

**JIH SUN INTERNATIONAL BANK LTD.**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2004 AND 2003**

**AND**

**INDEPENDENT AUDITORS' REPORT**

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JIH SUN INTERNATIONAL BANK LTD.

FINANCIAL STATEMENTS

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## **Independent Auditors' Report**

The Board of Directors  
Jih Sun International Bank Ltd.:

We have audited the accompanying balance sheets of Jih Sun International Bank Ltd. as of December 31, 2004 and 2003, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of China and the Rules Governing Auditing and Certification of Financial Statements by Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 11, the Bank sold non-performing loans to an asset management company, resulting in a loss of \$5,282,396 thousand and \$6,768,699 thousand in 2004 and 2003, respectively. According to the Law Governing Merger of Financial Institutions, the Bank is amortizing loss on non-performing loans equally over 60 months, and has reflected the remaining unamortized balance as deferred expenses. If the loss on non-performing loans were recognized currently, deferred assets would be decreased by \$9,151,614 thousand and \$5,302,147 thousand as of December 31, 2004 and 2003. Cumulative earnings would be decreased by \$5,302,147 thousand and \$6,655,888 thousand as of January 1, 2004 and 2003, respectively. Net income (loss) would be decreased by \$3,928,656 thousand and increased by \$ 1,353,741 thousand, respectively, for the years then ended.

In our opinion, except for the effects of not recognizing currently the loss on non-performing loans as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Jih Sun International Bank Ltd. as of December 31, 2004 and 2003, and the results of its operations and its cash flows for the years then ended, in conformity with the "Rules Governing the Preparation of Financial Statements by Securities Issuers" and accounting principles generally accepted in the Republic of China.

January 26, 2005  
Taipei, Taiwan, R.O.C.

The accompanying financial statements are intended only to present the financial position, results of operations 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.

**JIH SUN INTERNATIONAL BANK LTD.**  
**BALANCE SHEETS**  
**DECEMBER 31, 2004 AND 2003**  
(New Taiwan Dollars in Thousands, Except for Share Data)

<b>ASSETS</b>	December 31, 2004		December 31, 2003	
	Amount	%	Amount	%
Assets				
Cash (Notes 3)	\$ 1,947,046	1	\$ 1,880,520	1
Due from banks (Note 4)	6,810,835	3	17,036,334	7
Due from Central Bank (Note 5)	10,638,741	4	7,738,513	3
Marketable securities, net (Note 6)	29,353,430	11	6,572,259	3
Receivables, net (Note 7)	13,375,041	5	11,331,838	5
Prepayments	1,168,172	-	1,277,403	1
Temporary advances	2,408,307	1	1,156,168	-
Discounted bills and loans, net (Note 8)	177,907,629	66	161,983,290	71
Long-term equity investments on equity-method investees (Note 9)	61,340	-	17,957	-
Long-term equity investments on cost-method investees (Note 9)	734,205	-	824,243	-
Long-term investments in bonds (Note 9)	1,887,087	1	1,897,622	1
Other long-term investments (Note 9)	478,796	-	-	-
	<u>3,161,428</u>	<u>1</u>	<u>2,739,822</u>	<u>1</u>
Other financial assets (Note 11)	6,313,266	2	5,758,796	3
Property and equipment (Note 10)				
Land	2,317,695	1	2,198,751	1
Buildings	2,174,078	1	1,997,646	1
Machinery	-	-	18,136	-
Transportation equipment	12,393	-	47,423	-
Other equipment	1,067,819	-	883,611	-
Leasehold improvements	292,786	-	243,733	-
Unfinished Construction	16,293	-	4,782	-
Prepayment for equipment	82,973	-	34,094	-
Accumulated depreciation	( 1,102,192)	-	( 931,029)	-
Property and equipment, net	<u>4,861,845</u>	<u>2</u>	<u>4,497,147</u>	<u>2</u>
Intangible assets	56,423	-	75,231	-
Other assets (Note 11)	11,405,369	4	6,808,563	3
<b>TOTAL ASSETS</b>	<u>\$ 269,407,532</u>	<u>100</u>	<u>\$ 228,855,884</u>	<u>100</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>				
Liabilities				
Short-term liabilities (Note 12)	\$ 6,997,589	3	\$ 2,484,075	1
Due to Central Bank	11,533	-	10,408	-
Due to banks (Note 13)	14,524,547	5	13,972,547	6
Other payables (Note 14)	3,872,910	1	3,750,514	3
Advance collection	496,942	-	595,870	-
Customer deposits (Note 15)	220,782,392	82	189,927,387	83
Financial debentures (Note 16)	9,000,000	4	5,000,000	2
Long-term debt (Note 17)	177,341	-	174,461	-
Other liabilities	46,503	-	513,040	-
Total liabilities	<u>255,909,757</u>	<u>95</u>	<u>216,428,302</u>	<u>95</u>
Stockholders' equity				
Common stock (Note 19)	13,247,600	5	13,247,600	6
Additional paid-in capital	2,431	-	2,861	-
Retained earnings (Note 21)				
Legal reserve	975,960	-	975,960	-
Undistributed earnings	( 728,216)	-	( 1,475,348)	( 1)
Treasury stock (Note 20)	-	-	( 323,491)	-
Total stockholders' equity	<u>13,497,775</u>	<u>5</u>	<u>12,427,582</u>	<u>5</u>
Commitments and contingencies (Note 26)				
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<u>\$ 269,407,532</u>	<u>100</u>	<u>\$ 228,855,884</u>	<u>100</u>

The accompanying notes are an integral part of these financial statements.

**JIH SUN INTERNATIONAL BANK LTD.**  
**STATEMENTS OF INCOME**  
**YEARS ENDED DECEMBER 31, 2004 AND 2003**  
**(New Taiwan Dollars in Thousands, Except for Share Data)**

	2004		2003	
	Amount	%	Amount	%
Operating revenues:				
Interest revenue	\$ 10,187,355	84	\$ 8,395,551	90
Commissions	1,685,780	14	811,300	9
Gain on trading of securities	167,515	1	119,196	1
Investment income on equity-method investees (Note 9)	55,947	1	14,298	-
Foreign exchange gain	37,185	-	788	-
Other operating income	30,660	-	-	-
Total operating revenues	<u>12,164,442</u>	<u>100</u>	<u>9,341,133</u>	<u>100</u>
Operating costs				
Interest expense	3,141,197	26	3,465,887	37
Service and handling charges	1,215,899	10	729,970	8
Various reserves and provisions (Note 8)	3,123,321	26	2,029,894	22
Other operating costs	31,681	-	70,756	1
Total operating costs	<u>7,512,098</u>	<u>62</u>	<u>6,296,507</u>	<u>68</u>
Gross margin	<u>4,652,344</u>	<u>38</u>	<u>3,044,626</u>	<u>32</u>
Operating expenses				
Business expense	2,806,385	23	1,975,810	21
Management expense	1,236,567	10	1,053,788	11
Employee training costs	5,795	-	3,726	-
Total operating expenses	<u>4,048,747</u>	<u>33</u>	<u>3,033,324</u>	<u>32</u>
Income from operations	<u>603,597</u>	<u>5</u>	<u>11,302</u>	<u>-</u>
Non-operating revenues and benefits				
Investment income (Note 9)	114,757	1	56,315	1
Gain on property transactions	142	-	338	-
Miscellaneous income	234,596	2	524,069	5
Total non-operating revenues	<u>349,495</u>	<u>3</u>	<u>580,722</u>	<u>6</u>
Non-operating expenses and loss				
Investment losses	5,204	-	-	-
Loss on property transactions	2,181	-	4,974	-
Loss on scrapping of property and equipment	1,950	-	3,052	-
Miscellaneous expenses	200,723	2	401,149	4
Total non-operating expenses	<u>210,058</u>	<u>2</u>	<u>409,175</u>	<u>4</u>
Income before income taxes	743,034	6	182,849	2
Income taxes (Note 23)	4,098	-	51,025	1
Net income	<u>\$ 747,132</u>	<u>6</u>	<u>\$ 233,874</u>	<u>3</u>
	<u>Before tax</u>	<u>After tax</u>	<u>Before tax</u>	<u>After tax</u>
Earnings per share (Note 24)				
- Shares outstanding	<u>\$ 0.57</u>	<u>0.57</u>	<u>\$ 0.16</u>	<u>0.20</u>
- Shares outstanding retroactively adjusted	<u>\$ 0.57</u>	<u>0.57</u>	<u>\$ 0.16</u>	<u>0.20</u>

**The accompanying notes are an integral part of these financial statements.**

**JIH SUN INTERNATIONAL BANK LTD.**  
**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**YEARS ENDED DECEMBER 31, 2004 AND 2003**  
**(New Taiwan Dollars in Thousands)**

	Common Stock	Capital Surplus	Retained Earnings		Treasury Stock	Total
			Legal Reserve	Accumulative Earnings (Deficit)		
Balance, January 1, 2003	\$ 12,247,600	-	975,960	( 1,709,222)	( 363,270)	11,151,068
Increase capital with cash	1,000,000	-	-	-	-	1,000,000
Treasury stock transaction	-	2,861	-	-	39,779	42,640
Net income for 2003	-	-	-	233,874	-	233,874
Balance, December 31, 2003	13,247,600	2,861	975,960	( 1,475,348)	( 323,491)	12,427,582
						-
Treasury stock transaction	-	( 430)	-	-	323,491	323,061
Net income for 2004	-	-	-	747,132	-	747,132
Balance, December 31, 2004	<u>\$ 13,247,600</u>	<u>2,431</u>	<u>975,960</u>	<u>( 728,216)</u>	<u>-</u>	<u>13,497,775</u>

**The accompanying notes are an integral part of these financial statements.**

**JIH SUN INTERNATIONAL BANK LTD.**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2004 AND 2003**  
**(New Taiwan Dollars in Thousands)**

	2004	2003
Cash flows from operating activities:		
Net income (loss)	\$ 747,132	\$ 233,874
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	211,638	190,579
Amortization	33,539	15,486
Amortization of goodwill	18,808	18,808
Investment income recognized under equity method	( 55,947)	( 14,298)
Losses on sale of investments	231	-
Non-performing loans	51,915	-
Gain (loss) on decline in market value of collateral	80,570	( 55,848)
Various reserves and provisions	1,638,028	676,153
Amortization of premium on bond investments	10,535	84,554
Gain on sale of property and equipment	( 142)	( 338)
Loss on scrapping of property and equipment	1,950	3,051
Loss on sale of property and equipment	2,181	4,974
Amortization of non-performing loans	1,433,378	1,353,741
Loss (gain) on disposal of collateral	( 12,468)	35,000
Changes in assets and liabilities:		
Accounts receivable	( 1,830,544)	( 4,054,841)
Prepayments	109,954	( 507,158)
Payables	122,395	1,034,388
Temporary advances	( 1,252,139)	( 891,581)
Advance collection	( 98,928)	88,426
Net cash provided by operating activities	<u>1,212,086</u>	<u>( 1,785,030)</u>
Cash flows from investing activities:		
Increase in Central Bank required reserve	( 976,467)	( 378,576)
(Increase) decrease in call loans to banks	2,140,035	( 2,386,755)
Auto Loan Receivables Securitisation Trust	3,761,711	-
(Increase) decrease in marketable securities	( 17,650,487)	( 1,407,519)
Increase in discounted bills and loans	( 20,165,361)	( 14,851,792)
Loss on investments recognized under the equity method over cash dividends received	79,453	-
Proceeds from sale of investments	22,919	-
Increase in long-term investments	-	( 1,889,552)
Purchase of property and equipment	( 339,474)	( 321,674)
Proceeds from sale of property and equipment	13,177	8,093
Proceeds from disposal of pledged collateral	111,020	620,991
Increase in other assets	( 8,399,684)	( 1,230,821)
(Increase) in other financial assets	( 554,471)	( 3,042,994)
Net cash provided by investing activities	<u>( 41,957,629)</u>	<u>( 24,880,599)</u>

**The accompanying notes are an integral part of these financial statements.**

**JIH SUN INTERNATIONAL BANK LTD.**  
**STATEMENTS OF CASH FLOWS (CONT'D)**  
**FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003**  
**(New Taiwan Dollars in Thousands)**

	2004	2003
Cash flows from financing activities:		
Increase in due to Central Bank	1,126	3,645
Increase in due to banks	552,000	6,446,344
Increase in short-term borrowings	4,513,514	2,484,075
Increase in customer deposits	30,855,005	15,104,069
Increase in long-term debt	2,880	20,790
Increase (decrease) in other liabilities	( 466,537)	478,917
Issuance of financial debentures	4,000,000	-
Increase in capital with cash	-	1,000,000
Treasury stock transferred to employees	323,061	42,640
Net cash provided by financing activities	39,781,049	25,580,480
Net (decrease) increase in cash	( 964,494)	( 1,085,149)
Cash, beginning of the year	18,170,731	19,255,880
Cash, end of the year	\$ 17,206,237	\$ 18,170,731
 Supplemental disclosures of cash flow information:		
Income taxes paid during the year	\$ 55,777	\$ 37,055
 Non-cash investing and financing activities:		
Purchase of property and equipment with cash and payables:		
Purchase of property and equipment	\$ 339,474	\$ 310,819
Ending balance of payables	-	-
Beginning balance of payables	-	10,855
Cash paid	\$ 339,474	\$ 321,674
Cash:		
Cash (excluding time deposits due beyond 90 days)	\$ 1,947,046	\$ 1,880,520
Due from banks (excluding call loans to banks)	4,770,494	12,855,958
Due from Central Bank (excluding required reserve)	5,358,013	3,434,253
Short-term bills due within 90 days	5,130,684	-
Total	\$ 17,206,237	\$ 18,170,731

**The accompanying notes are an integral part of these financial statements.**

**JIH SUN INTERNATIONAL BANK LTD.**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2004 AND 2003**  
**(New Taiwan Dollars in Thousands, Unless Otherwise Stated)**

**1. OVERVIEW**

Jih Sun International Bank Ltd. (the "Bank") was organized on June 25, 1990, and authorized by the Ministry of Finance to operate as a commercial bank on August 10, 1991. As of February 1, 1992, paid-in capital was \$10,000,000 and establishment of the Bank was approved on March 26, 1992. Operations commenced on April 9, 1992. As of December 31, 2003, issued capital was \$13,247,600.

The Bank's major operations include managing customer deposits, extending loans, acting as collection agent, and investing in government bonds, short-term bills, securities, financial debentures and other businesses approved by the competent authority of the Central Government. As for the scope of the Bank's trust business, it includes domestic and overseas fund purchases and sales entrusted by customers and employee investments and trust, etc.

On May 16, 2001, shareholders resolved in the stockholders' meeting to change its name to Jih Sun International Bank, Ltd. to expand business and promote the Bank's image. Further, to fully utilize economies of scale and operating synergies, shareholders of the Bank resolved in the special stockholders' meeting held on December 14, 2001, to found Jih Sun Financial Holding Co., Ltd. via a stock swap plan with Jih Sun Securities Co., Ltd. The stock swap measurement date was February 5, 2002.

The Bank's parent company is Jih Sun Financial Holding Co., Ltd.

As of December 31, 2004, the number of employees totaled 2,968.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Company's financial statements were prepared in accordance with generally accepted accounting principles of the Republic of China. A summary of significant accounting policies is as follows

(1) Cash

Cash refers to short-term and highly liquid investments that are readily convertible to known amounts of cash and will mature with short notice. Accordingly, interest rate fluctuations have little effect on their values.

Cash excludes reserve deposits with the Central Bank, but includes non-reserve deposits. Due from banks maturing within 90 days and remittance-in-transit are classified as cash. Call loans to banks and securities purchased under resale agreements due in 90 days are also classified as cash. Export remittances are not included as cash.

(2) Marketable Securities

Commercial paper, banker's acceptances and negotiable time deposits are carried at cost, and the gain or loss on their disposition is calculated based on the specific identification method. At year-end, the lower of aggregate cost or market value is used to evaluate such investments.

Bonds are carried at cost, and the gain or loss on disposition is calculated based on the specific identification method.

Stock and beneficiary certificates are stated at cost and evaluated at the lower of aggregate cost or market value at year-end. Gain or loss on such investments is calculated based on the moving average cost method.

(3) Resale or Repurchase Agreements

Securities transactions under resale or repurchase agreements (including bonds, commercial paper, bank acceptances, and negotiable time deposits which are used for financing transactions) are separately recorded as securities purchased under resale agreement or securities sold under repurchase agreements. Upon execution of such agreements, the difference between the securities' resale price and the lending amount is recorded as interest revenue, whereas the difference between the securities' repurchase price and the borrowing amount is recorded as interest expense.

**JIH SUN INTERNATIONAL BANK LTD.**  
**NOTES TO FINANCIAL STATEMENTS (CONT' D)**

(4) Allowance for Credit Losses

An allowance for credit losses is provided based on the expected collectibility of loans, receivables and delinquent accounts.

(5) Long-Term Investments

Long-term equity investments in which the Bank has no significant influence are carried at cost, and upon sale of such investments, the moving-average method is used. Stock dividends from invested companies derived from capitalization of capital surplus or retained earnings are accounted for by increasing the number of shares owned only, and are not credited to investment income. Consequently, the carrying value per share is computed on the basis of the revised number of shares. At year-end, the following valuation methods are used:

- ① For investments in listed companies, should the market value decline below cost, an allowance for loss on market decline is provided. The unrealized loss on market decline is recorded as a contra account to stockholders' equity.
- ② For investments in non-listed companies, should the estimated recovery value decline below cost and the probability of loss recovery be minimal, the investment loss is recognized currently, and the book value net of the loss write-off is reflected as the new carrying value.
- ③ Long-term equity investments in which the Bank has more than 20% controlling interest or significant influence are accounted for by the equity method. If the stock ownership in the invested company exceeds 50%, then the Bank must prepare consolidated financial statements, except in the case when the invested company's total assets and operating revenue fall below 10% of the Bank's respective accounts, in which case no consolidation is required.

Long-term bond investments are long-term holdings of government bonds, which are carried at cost and adjusted by accumulated unamortized discount or premium. Gain or loss on such investments is calculated based on the moving-average cost method.

(6) Property and Equipment

Premises and equipment are stated at cost. Major additions, improvements, and replacements are capitalized, while maintenance and repairs are charged to current earnings. Interest incurred in acquisition of premises and until they are ready for use is capitalized as part of the acquisition costs. Repairs and maintenance are expensed currently.

Depreciation is applied by the straight-line method with economic lives stipulated by the government. Assets still in use after full depreciation may continue to be depreciated by estimated remaining economic lives. Economic lives of major premises and equipment are the following: buildings, 3 to 53 years; machinery and equipment, 5 to 10 years; transportation equipment, 3 to 6 years; other equipment, 3 to 8 years.

Gain or loss on disposal of property and equipment is included in the current year's income.

(7) Deferred Charges

Deferred charges such as which comprised of telephone line installation expense and computer software costs are amortized using the straight-line method over five years.

(8) Reserve for Guarantees

Reserve for guarantees is based on the collectibility of guarantees and banker's acceptances receivables using their ending balances to estimate possible loss.

(9) Recognition Methods for Various Major Operating Revenues

The Bank's revenues consist of operating revenues and non-operating revenues:

① Operating revenues:

Includes all direct revenues from operating the various businesses, such as interest income, handling fees, gain from securities trading, gain from long-term equity investments, exchange gain or loss, etc.

② Non-operating revenues:

Includes all revenues collected that are not related to the Bank's business operations, such as gain or

**JIH SUN INTERNATIONAL BANK LTD.**  
**NOTES TO FINANCIAL STATEMENTS (CONT' D)**

loss from property transactions, miscellaneous income, etc.

The various types of revenues mentioned above are recognized when realized, and not recognized based upon estimates prior to realization. Revenue is recognized on an accrual basis, and recorded over the respective period. Furthermore, revenues are classified into the proper accounts based on the nature of the business.

(10) Valuation Method of Assumed Collateral

The valuation method for assumed collateral is based on using the assumed or purchase price as the minimum disposal price. If the main bank sets a different price or if the collateral is not sold within a year, then the minimum disposal price is readjusted.

(11) Basis for Recovery of Allowance for Credit Losses on Loans and Advances

Overdue loans and past-due amounts that have been aggressively pursued and fall under one of the following circumstances should be written off as bad debts after deduction of the collectible amount.

- ① Due to dissolution, disappearance, settlement or bankruptcy announcement of the debtor or other reasons, the debt in full or in part is not collectible.
- ② The valuation of the debtor's assets including the collateral is rather low, or there is no repayment value after deduction of the preferences on the collateral, or the administrative expenses approximate or exceed the amount that can be paid to the Bank and there is no actual value.
- ③ Despite numerous reduced price auctions of the debtor's assets including the collateral, there is no buyer and the Bank has not received any actual benefit.
- ④ Overdue loans that are past due for two years and have not been repaid despite aggressive collection measures.

Overdue loans and past-due amounts that have been overdue for anywhere from six months to two years and are deemed uncollectible should be written-off as bad debts after deduction of the collectible amount.

(12) Treasury Stock

The Bank repurchased its issued and outstanding shares and adopted Statement of Financial Accounting Standards ("SFAS") No. 30, "Accounting for Treasury Stock," which requires that such treasury stock be stated at the cost paid upon repurchase of the shares. Upon sale of treasury shares, the excess of the sale price over book value is recorded as "capital surplus – treasury stock"; the excess of the book value over the sale price is used to offset capital surplus arising from similar types of treasury stock transactions, and any deficiency is debited to retained earnings. The book value of treasury stock is separately calculated using the weighted-average method and according to the reason for the share repurchase.

Upon retirement of the treasury shares, "capital surplus – additional paid-in capital and capital stock" is debited in proportion to the equity shareholding ratio. The excess of the book value over par value and additional paid-in capital is used to offset capital surplus arising from similar types of treasury stock transactions, and any deficiency is offset against retained earnings; the excess of par value and additional paid-in capital over the book value is credited to capital surplus arising from similar types of treasury stock transactions.

(13) Foreign Currency Transactions

Non-hedging-related forward exchange contracts are recorded in New Taiwan Dollars at the rates of exchange in effect when the transactions occur. According to SFAS No.14, "Accounting for Foreign Currency Transactions", at the end of each month, gain or loss resulting from settlement of foreign currency assets and liabilities at rates different from those at which these assets and liabilities are carried in the accounts are credited or charged to income. Year-end balances of foreign currency assets and liabilities are translated at the year-end foreign currency exchange rate, and the resulting gains or losses are credited or charged to current income.

(14) Financial Derivatives

① Foreign Exchange Forward Contracts

Foreign-denominated assets and liabilities of foreign exchange forward contracts are recorded in New Taiwan Dollars and translated using exchange rates in effect as transactions occur. Gain or loss due to

**JIH SUN INTERNATIONAL BANK LTD.**  
**NOTES TO FINANCIAL STATEMENTS (CONT' D)**

exchange rate discrepancies at maturity is included in current earnings. On the balance sheet date, unsettled positions are adjusted by the forward exchange rate of the remaining period of contracts, with differences caused thereby reflected as current exchange gain or losses.

Accounts receivables and payables from forwards offset one another on the balance sheet date, with the balance reflected as asset or liability.

② Non-Delivery Forward (NDF) Contracts

Since there is no physical transfer of principal in non-delivery forward transactions, only memo entries of notional principals are made on the contract date. On settlement, gains and losses from differences between the spot and contract rates are included in current earnings. Unsettled positions on the balance sheet date are adjusted by the forward rates for the remaining contract period, with differences reflected as exchange gains or losses.

③ Foreign Currency Swaps

Memo entries of notional principals are made on the contract date for foreign currency swaps. On the balance sheet date, forward accounts receivables offset payables, with the difference reflected as an asset or a liability. Interest is accrued over the duration of contracts as receivable or payable for trading swaps. Gains and losses on settlement due to differences from the prevailing rate are included in current earnings. Gains and losses of unsettled positions are computed by differences between the contract and forward rates for the remaining contract periods. Interest is accrued on non-trading currency swaps over the duration of contracts. Receivables or payables accrued and the hedged positions are reported as current interest revenue or expense.

④ Options

Only memo entries of notional principals are made on the contract date for options. Premium is reflected as other assets or other liabilities when paid or collected. Differences in the market value of premium on the balance sheet date are stated as exchange gain or loss. Gain or loss resulting from the exercising of options is recognized currently as transaction gain or loss.

⑤ Futures

Only memo entries of notional principals are made on the contract date for futures. Premium is reflected as guarantee deposits paid or guarantee deposits received when paid or collected. Differences in the market value of premium on the balance sheet date are stated as exchange gain or loss. Gain or loss resulting from the exercising of futures is recognized currently as transaction gain or loss.

⑥ Interest Rate Swaps

As no principal amounts are exchanged for interest swaps upon settlement, the transactions are recorded in the memo account on the contract dates. For interest rate swap contracts used for purposes other than trading, net interest received or paid upon each settlement, or accrued on the balance sheet date, is recorded as an adjustment to interest income or expense of the items being hedged.

⑦ Asset Swaps and Options

The Company sells corporate bonds or options from the convertible bonds to other investors. Asset swaps do not involve ownership transfer and are recorded by memorandum entries; the interest exchange payments are recorded as a net amount and remeasured using the market price.

The Company is engaged in convertible bond option transactions. The holder pays an option premium to the company and acquires the conversion rights of the strike price in the contract period, and the seller has the obligation to sell the option to the holder. The option premium is recorded in the balance sheet. The convertible bond option transactions are recorded by memorandum entries.

(15) Income Tax

The Bank adopted the amended SFAS No. 22 "Accounting for Income Tax" and makes inter-period and intra-period tax allocations accordingly. It recognizes deferred income tax liabilities on future taxable temporary differences, and recognizes deferred income tax assets on future deductible temporary differences, prior year loss carry forwards, and investment tax credits. The reliability of deferred income tax assets is further assessed, and a valuation account, if needed, is provided accordingly. Classification of the

**JIH SUN INTERNATIONAL BANK LTD.**  
**NOTES TO FINANCIAL STATEMENTS (CONT' D)**

deferred income tax assets or liabilities as current or non-current is based on the nature of the related asset or liability or the estimated time of realization. The 10% surtax on unappropriated earnings is recorded as current expense on the date of the stockholders' meeting to declare earnings distribution.

Further, the Company and the parent company, "Jih Sun Financial Holding Co., Ltd.", and its affiliate "Jih Sun International Bank Ltd." adopted the consolidated tax filing return principle to file the annual income tax return and make tax payment. With regard to the accounting policy under the consolidated tax filing return principle, the Company should comply with Accounting Research and Development Foundation Explanation (92) No. 240 issued on October 3, 2003. The total income tax expense and deferred income tax should be allocated reasonably and consistently to individual companies. The accrued receivable and payable between the parent company and subsidiaries are based on the consolidated tax filing return principle and should be recorded as "accounts receivable (payable) - related party."

(16) Pension Plan

The Bank has a retirement plan for its employees that require pension contributions from both the employer and the employees. The plan provides for an annual contribution ranging from 4% to 8.5% of an employee's monthly salary based upon different employee classifications. In addition, the pension fund is independently managed by a Pension Fund Administration Committee and not included in the financial statements.

Effective from May 1, 1997, the Bank is governed by the Labor Standards Law and its pension fund payment is in compliance with the Labor Standards Law.

The Bank adopted SFAS No. 18 "Accounting for Pensions." Net pension costs recognized each period include the following:

- ① Service cost
- ② Interest cost
- ③ Projected return on plan assets
- ④ Amortization of unrecognized prior period service cost
- ⑤ Amortization of unrecognized gain or loss on pension plan
- ⑥ Amortization of unrecognized transitional net asset or obligation

If the pension fund amount is less than the net pension cost, the difference will be recognized as "accrued pension liability." If the amount funded is greater than the net pension cost, the difference will be recognized as "prepaid pension cost." The minimum pension liability recognized in the balance sheet is the lowest amount of pension liability.

(17) Regulations for Financial Asset Securitization

Under the Regulations for Financial Asset Securitization, the Bank entrusted the Auto Loan Receivables Securitization to Deutsche Bank AG, Taipei Branch for issuance of the related beneficiary certificates. Thus, the Bank had lost the rights and control over the entrustment of these loans, which were removed from the Bank's accounts, and recognized gains on this securitization, except for subordinated seller certificates for credit enhancement, which were reclassified as other long-term investments. The gain on securitization of the loans is the difference between the proceeds from the securitization and the carrying value of the loans.

The previous carrying value was allocated in proportion to the fair market value of the entrustment loans, servicing assets, and retained interests on the transfer date. The fair values of the entrustment assets, servicing assets, and retained interests were evaluated at the present value of future cash flows on the basis of the assumptions regarding credit risk rate, repayment rate, and discount rate on the loans, because the assets had no quoted market price.

The subordinated seller certificates, shown as other long-term investments, are evaluated at the present value of future cash flows on the balance sheet date, because they have no quoted market prices. The resulting losses are recorded as non-operating expenses, and losses and gains are not recorded. Interest revenues are recorded when received. Servicing assets are amortized using the straight-line method over the servicing period, and the amortization is charged to operating cost. The Bank makes provision for losses on the servicing assets and writes off the provision when the value of the assets rises.

(18) Commitments and Contingencies

**JIH SUN INTERNATIONAL BANK LTD.  
NOTES TO FINANCIAL STATEMENTS (CONT' D)**

If a loss from a commitment or contingency is considered probable and the amount of loss can be reasonably estimated, the loss is recorded in the current year. Otherwise, commitments and contingencies are only disclosed in the notes to the financial statements.

**3. CASH**

	<u>December 31, 2004</u>	<u>December 31, 2003</u>
Cash on hand	\$ 1,192,774	907,451
Petty cash	3,350	2,360
Checks for clearing	529,845	784,496
Foreign currency on hand	221,077	186,213
Total	<u><u>\$ 1,947,046</u></u>	<u><u>1,880,520</u></u>

① Checks for clearing consist of checks deposited in the Bank after the Bank has already cleared checks for the day.

② Time deposits include over-90-day non-cash equivalents, which amounted to approximately \$0 as of December 31, 2004 and 2003.

**4. DUE FROM BANKS**

	<u>December 31, 2004</u>	<u>December 31, 2003</u>
Checking deposits	\$ 143,850	109,909
Demand deposits	50	636
Time deposits	4,100,000	12,393,000
Foreign currency deposits	442,148	343,306
Transfer account	84,446	9,107
Call loans to banks	2,040,341	4,180,376
Total	<u><u>\$ 6,810,835</u></u>	<u><u>17,036,334</u></u>

**5. DUE FROM CENTRAL BANK**

	<u>December 31, 2004</u>	<u>December 31, 2003</u>
General account	\$ 5,054,538	3,227,054
Deposit reserve	5,280,728	4,304,261
Financial center	303,475	207,198
Total	<u><u>\$ 10,638,741</u></u>	<u><u>7,738,513</u></u>

Deposit reserve relates to reserve funds deposited in a designated account with the Central Bank, in accordance with the Banking Law, Article No. 42, "Adjustment and Examination of Bank Deposit Reserve."

**JIH SUN INTERNATIONAL BANK LTD.  
NOTES TO FINANCIAL STATEMENTS (CONT' D)**

**6. MARKETABLE SECURITIES, NET**

	<u>December 31, 2004</u>	<u>December 31, 2003</u>
Government bonds	\$ 9,849,793	2,970,894
Corporate bonds	214,289	334,560
Convertible overseas bonds	351,552	486,928
Financial debentures	-	200,000
Stock and beneficiary certificates	1,413,722	2,252,050
Commercial paper	5,130,684	-
Collateralized debt obligation, (CDO)	159,585	-
Overseas stock	19,546	327,827
Subtotal	<u>17,139,171</u>	<u>6,572,259</u>
Less: Allowance for market decline	-	-
Subtotal	<u>17,139,171</u>	<u>6,572,259</u>
Securities purchased under resale agreements		
Government bonds	6,140,428	-
Commercial paper	6,073,831	-
Subtotal	<u>12,214,259</u>	<u>-</u>
Net	<u>\$ 29,353,430</u>	<u>6,572,259</u>
Total market prices	<u>\$ 29,464,431</u>	<u>6,751,078</u>

The securities purchased under resale agreements were sold by the end of January 2004 at the approximate price of \$12,217,946.

The government bonds listed above are restricted assets. Please refer to Note 28 (4)Ⓞ For more information.

**7. RECEIVABLES, NET**

	<u>December 31, 2004</u>	<u>December 31, 2003</u>
Accounts receivable for credit cards	\$ 7,630,596	4,804,643
Accrued interest receivable	1,641,636	2,725,608
Accounts receivable	3,616,085	2,975,616
Other receivables	743,484	1,401,157
Notes receivable	24,038	41,091
Tax refund receivable	21,095	21,095
Forward contracts receivable	67,346	43,263
Accrued interest on short-term investments	2,856	-
Subtotal	<u>13,747,136</u>	<u>12,012,473</u>
Allowance for bad debts	<u>( 372,095 )</u>	<u>( 680,635 )</u>
Net	<u>\$ 13,375,041</u>	<u>11,331,838</u>

**JIH SUN INTERNATIONAL BANK LTD.**  
**NOTES TO FINANCIAL STATEMENTS (CONT' D)**

**8. DISCOUNTED BILLS AND LOANS, NET**

	<u>December 31, 2004</u>	<u>December 31, 2003</u>
Discounted bills	\$ 163,233	374,561
Bills and notes discounted	17,548	-
Overdrafts	21,141	76,468
Loans	<u>178,104,835</u>	<u>161,934,064</u>
Subtotal	178,306,757	162,385,093
Allowance for bad debts	( 399,128 )	( 401,803 )
Net	<u><u>\$ 177,907,629</u></u>	<u><u>161,983,290</u></u>

(1) As of December 31, 2004 and 2003, the ratio of the Bank's equity capital to risk-based assets was 10.06% and 9.30%, respectively, and there was no trust debt that had not undergone the collection process before being written-off.

(2) As of December 31, 2004 and 2003, the balance of bad debt allowance on loans and advances amounted to \$2,429,448 and \$2,378,050, respectively, and the related increase and decrease were as follows:

Item	Beginning balance	Increase	Reclassification	Amount written off	Adjustment for exchange rate fluctuation	Ending balance
<u>2004</u>						
Allowance for bad debts - account receivables	\$ 404,998	526,786 (	52,635 ) (	507,219 )	-	371,930
Allowance for bad debts - other receivables	275,637 (	273,832 )	2,000 (	3,608 ) (	32 )	165
Allowance for bad debts - bills and discounts	18,093	-	-	-	( 4 )	18,089
Allowance for bad debts - short-term loans and overdrafts	93,849	-	-	-	( 113 )	93,736
Allowance for bad debts - short-term secured loans and overdrafts	1,360	-	-	-	-	1,360
Allowance for bad debts - medium-term loans	199,306	-	515	-	( 3,073 )	196,748
Allowance for bad debts - medium-term secured loans	6,418	-	-	-	-	6,418
Allowance for bad debts - long-term loans	16,343	-	-	-	-	16,343
Allowance for bad debts - long-term secured loans	66,434	-	-	-	-	66,434
Allowance for bad debts - overdue receivables	1,281,331	1,385,074	60,120 (	1,073,071 )	515	1,653,969
Allowance for guarantee reserve	14,281	-	( 10,000 )	-	25 )	4,256
Total	<u>\$ 2,378,050</u>	<u>1,638,028</u>	<u>-</u>	<u>( 1,583,898 )</u>	<u>( 2,732 )</u>	<u>2,429,448</u>
<u>2003</u>						
Allowance for bad debts - account receivables	\$ 103,800	9,000	292,198	-	-	404,998
Allowance for bad debts - other receivables	11,545	117,361	154,202 (	7,458 ) (	13 )	275,637
Allowance for bad debts-bills and discounts	1,095	-	17,000	-	( 2 )	18,093
Allowance for bad debts - short-term loans and overdrafts	76,892	-	17,000	-	( 43 )	93,849
Allowance for bad debts - short-term secured loans and overdrafts	27,359	-	( 25,999 )	-	-	1,360
Allowance for bad debts - medium-term loans	107,943	-	92,157	-	( 794 )	199,306

**JIH SUN INTERNATIONAL BANK LTD.**  
**NOTES TO FINANCIAL STATEMENTS (CONT' D)**

Allowance for bad debts - medium-term secured loans	134,418	-	(	128,000 )	-	-	6,418
Allowance for bad debts - long-term loans	22,343	-	(	6,000 )	-	-	16,343
Allowance for bad debts - long-term secured loans	184,434	-	(	118,000 )	-	-	66,434
Allowance for bad debts - overdue receivables	1,792,055	549,792	(	294,558 )	(	765,791 )	( 167 ) 1,281,331
Allowance for guarantee reserve	14,290	-	-	-	-	( 9 )	14,281
Total	<u>\$ 2,476,174</u>	<u>676,153</u>	<u>-</u>	<u>( 773,249 )</u>	<u>( 1,028 )</u>	<u></u>	<u>2,378,050</u>

(3) The Bank's overdue receivables refer to various loans and other credit amounts that have been reclassified to the "overdue receivables" account. Loans that have been overdue for six months from the repayment due should be reclassified to the "overdue receivables" account. For loans that have been reclassified to the "overdue receivables" account, the interest calculation is discontinued for internal purposes, but continues for external purposes. In addition, the interest accrual should be noted in each sub-account or as a memo entry. The accrued interest on overdue loans prior to reclassification into the "overdue receivables" account is combined with the principal amount and transferred to the "overdue receivables" account. As of December 31, 2004 and 2003, such loans and advances with discontinued interest accrual thereon amounted to \$6,287,959 and \$6,098,928, respectively.

(4) As of December 31, 2004 and 2003, the unsacred interest revenue on loans and advances with overdue interest and principal amounted to \$965,674 and \$552,223, respectively.

**9. LONG-TERM INVESTMENTS**

<u>Name of invested company</u>	<u>December 31, 2004</u>		<u>December 31, 2003</u>	
	Book value	Percentage of Owner-ship	Book value	Percentage of Owner-ship
<b>Long-term equity investments</b>				
<u>①Equity method:</u>				
Jin Sun Life Insurance Agent Co., Ltd.	<u>\$ 61,340</u>	99.00%	<u>17,957</u>	99.00%
<u>②Cost method:</u>				
Taipei Forex Inc.	800	0.40%	800	0.40%
Dah Chung Bills Finance Co., Ltd.	268,644	7.52%	268,644	7.52%
Fubon Securities Finance Co., Ltd.	109,950	2.91%	176,838	2.91%
Pacific Resources Co., Ltd.	-	-	23,150	2.47%
Taiwan International Mercantile Exchange Co., Ltd.	37,917	1.95%	37,917	1.95%
D.C. International Co., Ltd.	70,000	2.41%	70,000	2.41%
Hanrung Venture Capital Investment Co., Ltd.	15,500	4.72%	15,500	4.72%
Win-talus Venture Capital Co., Ltd.	20,000	4.00%	20,000	4.00%
Concord IV Venture Capital Co., Ltd.	75,000	4.93%	75,000	4.93%
Financial Information Service Co., Ltd.	46,890	1.17%	46,890	1.17%
Super Tech Venture Capital Co., Ltd.	25,000	4.98%	25,000	4.98%
First Bio Venture Capital Co., Ltd.	14,000	3.50%	14,000	3.50%
Financial Assets Service Co., Ltd.	50,000	2.94%	50,000	2.94%
Taiwan Cooperative Bank	504	-%	504	-%

**JIH SUN INTERNATIONAL BANK LTD.  
NOTES TO FINANCIAL STATEMENTS (CONT' D)**

Subtotal	734,205	824,243
<b>Long-term bond investments</b>		
Government and corporate bonds	1,887,087	1,897,622
<b>Other Long-Term investments</b>		
Subordinated trust certificate	478,796	-
Total	\$ 3,161,428	2,739,822

**JIH SUN INTERNATIONAL BANK LTD.  
NOTES TO FINANCIAL STATEMENTS (CONT' D)**

- (1) During 2004, the Bank received cash dividends from Taipei Forex Inc., Fubon Securities Finance Co., Ltd., Dah Chung Bills Finance Co., Ltd., Taiwan International Mercantile Exchange Co., Ltd., Financial Information Service Co., Ltd., Taiwan Cooperative Bank, and Concord IV Venture Capital Co., Ltd. which totaled \$45,192.

During 2003, the Bank received cash dividends from Taipei Forex Inc., Dah Chung Bills Finance Co., Ltd., Fubon Securities Finance Co., Ltd., Concord IV Venture Capital Co., Ltd., Financial Information Service Co., Ltd., and the National Federation of Credit Co-operatives which totaled \$51,365.

- (2) In 2004 and 2003, based on unaudited financial statements, the Bank accounted for gains or losses on investments in majority-owned invested companies under the equity method, and gain on investments recognized per the shareholding ratio was approximately \$55,947 and \$14,298, respectively. The Bank invested in the subsidiary Formosa Life Insurance Agent Co., Ltd., whose total assets and operating revenues did not reach 10% of the Bank's respective accounts', therefore, no consolidated financial statements were prepared.
- (3) As of December 31, 2004, the market value of Pacific Resources Co., Ltd. fell below carrying value, and this decline was considered other than temporary; thus, the Bank recognized \$5,204 as loss on long-term equity investment. The Bank sold its entire equity of \$4,973, which was received before December 31, 2004.

(4) Financial asset securitization

A. In September 2004, the NT\$3,754,779 carrying value of the Auto Loan Receivables Securitization was entrusted by the Bank to Deutsche Bank AG, Taipei Branch for issuance of beneficiary certificates of NT\$4,514,205, which consisted of

- 1) Investor certificates of NT\$4,035,409, with interest paid in accordance with the contract;
- 2) Subordinated seller certificates of NT\$478,796, at a fixed rate of 5%.

The holder of the subordinated seller certificates of NT\$478,796 has the right to interest in excess of the fixed amount paid to the investors. If debtors fail to repay the entrusted loans, investors or Deutsche Bank AG, Taipei Branch has no right of recourse to the Bank. The repayment of the principal of subordinated seller certificates will be executed behind the investor certificates and is affected by credit risk, repayment rate, and changes in interest rate on those transferred loans.

Under the securitization plan, loan repayments within a revolving period will be appropriated as follows:

- 1) Interest payable for investor certificates;
- 2) The principal of investor certificates until the certificates are paid off;
- 3) The remainder, if any, as payments to the holders of subordinated seller's certificates.

B. Key assumptions used in measuring retained interest

Key economic assumptions used in measuring the retained interest on the securitization date resulting from the completion of securitization during the year were as follows:

Repayment rate (monthly rate)	1.02%
Weighted-average life (in years)	3.36
Expected credit losses (annual rate)	0.04%
Discounted rate for residual cash flows	5.24%

C. Sensitivity analysis

As of December 31, 2004, key economic assumptions and the sensitivity of the current fair value of residual cash flows to 10 percent and 20 percent adverse changes in these assumptions were as follows (in New Taiwan dollars):

Carrying amount of retained interest	\$ 766,719
Weighted-average life (in years)	3.36
Prepayment rate (monthly rate)	1.02%
Impact on fair value of 10% adverse change	\$ 3,086
Impact on fair value of 20% adverse change	\$ 5,482

**JIH SUN INTERNATIONAL BANK LTD.**  
**NOTES TO FINANCIAL STATEMENTS (CONT' D)**

Expected credit losses (annual rate)	0.04%
Impact on fair value of 10% adverse change	\$ 4,316
Impact on fair value of 20% adverse change	\$ 7,989

D. The cash flows received from and paid to securitization trusts are summarized as follows (in New Taiwan dollars):

Proceeds from securitizations	\$ 3,761,711
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E. Information on delinquencies, net credit losses, and un-securitized financial assets (in New Taiwan dollars):

Type of Loan	December 31, 2004		
	Total Principal of Loans	Principal of Loans 60 Days or More Past Due	Net Credit Losses
Auto loans managed or securitized	\$ 18,110,686	<u>187,189</u>	<u>          </u>
Less: Loans securitized	(3,029,589)		
Loans held for sale or securitization	<u>(766,719)</u>		
Loans held in portfolio	<u>\$ 14,314,378</u>		

F. In 2004, the carrying value of NT\$766,719 was entrusted by the Bank to Deutsche Bank AG, Taipei Branch.

**10. PROPERTY AND EQUIPMENT**

December 31, 2004	Cost	Accumulated Depreciation	Net
Land	\$ 2,317,695	-	2,317,695
Buildings	2,174,078	366,631	1,807,447
Machinery	12,393	9,197	3,196
Transportation equipment	1,067,819	602,865	464,954
Other equipment	292,786	123,499	169,287
Leasehold improvements	16,293	-	16,293
Unfinished construction	82,973	-	82,973
Total	<u>\$ 5,964,037</u>	<u>1,102,192</u>	<u>4,861,845</u>

December 31, 2003	Cost	Accumulated Depreciation	Net
Land	\$ 2,198,751	-	2,198,751
Buildings	1,997,646	311,084	1,686,562
Machinery	18,136	9,563	8,573
Transportation equipment	47,423	27,237	20,186
Other equipment	883,611	483,116	400,495
Leasehold improvements	243,733	100,029	143,704
Unfinished construction	4,782	-	4,782
Prepayment for equipment	34,094	-	34,094
Total	<u>\$ 5,428,176</u>	<u>931,029</u>	<u>4,497,147</u>

**JIH SUN INTERNATIONAL BANK LTD.  
NOTES TO FINANCIAL STATEMENTS (CONT' D)**

① As of December 31, 2004 and 2003, the total insurance coverage for property and equipment amounted to approximately \$3,109,304 and \$2,851,395, respectively.

② The property and equipment listed above were not pledged as collateral.

**11. OTHER FINANCIAL ASSETS AND OTHER ASSETS**

	<u>December 31, 2004</u>	<u>December 31, 2003</u>
<b>Other Financial Assets:</b>		
Delinquent loans	\$ 7,201,532	6,781,421
Allowance for bad debts	( 1,653,969 )	( 1,281,331 )
Subtotal	5,547,563	5,500,090
Refundable deposits	745,231	188,228
Options	20,472	70,478
Total other financial assets	<u>\$ 6,313,266</u>	<u>5,758,796</u>
<b>Other Assets:</b>		
Deferred income tax assets	413,506	451,928
Allowance for deferred income tax assets	( 413,506 )	( 451,928 )
Subtotal	-	-
Pledged properties received	2,324,270	1,529,651
Allowance for pledged properties received	( 205,356 )	( 124,786 )
Pledged properties received, net	2,118,914	1,404,865
Deferred charges	124,869	96,951
Sundry assets	10,422	4,600
Deferred loss on disposal of non-performing loans	9,151,164	5,302,147
Total	<u>\$ 11,405,369</u>	<u>6,808,563</u>

As of December 31, 2004 and 2003, the above refundable deposits included approximately \$0 of rental deposit only, without related rental payments. Using an annual interest rate of 1.0% and 1.4% for 2004 and 2003, respectively, rental expense and corresponding interest income amounted to approximately \$320 and \$387, respectively, and was reflected in the financial statements.

In 2004 and 2002, the Bank sold non-performing loans amounting to \$5,697,374 and \$7,215,208, respectively, to an asset management company for \$414,978 and \$446,509, respectively. The resulting loss was \$5,282,396 and \$6,768,699, respectively. In accordance with Article 15, Section 5 of the Law Governing Merger of Financial Institutions, the Bank amortized the loss equally over 60 months, with the unamortized balance reflected as deferred expenses. Amortization for the period amounted to \$1,433,378 and \$1,353,741, respectively. If the loss on non-performing loans were recognized currently, deferred assets would be decreased by \$9,151,164 and \$5,302,147 as of December 31, 2004 and 2003, respectively. Accumulated earnings would be decreased by \$5,302,147 and \$6,655,888 thousand as of January 1, 2003 and 2002, respectively. Net income (loss) would be increased by \$3,928,656 and \$1,353,741, respectively, for the years then ended. In accordance with the Financial Holding Company Law, if the Bank files its tax returns as a financial holding company, the loss on disposal of non-performing loans would have an effect on accumulated earnings of \$3,976,610 and \$4,991,916, respectively. The disposal of non-performing loans would have a tax effect on net loss of \$2,946,492 and \$1,015,306, respectively.

**JIH SUN INTERNATIONAL BANK LTD.  
NOTES TO FINANCIAL STATEMENTS (CONT' D)**

**12. SHORT-TERM LIABILITIES**

	December 31, 2004	December 31, 2003
<u>Notes Sold Under Repurchase Agreements</u>		
Government and corporate bonds - 1.00%~1.05%	<u>\$ 6,997,589</u>	
- 0.829%~0.852%		<u>2,484,075</u>

The securities sold under resale agreements were sold by the end of February 2005 at the approximate price of \$7,000,943.

The securities sold under resale agreements were sold by the end of February 2004 at the approximate price of \$2,485,466

**13. DUE TO BANKS**

	December 31, 2004	December 31, 2003
Deposits from banks	\$ 6,723,918	5,339,565
Loan financing from banks	23,346	53,567
Call loans from banks	7,777,283	8,579,415
Total	<u>\$ 14,524,547</u>	<u>13,972,547</u>

**14. OTHER PAYABLES**

	December 31, 2004	December 31, 2003
Interest payable	\$ 896,026	1,065,985
Accrued expenses	429,640	250,383
Other payables	540,260	503,809
Accounts payable	1,425,147	1,112,827
Collection payable	51,992	33,014
Checks awaiting clearance (see Note 3)	529,845	784,496
Total	<u>\$ 3,872,910</u>	<u>3,750,514</u>

**15. CUSTOMER DEPOSITS**

	December 31, 2004	December 31, 2003
Checking deposits	\$ 1,180,323	1,362,156
Bank checks	1,183,644	110,639
Demand deposits	20,040,059	15,343,274
Time deposits	67,697,719	46,555,483
Savings deposits	116,169,884	111,489,305
Post Office deposits	14,510,491	15,066,530
Outward remittance and remittance pending release	272	-
Total	<u>\$ 220,782,392</u>	<u>189,927,387</u>

As of December 31, 2004 and 2003, transferable certificates of deposit amounted to \$13,126,800 and \$7,609,000, respectively.

**JIH SUN INTERNATIONAL BANK LTD.  
NOTES TO FINANCIAL STATEMENTS (CONT' D)**

**16. FINANCIAL DEBENTURES**

	<u>December 31, 2004</u>	<u>December 31, 2003</u>
Financial debentures	\$ 9,000,000	5,000,000
Less: Amortization of discount	-	-
Net	<u>\$ 9,000,000</u>	<u>5,000,000</u>

(1) On September 25, 2002, the Bank issued senior financial debentures totaling \$5,000,000. Terms and conditions of the issuance are as follows:

- ① Issue price: Issue at face value.
- ② Issue period: From September 25, 2002, to September 25, 2007.
- ③ Interest rate: Fixed rate of 3.975%.
- ④ Interest accrual: Annual interest payments.
- ⑤ Repayment of principal: Full repayment of principal at maturity.

(2) On October 25, 2004, the Bank issued senior financial debentures totaling \$4,000,000. Terms and conditions of the issuance are as follows:

- ① Issue price: Issue at face value.
- ② Issue period: From October 25, 2004, to April 25, 2010.
- ③ Interest rate: Fixed rate of 3.95%.
- ④ Interest accrual: Annual interest payments.
- ⑤ Repayment of principal: Full repayment of principal at maturity.

**17. LONG-TERM DEBT**

	<u>December 31, 2004</u>	<u>December 31, 2003</u>
Appropriated loan fund	\$ 162,570	159,690
Reserve for land revaluation increment tax	14,771	14,771
Total	<u>\$ 177,341</u>	<u>174,461</u>

The Bank is one of the members of the syndicated loan for the Taipei Financial Center Corp. and Hoping Industrial Port Co. As of December 31, 2004 and 2003, the above-stated appropriated loan fund had received financing from the Executive Yuan's Development Fund and MOEA Industrial Development and Management Fund.

On December 20, 2002, the Bank merged with The Cooperative Trust of Hsing Ying. The Bank acquired the rights and obligations related to all assets and liabilities originally belonging to The Cooperative Trust of Hsing Ying. Pursuant to Article 17, Section 1, Rule 3 of the Law Governing Merger of Financial Institutions, reserve for land revaluation increment tax amounted to \$14,771 as of December 31, 2004.

**18. PENSION PLAN**

The Bank has a contributory retirement plan covering all regular employees. Effective from May 1, 1997, the Bank was governed by the Labor Standards Law and revised its plan to comply with the requirements under this law. However, the employer contributions under the previous employee pension plan will remain payable to qualified employees under the plan.

Under the previous employee pension plan, the Bank's monthly pension contributions ranged from 4% to 8.5% of total monthly salaries based upon the employee classification. The employee contribution to the plan amounted to 3% of total monthly salaries paid regardless of employee classification. According to the plan, upon retirement, the employee would be paid the employee's total contribution and related earnings,

**JIH SUN INTERNATIONAL BANK LTD.**  
**NOTES TO FINANCIAL STATEMENTS (CONT' D)**

in addition to the employer's total contribution and related earnings paid directly from the Bank's designated retirement fund account to the employee.

Upon adoption of the Labor Standards Law, the Bank refunded the employee contribution under the previous pension plan to its employees in full, and changed its monthly pension contribution to 3.79% of total monthly salaries paid. The employee pension payments under the Labor Standards Law are computed on the basis of 2 units for each of the first 15 years of service, and 1 unit for each year thereafter, up to a maximum of 45 units. Any fraction of a year less than 6 months is counted as half a year and any fraction of a year more than 6 months is counted as one year of service. Each unit of retirement payment is equal to the average monthly salary at the time of approved retirement.

As of December 31, 2004 and 2003, the Bank's pension fund balance amounted to \$50,129 and \$52,031, respectively, and the related changes were as follows:

	<u>2004</u>	<u>2003</u>
Beginning balance	\$ 52,031	53,068
Add: Interest	830	938
Less: Current year's payments	( 2,732 )	( 1,975 )
Fund balance	<u>\$ 50,129</u>	<u>52,031</u>

Since May 1, 1997, the Bank has complied with the Labor Standards Law and the related changes in the Bank's pension fund contributions were as follows:

	<u>2004</u>	<u>2003</u>
Beginning balance	\$ 108,463	82,050
Add: Current year's contributions	24,656	19,603
Interest	1,418	1,368
Adjustment for merger with The Cooperative Trust of Hsing Ying	-	5,442
Fund balance	<u>\$ 134,537</u>	<u>108,463</u>

Effective April 15, 2001, the pension fund was reflected as part of pension fund assets. As of December 31, 2004 and 2003, the pension fund amounted to \$143,973 and \$144,331, respectively.

Actuarial assumptions used to compute the projected benefit obligation and the reconciliation between year-end pensions funded status and accrued pension liabilities per books were as follows:

	<u>2004</u>	<u>2003</u>
Discount rate	3.50%	3.50%
Future salary increase rate	2.00%	2.00%
Estimated long-term investment rate of return on pension plan assets	2.50%	3.50%
Service cost	\$ 27,116	22,050
Interest cost	3,972	2,793
Expected return on plan assets	( 9,204 )	( 8,154 )
Amortization of unrecognized transitional obligation	( 1,738 )	( 1,738 )
Amortization of pension fund gain	( 116 )	( 719 )
Net pension cost	<u>\$ 20,030</u>	<u>14,232</u>

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NOTES TO FINANCIAL STATEMENTS (CONT' D)**

	<u>December 31, 2004</u>	<u>December 31, 2003</u>
Benefit obligation		
Vested benefit obligation	\$ 1,956	3,371
Non-vested benefit obligation	<u>122,273</u>	<u>83,038</u>
Accumulated benefit obligation	124,229	86,409
Effect from future salary increase	<u>39,434</u>	<u>28,706</u>
Projected benefit obligation	163,663	115,115
Fair value of pension fund assets	( <u>278,510</u> )	( <u>252,799</u> )
Funded status	( 114,847 )	( 137,684 )
Unrecognized net transitional obligation	13,906	15,644
Unrecognized gain or loss	<u>1,984</u>	<u>27,709</u>
Accrued pension liabilities	<u>( \$ 98,957 )</u>	<u>( 94,331 )</u>

As of December 31, 2004 and 2003, the Bank's vested benefits were approximately \$1,956 and \$3,371, respectively.

**19. COMMON STOCK**

The Bank's original authorized, issued and outstanding capital stock of \$10,000,000 was divided into 1,000,000,000 shares at \$10 par value per share. After subsequent stock issuances resulting from capital increases over the years, as of December 31, 2004 and 2003, the Bank's authorized and outstanding common stock amounted to \$13,247,600, divided into 1,324,760,000 shares at \$10 par value per share.

**20. TREASURY STOCK**

According to the requirements under the Securities Exchange Law, the ratio of the number of treasury shares repurchased shall not exceed 10% of the total shares issued; the total amount of the shares repurchased shall not exceed the sum of retained earnings, premium on stock issuance, and realized capital surplus. The bank's highest amount of treasury shares held during the year was 84,884,000 shares, and the total amount of treasury stock repurchased was \$348,138, which complies with the requirements under the Securities Exchange Law. Using September 30, 2001, as the measurement date, the maximum number of treasury shares and amount that can be repurchased by the Bank was 112,476,000 shares and \$1,645,449, respectively. According to the Securities Exchange Law, treasury stock cannot be pledged, nor does it have stockholders' rights prior to transfer.

On February 5, 2002, the Bank became a financial holding company's subsidiary. According to SFC Letter Ruling No. (6) 111467, treasury stock which is converted to the stock of the financial holding company in accordance with Article 31 of the Financial Holding Company Law, should still be treated as the Bank's treasury stock and deducted from stockholders' equity. The number of treasury shares purchased by the Bank prior to February 5, 2002, was 87,688,000 shares (purchase cost of \$363,270). 50,648,000 shares of Jih Sun Financial Holding Co., Ltd. were exchanged using a conversion rate of 0.57759. The related changes in treasury stock held by the Bank were as follows:

<u>2004</u>	<u>Repurchase Reasons</u>	<u>Beginning balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending balance</u>
Shares	Transferred to Employees	<u>43,666,000</u>	-	<u>43,666,000</u>	-
Amounts	"	<u>\$ 323,491</u>	-	<u>323,491</u>	-

**JIH SUN INTERNATIONAL BANK LTD.**  
**NOTES TO FINANCIAL STATEMENTS (CONT' D)**

<u>2003</u>	<u>Repurchase Reasons</u>	<u>Beginning balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending balance</u>
Shares	Transferred to employee	<u>50,648,000</u>	<u>-</u>	<u>6,982,000</u>	<u>43,666,000</u>
Amounts	"	<u>\$ 363,270</u>	<u>-</u>	<u>39,779</u>	<u>323,491</u>

As of December 31, 2004 and 2003, the Bank had transferred treasury stock to employees in accordance with the stock transfer law, resulting in a capital stock - treasury stock transaction of \$430 and \$2,861, respectively.

**21. RETAINED EARNINGS DISTRIBUTION**

In accordance with the Bank's Articles of Incorporation, 30% of the net income after deduction of income tax and offset against prior year cumulative losses shall be set aside as legal reserve, and the remainder, if any, shall be distributed in its entirety. In compliance with Article 44 of the Banking Law, the ratio of the Bank's equity capital to its risk-based assets should not be less than 8%, and distribution of stock dividends shall have preference. Should the annual after-tax net income exceed \$700,000, then 70% of the excess shall be distributed as cash dividends.

The Bank's distribution of 2004 earnings has not yet been proposed.

**22. APPROPRIATION OF RETAINED EARNINGS AS PROVISION FOR GENERAL RISKS**

The Bank does not provide for loss reserve against general risks (such as war, employee strikes, natural disasters, economic downturns, and other future losses or other unpredictable risks). However, if the Bank is required by law to provide for loss against general risks, then such loss reserve will be reflected as retained earnings appropriation. Upon subsequent reversal of such loss reserve, it will be treated as adjustment to retained earnings only, and not reflected as current period income. Currently, the Bank has not made any loss provision for general risks as part of its retained earnings appropriation.

**23. INCOME TAX**

According to regulations stipulated by Ruling Letter No. 910458039 dated February 22, 2003, "Principles and regulations of profit-seeking businesses filing joint tax returns in accordance with Article 49 of the Financial Holding Company Law and Article 40 of Enterprise Merger Law", when a financial holding company holds more than 90% of the shares of a domestic subsidiary, the financial holding company and the subsidiary can file a joint tax return once the financial holding company has held more than 90% of the subsidiary for 12 months during a taxable year. The Company jointly filed income tax returns for 2003 and earnings distribution for 2002 for the Company, Jih Sun Securities Co., Ltd., and Jih Sun International Bank, Ltd.

Joint filing of the tax returns of the Company, Jih Sun Securities Co., Ltd, and Jin Sun International Bank, Ltd. resulted in a lowered tax burden due to tax incentives received, and since each individual company's tax burden was fairly distributed, management efficiency was raised.

(1) The Bank's statutory tax rate is 25%. Details regarding income tax expense are as follows:

	<u>2004</u>	<u>2003</u>
Income tax refund	( \$ 43,100 )	( 33,935 )
Add:	12,676	
Separate income tax levied on short-term bills		3,120
Income tax prepayment and withholding	43,100	33,935
Increase in deferred income tax liabilities	-	1,799
Decrease (increase) in deferred income tax assets	( 284 )	78,493
Income tax benefit resulting from tax incentives	-	( 132,250 )
Adjustment of prior years' income tax expense	( 16,490 )	( 2,187 )
Provision for income tax	<u>( \$ 4,098 )</u>	<u>( 51,025 )</u>

Note: The Company's income tax payable to the parent company based on the consolidated tax filing

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**NOTES TO FINANCIAL STATEMENTS (CONT' D)**

return principle.

	<u>2004</u>	<u>2003</u>
Current income tax	( \$ 3,814 )	934
Deferred income tax	( 284 )	80,291
Income tax benefit resulting from tax incentives	-	( 132,250 )
10% surtax on undistributed earnings	-	-
Income tax expense for continuing operations	<u>( \$ 4,098 )</u>	<u>( 51,025 )</u>

(2) Details regarding the difference between the calculation of income tax based on the statutory tax rate and income tax expense are as follows:

	<u>2004</u>	<u>2003</u>
Income tax calculated at statutory tax rate	\$ 185,759	\$ 45,712
Effect on income tax of adjusting items:		
Securities transaction tax exemption	( 36,497 )	( 23,757 )
Gain or loss from bond transactions	( 10,702 )	168
Tax separately levied on interest revenue	6,721	( 736 )
Loss (gain) on domestic investments, net	( 40,463 )	( 17,653 )
Loss on land transactions	( 3,326 )	7,036
OBU loss (income) tax exemption	800	( 16,089 )
Operating loss carryforwards	( 43,832 )	148,264
Allowance for deferred tax assets	-	80,291
Allowance for credit loss over limit	( 43,717 )	( 83,735 )
Loss on market decline of collateral	20,142	( 58,707 )
Adjustment of prior years' income tax expense	( 16,490 )	( 2,187 )
Other	<u>( 22,493 )</u>	<u>2,618</u>
Subtotal	( 4,098 )	81,225
Income tax benefit resulting from tax incentives	-	( 132,250 )
Income Taxes	<u>( \$ 4,098 )</u>	<u>( \$ 51,025 )</u>

(3) Details regarding the components of deferred income tax expense (benefit) are as follows:

	<u>2004</u>	<u>2003</u>
Operating loss carryforwards	\$ 40,160	79,424
Investment tax credits	( 2,583 )	( 11,093 )
Pension fund expense	561	1,799
Allowance for income tax assets	<u>( 38,422 )</u>	<u>10,161</u>
	<u>( \$ 284 )</u>	<u>80,291</u>

(4) Details regarding deferred income tax assets (liabilities) are as follows:

	<u>December 31, 2004</u>	<u>December 31, 2003</u>
Deferred income tax assets	\$ 429,501	599,328
Valuation allowance – deferred income tax assets	( 413,506 )	( 451,928 )
Net deferred income tax assets	15,995	147,400
Deferred income tax liabilities	<u>( 19,383 )</u>	<u>( 18,822 )</u>
Current deferred income tax assets, net	( 3,388 )	128,578

**JIH SUN INTERNATIONAL BANK LTD.**  
**NOTES TO FINANCIAL STATEMENTS (CONT' D)**

Income tax benefit resulting from tax incentives	-	( 132,250 )
Current deferred income tax assets, net	<u>( \$ 3,388 )</u>	<u>( 3,672 )</u>

Information regarding tax incentives resulting from joint filing of tax:

	December 31, 2004	December 31, 2003
Refunds received from the parent company	\$ 43,100	33,935
Estimated additional tax paid by the parent company	-	132,250
	<u>\$ 43,100</u>	<u>166,185</u>

(5) Details regarding temporary differences of deferred income tax assets and liabilities, loss carryforwards, and income tax deductions are as follows:

	December 31, 2004		December 31, 2003	
	Amount	Tax effect	Amount	Tax effect
Loss carryforwards	\$ 1,647,072	411,768	1,822,400	451,928
Investment tax credits	71,782	17,733	60,599	15,150
Pension fund expense	( 77,532 )	( 19,383 )	( 75,288 )	( 18,822 )
Allowance for deferred tax assets	( 1,647,072 )	( 413,506 )	( 1,822,400 )	( 451,928 )
Net	<u>( \$ 5,750 )</u>	<u>( 3,388 )</u>	<u>( 14,689 )</u>	<u>( 3,672 )</u>

(6) The Bank's available investment credits and their related expiration years were as follows:

Year occurred	Available tax credits	Expiration year
2001	\$ 3,930	2006
2002	10,109	2007
2003	1,956	2008
2004	1,738	2009
Total	<u>\$ 17,733</u>	

(7) The tax authorities have assessed the Bank's income tax returns through 2001. According to ROC income tax laws, losses can be carried forward to offset taxable income for the five years following the loss. As of December 31, 2004, the Bank's unused carryforwards and expiration dates were as follows:

Period of loss	Year of expiration	Amount
1999	2004	\$ 145,172
2001	2006	340,085
2002	2007	1,161,815
Net		<u>\$ 1,647,072</u>

(8) As of December 31, 2004 and 2003, the balance of stockholders' imputation credit account amounted to \$300,840 and \$251,373, respectively. The deductible rate for 2004 and 2003 earnings distributed to R.O.C. residents is 0%.

(9) Details regarding undistributed earnings were as follows:

	December 31, 2004	December 31, 2003
Earned prior to December 31, 1997	\$ -	-
Earned after January 1, 1998	( 728,216 )	( 1,475,348 )
	<u>( \$ 728,216 )</u>	<u>( 1,475,348 )</u>

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NOTES TO FINANCIAL STATEMENTS (CONT' D)**

**24. EARNINGS PER SHARE**

Earnings per share are calculated based on the weighted-average number of common shares outstanding during each period, except for capitalization of retained earnings or capital surplus, for which the computation of shares outstanding is retroactively adjusted. The weighted-average number of shares outstanding for 2004 and 2003 was 1,307,428,000 and 1,142,863,000, respectively, and after retroactively adjusting the number of shares was 1,307,428,000 and 1,142,863,000, respectively.

**25. RELATED-PARTY TRANSACTIONS**

(1) Name of Related Party and Relationship with the Company

Name of Related Party	Relationship with the Company
Jih Sun Financial Holding Co., Ltd.	Parent company of the Company
Jih Sun Life Insurance Agent Co., Ltd.	Invested company accounted for under the equity method
Jih Sun Securities Co., Ltd.	Its president is the spouse of the president of the Company
Jih Sun Securities Investment Consulting Co., Ltd.	A subsidiary of the Company
Jih Sun Security Co., Ltd.	"
Jih Sun International Leasing & Finance Co., Ltd.	"
Jih Sun Futures Co., Ltd.	Invested company the Jin Sun Securities Co., Ltd. of accounted for under the equity method
Jin Sun Financial Services (Cayman) Ltd.	A subsidiary of Jin Sun Securities Co., Ltd.
Yong Da Investment Co., Ltd.	A subsidiary of the Company
Cyuan Fu Investment Co., Ltd.	"
Other related parties	The Company's directors, supervisors, relatives and spouses

(2) Material transactions with related parties:

Item	2004		2003	
	Ending Balance	Interest Rate	Ending Balance	Interest Rate
1. Customer deposits	\$ 5,869,114	0%~13%	4,231,191	0%~13%
2. Loans	119,032	1.55%~3.91%	339,860	1.20%~9.25%
3. Rental:				
① Refundable guarantee deposit	5,713		5,771	
② Rental expense	22,917		19,376	
③ Rental revenues	6,279		2,930	
④ Payable guarantee deposit	130		48	
4. Purchased property	2,949		12,620	
5. Fee income from handling securities delivery for securities brokerage firm	109,007		84,880	
6. Stock brokerage fee	6,245		102	
7. Investment in marketable securities	285,000		-	
8. Interest income from investment in marketable securities and short-term notes	477		1,152	
9. Bonds sold under repurchase agreements	2,360,202		508,027	

**JIH SUN INTERNATIONAL BANK LTD.  
NOTES TO FINANCIAL STATEMENTS (CONT' D)**

10. Interest expense for investment in marketable securities and short-term notes	11,413	2,399
11. Expense for stock agent	480	480
12. Bonds sold under repurchase agreements liabilities	61,841	166,185
13. Transaction fee for car loans	265,023	274,073
14. Expense for spreading credit cards	-	8,777
15. Network service expense	51,996	-
16. Financial expenses	3,675	-

As of December 31, 2004 and 2003, the Bank's guaranteed line of credit to Jih Sun Securities Co., Ltd. amounted to \$1,100,000. As of December 31, 2004 and 2003, the loan balance was \$0 and \$850, respectively.

As of December 31, 2004 and 2003, there was no delinquency in the credit line provided to related parties. Allowance for bad debts was provided for similarly to that for general financing and was computed at 1% of the loan balance. As for the related-party credit policy, the Bank follows the requirements under Articles 32, 33, 33-1, 33-2, 33-4, 33-5 of the Banking Law, and does not provide credit loans without collateral. For collateralized loans, the collateral should consist of a full guarantee, and the terms (including interest rate, collateral and related appraisal, guarantor requirement, loan term, repayment method of principal and interest, etc.) must not be superior to those to other parties for similar types of loan. For financing provided to a related party, which individually or cumulatively amounts to \$100,000,000 or 1% of the Bank's net worth, whichever is lower, it must be presented to the Board of Directors and Supervisors for review. This Board meeting must be attended by two-thirds of the directors and approved by three-fourths of the directors in attendance. The terms and conditions of loans to related parties are not superior to those given to non-related parties.

As of December 31, 2004, there were no off-balance sheet commitments between the Bank and its related parties.

**26. SIGNIFICANT COMMITMENTS AND CONTINGENCIES**

- (1) As of December 31, 2004 and 2003, contracts for equipment purchase and office renovations were approximately \$453,048 and \$404,381, respectively, of which \$111,981 and \$121,990, respectively, were paid.
- (2) As of December 31, 2004 and 2003, the Bank acted as an agent for various collections amounting to approximately \$683,381 and \$644,079, respectively.
- (3) As of December 31, 2004 and 2003, the Bank handled several guarantees (including joint handling of foreign exchange transactions); the related outstanding guarantee deposits were approximately \$5,863,062 and \$3,515,105, respectively.
- (4) As of December 31, 2004 and 2003, the Bank had outstanding bank acceptance liabilities, which amounted to approximately \$364,368 and \$599,204, respectively, and letters of credit, which amounted to approximately \$2,075,410 and \$2,502,183, respectively.
- (5) As of December 31, 2004 and 2003, the Bank acted as custodian of post-dated checks for its clients (excluding next day's checks for clearing) which amounted to approximately \$23,293,377 and \$21,381,073, respectively.
- (6) As of December 31, 2004 and 2003, the Bank had received escrow government bonds in connection with repurchase agreements with approximate face value of \$0 in both years.
- (7) As of December 31, 2004 and 2003, the Bank was entrusted with the sale of U.S. dollar traveler's checks of \$188,598 and \$228,931, respectively.
- (8) As of December 31, 2004, the Bank paid rent on a monthly or quarterly basis according to the rental contract. The estimated future rent payable and accrued interest on deposits treated as rent for the next five years were as follows:

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**NOTES TO FINANCIAL STATEMENTS (CONT' D)**

Year	Interest on deposits treated as rent	Rent payable	Present value
2005	Note	\$ 241,813	229,477
2006	Note	139,969	118,155
2007	Note	83,888	62,895
2008	Note	29,729	19,821
2009	Note	7,532	4,543

Note: Amount is less than \$1,000.

As of December 31, 2004, the above interest on deposits treated as rent was based upon rent-free deposits and deposits in excess of 3 months' rent of \$46,217 and at 1.0% per annum interest for the rental period.

- (9) According to SFAS No. 28 "Financial Disclosures for Financial Institutions", major commitments and contingencies required to be disclosed by the Bank are as follows:
- a. The Bank's credit commitments can be cancelled due to accelerated terms', therefore, as of December 31, 2004 and 2003, the Bank had no non-cancelable credit commitments and credit commitment that could only be canceled upon significant payment.
  - b. As of December 31, 2004 and 2003, the Bank had direct credit guarantees, which consisted of general guaranteed bonds (corporate bonds) which amounted to \$241,983 and \$218,493, respectively, and guarantee letters for financial guarantees of loans and securities (commercial paper), which amounted to \$2,440,934 and \$1,447,837, respectively.
  - c. As of December 31, 2004 and 2003, the Bank had performance guarantee bonds of \$1,329,425 and \$1,044,785, respectively. Auction deposits were \$7,500 and \$0, respectively, and guarantee letters issued for specified transactions were \$13,180,145 and \$1,848,775, respectively. As of December 31, 2004 and 2003, the Bank still had financial undertaking of \$5,461,400 and \$3,211,153, respectively.
  - d. Please refer to Note 2.3 for details of the Bank's repurchase and resale commitments.
  - e. Please refer to Note 28, (4)④ For details of the Bank's interest rates and exchange rates and related derivative financial instrument contracts.
  - f. As of December 31, 2004 and 2003, the Bank had provided financing for bond issuance and revolving underwriting of \$0 and \$200,000, respectively.

**27. SUBSEQUENT EVENTS**

To expand the Bank's business and enhance its operating efficiency, the Board of Directors resolved to acquire the Trust department of TAIWAN DEVELOPMENT & TRUST CORPORATION on January 26, 2005.

**28. OTHER**

(1) The Company's personnel, depreciation, wastage, and amortization expenses were as follows:

Function	2004			2003		
	Operating Expenses	Administrative Expenses	Total	Operating Expenses	Administrative Expenses	Total
Personnel Expense						
Salaries and Wages	\$ 1,144,151	583,393	1,727,544	770,353	518,975	1,289,328
Insurance	83,766	35,186	118,952	64,717	31,569	96,286
Pension Expenses	13,593	6,437	20,030	10,541	3,691	14,232
Other Expenses	46,907	18,445	65,352	36,379	10,842	47,221
Depreciation	106,725	104,913	211,638	95,421	95,158	190,579
Wastage	-	18,808	18,808	-	18,808	18,808
Amortizations	8,695	24,844	33,539	4,220	11,266	15,486

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**NOTES TO FINANCIAL STATEMENTS (CONT' D)**

(2) Risk management

① Loan Authorization Risk

Non-Performing Loans:

Amount

Ratio

December 31, 2004

\$ 7,247,010

3.91%

December 31, 2003

6,219,848

3.68%

As of December 31, 2004 and 2003, there were certain concentrations of risk, as follows:

	December 31, 2004		December 31, 2003
	Ratio		Ratio
Manufacturing	13.36%	Manufacturing	14.83%
Business and commerce	7.86%	Business and commerce	10.09%
Finance, insurance and real estate	7.02%	Finance, insurance and real estate	9.21%

② The Bank's contract amount with concentrations of credit risk were as follows:

	Loans		Customer deposits		Off balance sheet	
	December 31, 2004	December 31, 2003	December 31, 2004	December 31, 2003	December 31, 2004	December 31, 2003
Loans – according to region						
Domestic	\$ 174,313,161	158,640,330	211,669,275	188,149,341	8,228,301	6,665,912
Central America	2,630,761	1,609,240	1,088,773	604,959	84,675	8,165
Other	1,362,835	2,135,523	8,024,344	1,173,086	210,640	134,312
Total	<b>\$ 178,306,757</b>	<b>162,385,093</b>	<b>220,782,392</b>	<b>189,927,386</b>	<b>8,523,616</b>	<b>6,808,389</b>
Loans – by Industry						
Financial	\$ 8,266,117	10,616,865	16,601,176	10,838,191	-	-
Construction	10,788,297	8,250,238	1,902,437	947,635	1,018,260	964,933
Other	159,252,343	143,517,990	202,278,779	178,141,560	7,505,356	5,843,456
Total	<b>\$ 178,306,757</b>	<b>162,385,093</b>	<b>220,782,392</b>	<b>189,927,386</b>	<b>8,523,616</b>	<b>6,808,389</b>

③ Average balance and current period average interest rate of various interest-bearing assets and liabilities:

	December 31, 2004		December 31, 2003	
	Average balance	Average interest rate	Average balance	Average interest rate
<b>Interest-Bearing Assets</b>				
Due from Central Bank	\$ 8,718,885	0.94%	6,492,254	1.13%
Call loans to banks	17,391,270	2.54%	4,773,350	1.25%
Marketable securities	11,426,461	1.02%	16,394,742	2.00%
Discounted bills and loans	157,097,532	4.84%	143,779,206	5.07%
<b>Interest-Bearing Liabilities</b>				
Financial debentures	5,731,183	3.97%	5,000,000	3.98%
Deposits and call loans from banks	18,043,961	1.18%	8,220,537	1.55%
Deposit reserve	18,479,539	0.32%	7,833,407	0.32%
Time deposits	54,819,725	1.47%	44,112,868	1.75%
Demand savings deposits	37,581,050	0.67%	28,379,808	0.80%
Time savings deposits	78,945,747	1.83%	77,318,144	2.32%
Post Office deposits	14,908,611	1.67%	15,477,909	1.93%

**JIH SUN INTERNATIONAL BANK LTD.**  
**NOTES TO FINANCIAL STATEMENTS (CONT' D)**

④ Interest risk

	December 31, 2004	December 31, 2003
Interest-rate-sensitive asset to interest rate sensitive liability ratio	54.48%	56.45%
Interest rate sensitivity gap to net value ratio	(710.37)%	(610.96)%

⑤ Information on risk of foreign currency loss

	December 31, 2004		December 31, 2003	
	Currency	NTD	Currency	NTD
Foreign Currency Amount	1. USD	(2,408,495)	1. JPY	19,128
	2. EUR	269,169	2. USD	15,962
	3. JPY	248,300	3. CHF	5,130
	4. GBP	181,263	4. SGD	4,368
	5. SGD	20,505	5. GBP	(3,354)

⑥ Maturity analysis of assets and liabilities

A. Profitability

	December 31, 2004	December 31, 2003
Return on total assets	0.30%	0.08%
Return on equity	5.73%	1.55%
Net income ratio	6.11%	1.96%

B. Maturity analysis of the Bank's assets and liabilities:

	Total	Within one month	Over one month to three months	Over three months to six months	Over six months to one years	Over seven years
	Amount	Amount	Amount	Amount	Amount	Amount
Assets	\$ 266,670	34,142	14,598	9,550	12,382	195,998
Liabilities	256,530	45,726	31,339	24,511	65,031	89,923
Gap-to-net	10,140	(11,584)	(16,741)	(14,961)	(52,649)	106,075
Total gap-to-net	-	(11,584)	(28,325)	(43,286)	(95,935)	10,140

(3) Financial structure

	December 31, 2004	December 31, 2003
Risk-Based Capital Ratio	10.06%	9.30%
Liabilities to Assets Ratio	1,859.94%	1,741.52%

(4) As required by SFAS No. 28 "Financial Disclosures for Financial Institutions", additional information disclosed by the Bank is as follows:

① Pledged assets

- a. As of December 31, 2004 and 2003, the Bank provided government bonds with an approximate face value of \$290,500 and \$193,700, respectively, as guarantee deposits to the court in connection with provisional seizure due to overdue accounts and loans. In addition, the Bank also provided government bonds with an approximate face value of \$50,000 in both years as guarantee deposits of the

**JIH SUN INTERNATIONAL BANK LTD.**  
**NOTES TO FINANCIAL STATEMENTS (CONT' D)**

trust department deposited with the Central Bank. Credit card deposit reserve of the credit card center amounted to \$2,000 and \$21,000, respectively. Guarantee deposits of the finance department deposited with the Central Bank amounted to \$50,000 in both years.

b. As of December 31, 2004 and 2003, the Bank has provided no collateral for its liabilities.

⊗ Maturity analysis of the Bank's assets and liabilities:

<b>December 31, 2004</b>						
	Within one month	Over one month to six months	Over six months to one year	Over one year to seven years	Over seven years	Total
	Amount	Amount	Amount	Amount	Amount	Amount
Assets						
Short-term investments - bonds	\$ 115,297	415,386	208,744	5,674,470	4,161,322	10,575,219
Due from banks	913,688	3,856,806	-	-	-	4,770,494
Call loans to banks	2,040,341	-	-	-	-	2,040,341
Loans and advances	7,558,071	20,663,896	11,283,476	79,065,352	59,735,962	178,306,757
Long-term bond investments	-	-	-	-	1,887,087	1,887,087
<b>Total</b>	<b>\$ 10,627,397</b>	<b>24,936,088</b>	<b>11,492,220</b>	<b>84,739,822</b>	<b>65,784,371</b>	<b>197,579,898</b>

<b>December 31, 2004</b>						
	Within one month	Over one month to six months	Over six months to one year	Over one year to seven years	Over seven years	Total
	Amount	Amount	Amount	Amount	Amount	Amount
Liabilities						
Due to banks	\$ 3,093,928	6,375,000	11,677,000	100,014	-	21,245,942
Time deposits	24,523,305	45,653,229	50,205,788	11,703,553	-	132,085,875
Negotiable CDs	2,881,800	6,094,000	4,151,000	-	-	13,126,800
Call loans from banks	5,110,000	2,667,283	-	-	-	7,777,283
<b>Total</b>	<b>\$ 35,609,033</b>	<b>60,789,512</b>	<b>66,033,788</b>	<b>11,803,567</b>	<b>-</b>	<b>174,235,900</b>

<b>December 31, 2003</b>						
	Within one month	Over one month to six months	Over six months to one year	Over one year to seven years	Over seven years	Total
	Amount	Amount	Amount	Amount	Amount	Amount
Assets						
Short-term investments - bonds	\$ 1,860,006	5,000	513,264	1,177,418	436,694	3,992,382
Due from banks	3,662,958	8,493,000	700,000	-	-	12,855,958
Call loans to banks	4,068,926	111,450	-	-	-	4,180,376
Loans and advances	22,926,208	23,994,117	9,631,352	60,311,198	45,522,218	162,385,093
Long-term bond investments	-	-	-	-	1,897,621	1,897,621
<b>Total</b>	<b>\$ 32,518,098</b>	<b>32,603,567</b>	<b>10,844,616</b>	<b>61,488,616</b>	<b>47,856,533</b>	<b>185,311,430</b>

Liabilities

**JIH SUN INTERNATIONAL BANK LTD.**  
**NOTES TO FINANCIAL STATEMENTS (CONT' D)**

Due to banks	\$	9,230,000	10,178,000	78	-	20,416,503
		1,008,425				
Time deposits		14,398,876	40,881,559	51,588,083	11,702,489	-
Negotiable CDs		2,249,000	1,693,000	3,667,000	-	-
Call loans from banks		7,560,075	849,450	169,890	-	-
Total	\$	<b>52,654,009</b>	<b>65,602,973</b>	<b>11,702,567</b>	<b>-</b>	<b>155,175,925</b>
		<b>25,216,376</b>				

③ Information on risk of foreign currency loss

Currency	Foreign Currency Amount	
	December 31, 2004	December 31, 2003
AUD	( \$ 1,379 )	( 2,121 )
CAD	8	360
CHF	2,790	5,130
EUR	269,169	( 917 )
GBP	181,263	( 3,354 )
HKD	1,660	( 623 )
IDR	-	( 2 )
JPY	248,300	19,128
NYR	( 1,636 )	-
NZD	4,425	117
SEK	20,505	1,648
SGD	437	4,368
THB	2,408,495	590
USD	( 2,969 )	15,962
	<b>( \$ 1,685,922 )</b>	<b>40,286</b>

④ Financial instruments

a. Derivative financial instruments

(a) Contract or nominal amount and credit risk

	December 31, 2004			December 31, 2003		
	Contract Amount (Nominal Amount)	Credit Risk	Present Value	Contract Amount (Nominal Amount)	Credit Risk	Present Value
<u>Purpose for transacting</u>						
Foreign exchange contracts:						
Forward contracts and futures held for trading purposes	\$ 12,051,543	106,566	12,394,167	11,364,980	67,826	11,849,780
Exchange rate contracts:						
Exchange rate options	1,119,296	-	11,818	169,890	-	425
Equity security contracts:						
Security price options	353,529	-	5,140	1,273,591	-	110,541
Futures	306,738	-	304,378	83,639	-	83,639

**JIH SUN INTERNATIONAL BANK LTD.**  
**NOTES TO FINANCIAL STATEMENTS (CONT' D)**

Asset swaps and options	91,400	-	91,400	-	-	-
	<u>\$ 13,922,506</u>	<u>105,566</u>	<u>12,806,903</u>	<u>12,892,100</u>	<u>67,826</u>	<u>12,044,385</u>

The above-listed credit risk amount is based upon the positive fair value of the contract on balance sheet date, and remains a positive amount after consideration of the offsetting effect of the net settlement amount as contracted. It represents the Bank's possible loss in the event of non-performance by the counter-parties to the financial instruments. Such credit risk has been included in the consideration of allowance for bad debts or reserve for losses.

(b) Market value risk

The Bank uses value at risk to evaluate the market value risk of its financial instruments (including derivative financial instruments). Upon occurrence of unfavorable changes due to market factors, the value at risk represents the potential loss on the financial instruments or investment combination at a designated time period and credibility level.

(c) Liquidity risk, cash flow risk, and uncertainty of amount and period of future cash demand

As of December 31, 2004, the derivative financial instruments held by the Bank for trading purposes had maturity dates of within one year. At maturity, these instruments will meet the needs of various foreign currency cash inflow and outflow, and overall, the Bank has adequate operating funds and does not expect significant additional cash needs.

(d) Gain or loss resulting from current period trading activities

The Bank's trading loss resulting from its trading activities are reflected in the income statement as operating income (operating cost), and is summarized below:

	2004		2003	
Foreign exchange contracts	\$	51,536		30,643
Exchange rate contracts		20,444	(	8,246)
Equity security contracts		19,214	(	54,079)
Swaps and options		3,680		-
	<u>\$</u>	<u>94,874</u>	<u>(</u>	<u>31,682)</u>

b. Fair value of financial instruments

Financial Assets	December 31, 2004		December 31, 2003	
	Book Value	Fair Value	Book Value	Fair Value
Financial assets with book value equal to fair value	\$ 247,731,551	247,731,551	211,091,928	211,091,928
Financial assets held for trading purposes -				
Foreign exchange contacts	67,346	67,346	43,262	43,262
Equity security contracts	20,472	20,472	70,478	70,478
Purchased securities - stocks	1413,722	1,371,198	2,252,050	2,224,526
Long-term investments	3,161,428	3,248,239	2,739,822	2,733,623
Total financial assets	<u>\$ 252,394,519</u>	<u>252,438,806</u>	<u>216,197,540</u>	<u>216,163,817</u>

Financial Liabilities	December 31, 2004		December 31, 2003	
	Book Value	Fair Value	Book Value	Fair Value
Financial liabilities with book value equal to fair value	\$ 246,227,988	246,227,988	210,610,986	210,610,986
Long-term liabilities	162,570	115,783	159,690	105,126
Total financial liabilities	<u>\$ 246,390,558</u>	<u>246,343,771</u>	<u>210,770,676</u>	<u>210,716,112</u>

**JIH SUN INTERNATIONAL BANK LTD.  
NOTES TO FINANCIAL STATEMENTS (CONT' D)**

Methods and assumptions used by the Bank for valuation of the fair values of financial instruments are as follows:

- (a) The fair value of short-term financial instruments is estimated based upon their face value stated on the balance sheet. Because such instruments will become due shortly, their face value should be a reasonable basis for estimating their fair value. This method is applicable to cash and cash equivalents, notes and accounts receivable, notes and accounts payable, and short-term loans from banks.
- (b) If the market value of marketable securities is available, then the market value is used as fair value. If there is no market value available for reference, then the fair value is estimated based upon financial or other information.
- (c) The fair value of long-term liabilities is estimated based upon future discounted cash flow. The discount rate is based upon the Bank's ability to obtain a rate with similar terms (similar maturity).
- (d) The fair value of derivative financial instruments assumes contract termination on the balance sheet date and is calculated based upon the cash amount receivable or payable. In general, it includes unrealized gain or loss on outstanding contracts for the current period. Most of the Bank's derivative instruments have valuation reports from financial institutions as a reference.

c. Financial instruments with off-balance-sheet credit risk

Because the Bank provides loans and issue credit cards, it has substantial commitments to extend credit; most of the credit extension is limited to one year. The interest rate on such credit loans ranges from 0.1% to 20%. The highest interest rate for credit cards is up to 20%. In addition, the Bank provides financial guarantees and commercial letters of credit as guarantees for its customers' obligations to third parties with various due dates, which usually have a negotiated term of one year.

The Bank has financial instruments with off-balance-sheet credit risk with contract amount as follows:

	<u>December 31, 2004</u>	<u>December 31, 2003</u>
Loan commitments	\$ 54,707,000	54,983,000
Credit card commitments	86,177,731	59,571,227
Financial guarantees and commercial letters of credit	<u>2,699,860</u>	<u>2,503,787</u>
Total	<u><b>\$ 143,584,591</b></u>	<u><b>117,058,014</b></u>

Since these financial instruments will not be settled in advance of their due dates, therefore, their contract amount does not represent future cash outflow, which means that the future cash demand is less than the contract amount. Assuming that the credit limitation has been reached and the collateral or other guarantees have lost their value, the credit risk is the same as the contract amount resulting in the maximum possible loss to the Bank.

Prior to providing loan commitments, financial guarantees, and commercial letters of credit, the Bank performs strict credit evaluation. It is the Bank's policy to request collateral prior to approval of loans to designated customers. Collateralized loans account for 56.49% of the total loans outstanding. Collateralized financial guarantees and commercial letters of credit account for 0% to 100% of the total, with an average of 13%. The collateral requested for loans, financial guarantees, and letters of credit usually comprise cash, inventory, liquid marketable securities, or other property. Upon customer default, the Bank will enforce its rights to the collateral or other guarantee.

Credit card commitments do not require collateral, but the Bank regularly evaluates the cardholder's credit rating, and if necessary, it will adjust the cardholder's credit limit.

d. Information on concentrations of credit risk

Group concentrations of credit risk exist if a number of counter-parties are engaged in similar activities or activities in the same region or have other similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The Bank has no concentration of credit risk resulting from exposure with an individual customer, an individual counter-party, or one single industry; except for regions and industries having similar economic characteristics.

The Bank's policy on requirement for collateral is disclosed in item b above. If the transacting party is not

**JIH SUN INTERNATIONAL BANK LTD.**  
**NOTES TO FINANCIAL STATEMENTS (CONT' D)**

able to comply with the contract terms, and the collateral or other guarantee has lost its value, then the possible loss is equal to the contract amount.

**JIH SUN INTERNATIONAL BANK LTD.  
NOTES TO FINANCIAL STATEMENTS (CONT' D)**

⑤ As required by the Trust Business Law Enforcement Rules, Article No. 17, the balance sheet and the property index of trust accounts disclosed by the Bank are as follows:

**TRUST BALANCE SHEET**

<b>Trust Assets</b>	<b>December 31, 2004</b>	<b>Trust Liabilities</b>	<b>December 31, 2004</b>
Cash	\$ -	Short-Term Borrowings	\$ -
Cash in Bank	4,921	Payables	-
Short-Term Investments	13,425,525	Unearned Revenue	-
Net Value of Trust Fund	-	Income Tax Payable	-
Receivables	-	Receipts under Custody	-
Inventories	-	Other Liabilities	-
Prepayments	-		
Long-Term Investments	-		
Personal Estate, Net	-		
Real Estate	4,310,142		
Intangible Assets	-	Trust Capital	17,740,579
Other Assets	-	Reserves and Accumulated Earnings	-
Total Trust Assets	<b>\$ 17,740,579</b>	Total Trust Liabilities	<b>\$ 17,740,579</b>

**TRUST PROPERTY INDEX**

<b>Investment Item</b>	<b>December 31, 2004</b>
Short-Term Investment	
Bonds	\$ -
Preferred Stock	-
Common stock	-
Fund	13,425,525
Short-Term Notes or Investments with Resale Agreements	-
Cash in Bank	4,912
Long-Term Investment	
Investments in Stocks	-
Investments in Bonds	-
Personal Property, Net	
Gold	-
Real Estate, Net	
Land	4,310,142
Land Improvements	-
Buildings and Structures	-
Intangible Assets	
Leasehold	-
Superficies	-
Patents	-
Copyright	-
Total	<b>\$ 17,740,579</b>

**JIH SUN INTERNATIONAL BANK LTD.**  
**NOTES TO FINANCIAL STATEMENTS (CONT' D)**

**29. BUSINESS SEGMENT FINANCIAL INFORMATION**

(1) Industrial Information

The Bank operates as a commercial bank in accordance with the business scope under the Banking Law, Article No.3. Its major operations include managing customer deposits, extending loans, acting as collection agent, and investing in government bonds, securities, short-term bills, financial debentures, and exchange transactions.

(2) Geographical and export sales information

The Bank has no overseas branch and operates only domestically. It has no overseas-generated operating revenue.

(3) Major customer information

The Bank has no customer accounting for revenue in excess of 10% of its total revenue in the income statement.