond asset swap, credit-linked notes (CLN), and structural instruments of recombination of standard contracts and credit-linked notes or other financial instrument packages, and other investments in negotiable securities. 5. The Risk Management Committee controls the market risk management systems and reviews market risk related regulations, including the formulation and amendment of risk indicators and assessment procedures pursuant to the market risk management policies of the Board of Directors. 6. The Finance Department is responsible for the following: implementation of risk identification, evaluation, and assessment (both quantitative and non-quantitative) procedures; institution of the appropriate risk countermeasures (including risk hedging, risk transfer or offsetting, risk control, and risk acceptance), observance of the related ABT regulations on market risk management; implementation of department management, active monitoring of the different quota assignments, and presentation of related reports to senior management or the Risk Management Office as regulated. 7. The Risk Management Office is specifically responsible for the following: management of overall market risks of ABT; compilation, monitoring, and disclosure of ABT's market risk information and policy implementation conditions; presentation of regular reports to the Risk Management Committee and the Board of Directors; and implementation of capital requirements for market risks and disclosure of risk related information as regulated by the competent authorities. |
| Scope and features of the market risk reporting and assessment system | <ol style="list-style-type: none"> 1. The Finance Department prepares a daily or regular transaction information report to the heads of the respective departments as regulated. Moreover, it ensures accuracy and validity of the information therein contained. Moreover, the Finance Department shall immediately report deficiencies noted such as credit line exceeded or other irregularities. 2. The Risk Management Office regularly prepares a report on the market risk management operations of ABT for the information of the Risk Management Committee and the Board of Directors. The reports normally contain information on the market risk position of ABT, risk standards, profit or loss status, credit line utilization and compliances to market risk related management regulations. 3. In the event of significant market changes, the Finance Department shall immediately prepare the related report to minimize market risks and reduce possible company losses or disadvantages it may impose on the reputation of the bank. |
| The risk hedging or mitigation policies on market risks and strategies and implementation procedures for ensuring the sustained effectiveness of risk hedging and mitigation instruments | <ol style="list-style-type: none"> 1. The present risk hedging transactions of ABT are mainly used to hedge risks from foreign exchange and interest rate fluctuations of foreign currency assets and securities investments. Hedging instruments used are primarily swap contracts of financial derivatives. In assessment of changes in risk hedging gains and losses, ABT evaluates the financial derivatives of hedging transactions pursuant to their assessed market values at least twice a month; related reports are forwarded to the approval of senior management. 2. ABT has defined management regulations for investments in negotiable securities businesses and has established a rational stop-loss system to intensify ABT's decision-making capacity on domestic security investments and to enable the proper adjustment of investment packages, thereby reducing risks of ABT investments in domestic securities. 3. For the enhancement of interest rate risk management operations, ABT conducts a routine analysis on the gap position and ratios of interest-rate-sensitive assets and liabilities (including deposits, loans, short-term investments, and borrowings) to reduce the interest rate risk. |
| Procedure for Regulatory Capital Requirement | ABT adopts the standardized approach to market risk for calculating capital charges. |

2. Capital Requirement for Market Risk

December 31, 2014

Unit in NTD Thousand

| Type of risk | Capital Requirement |
|--------------------------|---------------------|
| Interest rate risk | 1,181,316 |
| Equity Security Risk | 17,748 |
| Foreign exchange risk | - |
| Commodity risk | - |
| Options by Simple Method | - |
| Total | 1,199,063 |

E. Liquidity Risk Management

1. Liquidity Risk Management System

Year 2014

| Item | Description |
|---|--|
| Liquidity Risk Management Strategy and Procedures | <ol style="list-style-type: none"> Liquidity Risk Management Strategy ABT's liquidity risk management strategy is defined pursuant to the "Risk Management Policy," and a sound liquidity risk management mechanism is established based on the business scale and characteristics, asset and liability structures, capital movement strategies, diversified fund sources, and system support capability, thereby maintaining adequate liquidity and ensuring enough fund to fulfill the payment obligations under normal and stress scenarios. Liquidity Risk Management Processes ABT's liquidity risk management procedures include risk identification, assessment, evaluation, monitoring, and reporting. The departments of ABT shall identify existing liquidity risks in their business activities or financial products, and conduct liquidity risk management and evaluation using quantitative methods. In addition, reports should be regularly produced and submitted to the Assets and Liabilities Management Committee and the Board of Directors. |
| Liquidity Risk Management Organization and Structure | <ol style="list-style-type: none"> The Board of Directors periodically reviews and ratifies the liquidity risk management decisions based on the overall operating strategies and operating environment, thereby ensuring the effective implementation of the liquidity risk management mechanism. The Assets and Liabilities Management Committee is responsible for implementing the liquidity risk management decisions ratified by the Board of Directors, maintaining the effective operations of liquidity risk management procedures, periodically reviewing the liquidity risk management measures and operation procedures, and verifying the applicability and effectiveness. The Risk Management Committee takes charge of the liquidity risk management mechanism, reviews the liquidity risk regulations, and defines and amends the risk indicators and evaluation methods pursuant to the liquidity risk decisions made by the Board of Directors. The respective competent departments should take into consideration the liquidity risk management when defining the operating management regulations, and properly manage and oversee the necessary risk management operations of the business departments, thereby assisting the Risk Management Office in monitoring the overall liquidity risk of ABT. The Risk Management Office is responsible for establishing the overall risk management mechanism of ABT, compiling, monitoring and disclosing the liquidity risk information and implementation status of ABT, and periodically submitting reports to the Risk Management Committee and the Board of Directors. |
| Scope and Characteristics of Liquidity Risk Reports and Evaluation System | ABT has established the liquidity risk management indicators and warning mechanism in order to be able to implement response measures in a timely manner. Also, ABT periodically analyzes the fund gaps and changes in structures of assets and liabilities, and timely adjust the liquidity gaps based on changes in the flow of funds and market conditions, thereby ensuring the adequate liquidity. Moreover, ABT periodically submits reports to the Assets and Liabilities Management Committee and the Board of Directors. |
| Liquidity Risk Hedging or Risk Mitigation Policies, and Strategies and Procedures for Monitoring the Continued Effectiveness of Hedging and Risk Mitigation Tools | ABT has established the "Operational Crisis Response Measures" to prevent possible impact on the bank's repayment capability as a result of the mass withdrawal of deposits, massive loss of funds, or seriously inadequate liquidity. |

2. Analysis of the Structure of Maturity (NTD)

December 31, 2014

Unit in NTD Thousand

| | Total | Amount in days to maturity | | | | | |
|-------------------------------|---------------|----------------------------|------------|---------------|------------------|-----------------|-------------|
| | | 0~10 days | 11~30 days | 31~90 days | 91 days~180 year | 181 days~1 year | over 1 year |
| Primary inflow upon maturity | 776,342,664 | 85,756,123 | 89,233,509 | 70,898,777 | 74,919,191 | 157,962,032 | 297,573,032 |
| Primary outflow upon maturity | 879,291,881 | 56,104,208 | 59,722,927 | 228,504,678 | 185,498,733 | 307,261,726 | 42,199,609 |
| Maturity Gap | (102,949,217) | 29,651,915 | 29,510,582 | (157,605,901) | (110,579,542) | (149,299,694) | 255,373,423 |

3. Analysis of the structure of maturity (USD)

December 31, 2014

Unit in USD Thousand

| | Total | Amount in days to maturity | | | | |
|------------------------------|-------|----------------------------|------------|-------------|----------------|-------------|
| | | 0~30 days | 31~90 days | 91~180 days | 181days~1 year | over 1 year |
| Primary inflow upon maturity | \$ 10 | 10 | - | - | - | - |
| Primary inflow upon maturity | - | - | - | - | - | - |
| Maturity Gap | 10 | 10 | - | - | - | - |



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