

JIH SUN INTERNATIONAL BANK LTD.
FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
AND
INDEPENDENT AUDITORS' REPORT

The reader is advised that these financial statements have been prepared originally in Chinese. In the event of a conflict between these financial statements and the original Chinese version of difference in interpretation between the two versions, the Chinese language financial statements shall prevail.

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(English Translation)
JIH SUN INTERNATIONAL BANK LTD.

FINANCIAL STATEMENTS

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(English Translation)
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, 2005 and 2004, 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 \$5,445,069 thousand, \$5,282,396 thousand and \$6,768,699 thousand in 2005, 2004 and 2002, respectively. According to the Law Governing Merger of Financial Institutions, the Bank has capitalized the loss on the sale of these non-performing loans to deferred expense account and is amortizing it equally over 60 months. If the loss on non-performing loans was recognized currently, deferred loss on disposal of non-performing loans would be decreased by \$11,621,017 thousand and \$9,151,164 thousand as of December 31, 2005 and 2004, respectively. The undistributed earnings would be decreased by \$11,621,017 thousand and \$9,151,164 thousand as of December 31, 2005 and 2004, respectively. Net income would be decreased by \$2,469,853 thousand and \$ 3,849,018 thousand for the years ended December 31, 2005 and 2004, respectively.

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, 2005 and 2004, 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.

March 3, 2006
Taipei, Taiwan, R.O.C.

Note to Readers

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, 2005 AND 2004
(New Taiwan Dollars in Thousands, Except for Share Data)

ASSETS	DECEMBER 31, 2005		DECEMBER 31, 2004	
	Amount	%	Amount	%
Assets				
Cash (Notes 4)	\$ 9,139,649	3	\$ 6,717,540	2
Due from Central Bank and Banks (Note 5)	11,584,914	4	12,679,082	6
Marketable securities, net (Note 6)	29,974,564	11	29,353,430	11
Receivables, net (Note 7)	12,274,587	4	13,375,041	5
Prepayments	912,712	-	1,168,172	-
Temporary advances	2,135,271	1	2,408,307	1
Negotiated bills of exchange, notes discounted and loans, net (Note 8)	191,286,546	67	177,907,629	66
Current Assets	<u>257,308,243</u>	<u>90</u>	<u>243,609,201</u>	<u>91</u>
Long-term equity investments accounted for under the equity-method (Note 9)	38,615	-	61,340	-
Long-term equity investments accounted for under the cost-method (Note 9)	1,211,480	-	734,205	-
Long-term investments in bonds (Note 9)	1,877,496	1	1,887,087	1
Other long-term investments (Note 9)	478,796	-	478,796	-
Long-term investments	<u>3,606,387</u>	<u>1</u>	<u>3,161,428</u>	<u>1</u>
Other financial assets (Note 11)	<u>1,799,485</u>	<u>1</u>	<u>6,313,266</u>	<u>2</u>
Property and equipment (Note 10)				
Land	2,646,894	1	2,317,695	1
Buildings	2,639,302	1	2,174,078	1
Transportation equipment	9,462	-	12,393	-
Other equipment	1,155,873	-	1,067,819	-
Leasehold improvements	313,153	-	292,786	-
Construction in progress	4,351	-	16,293	-
Prepayment for equipment	82,933	-	82,973	-
Less: Accumulated depreciation	<u>1,315,351</u>	<u>-</u>	<u>1,102,192</u>	<u>-</u>
Property and equipment, net	<u>5,536,617</u>	<u>2</u>	<u>4,861,845</u>	<u>2</u>
Intangible assets	1,559,958	1	56,423	-
Other assets (Note 11)	<u>14,575,918</u>	<u>5</u>	<u>11,405,369</u>	<u>4</u>
TOTAL ASSETS	<u>\$ 284,386,608</u>	<u>100</u>	<u>\$ 269,407,532</u>	<u>100</u>
LIABILITIES AND STOCKHOLDERS' EQUITY				
Liabilities				
Short-term liabilities (Note 12)	\$ 10,376,009	4	\$ 6,997,589	3
Due to Central Bank	13,651	-	11,533	-
Due to banks (Note 13)	15,861,133	6	14,524,547	5
Payables (Note 14)	4,672,570	2	3,872,910	1
Advances	607,772	-	496,942	-
Deposits and remittances (Note 15)	227,550,591	79	220,782,392	82
Financial debentures (Note 16)	11,000,000	4	9,000,000	4
Long-term debt (Note 17)				
Appropriated loan fund	87,300	-	162,570	-
Reserve for land revaluation increment tax	30,560	-	14,771	-
Other liabilities	<u>285,694</u>	<u>-</u>	<u>46,503</u>	<u>-</u>
Total liabilities	<u>270,485,280</u>	<u>95</u>	<u>255,909,757</u>	<u>95</u>
Stockholders' equity				
Common stock (Note 19)	19,247,600	7	13,247,600	5
Capital Surplus	2,431	-	2,431	-
Retained earnings (Note 21)				
Legal reserve	247,744	-	975,960	-
Accumulative deficits	<u>(5,596,447)</u>	<u>(2)</u>	<u>(728,216)</u>	<u>-</u>
Total stockholders' equity	<u>13,901,328</u>	<u>5</u>	<u>13,497,775</u>	<u>5</u>
Commitments and contingencies (Note 26)				
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 284,386,608</u>	<u>100</u>	<u>\$ 269,407,532</u>	<u>100</u>

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

(With KPMG audit report dated March 3, 2006)

JIH SUN INTERNATIONAL BANK LTD.
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004
(New Taiwan Dollars in Thousands, Except for Share Data)

	2005		2004	
	Amount	%	Amount	%
Operating revenues:				
Interest revenue	\$ 11,854,467	85	\$ 10,187,355	84
Commissions and fees income	1,716,862	12	1,685,780	14
Gain on trading of securities	137,312	1	167,515	1
Invstment income accounted for under the equity-method	27,589	1	55,947	1
Foreign exchange gain	115,109	1	37,185	-
Other operating income	15,637	-	30,660	-
Total operating revenues	<u>13,866,976</u>	<u>100</u>	<u>12,164,442</u>	<u>100</u>
Operating costs				
Interest expense	3,958,840	29	3,141,197	26
Commissions and fees paid	1,285,461	9	1,215,899	10
Provisions for allowances and reserves (Note 8)	8,757,955	63	3,123,321	26
Other operating costs	96,864	-	31,681	-
Total operating costs	<u>14,099,120</u>	<u>101</u>	<u>7,512,098</u>	<u>62</u>
Gross margin	<u>(232,144)</u>	<u>(1)</u>	<u>4,652,344</u>	<u>38</u>
Operating expenses				
Selling expenses	2,842,264	21	2,806,385	23
Administrative expenses	1,945,446	14	1,236,151	10
Employee training costs	7,839	-	5,795	-
Other operating expnses	-	-	416	-
Total operating expenses	<u>4,795,549</u>	<u>35</u>	<u>4,048,747</u>	<u>33</u>
(Loss)income from operations	<u>(5,027,693)</u>	<u>(36)</u>	<u>603,597</u>	<u>5</u>
Non-operating revenues and incomes				
Invstment income	109,169	1	114,757	1
Gain on property transactions	379	-	142	-
Miscellaneous income	257,958	2	234,596	2
Total non-operating revenues	<u>367,506</u>	<u>3</u>	<u>349,495</u>	<u>3</u>
Non-operating expenses and loss				
Investment losses	-	-	5,204	-
Loss on property transactions	33	-	2,181	-
Loss on scrapping of property and equipment	13,165	-	1,950	-
Miscellaneous expenses	916,119	7	200,723	2
Total non-operating expenses	<u>929,317</u>	<u>7</u>	<u>210,058</u>	<u>2</u>
(Loss)income before income taxes	<u>(5,589,504)</u>	<u>(40)</u>	<u>743,034</u>	<u>6</u>
Income taxes (expense) benefit (Note 22)	<u>(6,943)</u>	<u>-</u>	<u>4,098</u>	<u>-</u>
Net (loss) income	<u>(\$ 5,596,447)</u>	<u>(40)</u>	<u>\$ 747,132</u>	<u>6</u>
	<u>Before tax</u>	<u>After tax</u>	<u>Before tax</u>	<u>After tax</u>
Earnings per share (Note 23)				
- Shares outstanding	<u>(\$ 3.62)</u>	<u>(3.62)</u>	<u>\$ 0.57</u>	<u>0.57</u>

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

(With KPMG audit report dated March 3, 2006)

JIH SUN INTERNATIONAL BANK LTD.
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004
(New Taiwan Dollars in Thousands)

	Common Stock	Capital Surplus	Retained Earnings		Treasury Stock	Total
			Legal Reserve	Accumulative Deficit		
Balance, January 1, 2004	\$ 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>
Balance, January 1, 2005	\$ 13,247,600	2,431	975,960	(728,216)	-	13,497,775
Increase capital with cash	6,000,000	-	-	-	-	6,000,000
Recover loss from legal reserve	-	-	(728,216)	728,216	-	-
Net loss for 2005	-	-	-	(5,596,447)	-	(5,596,447)
Balance, December 31, 2005	<u>\$ 19,247,600</u>	<u>2,431</u>	<u>247,744</u>	<u>(5,596,447)</u>	<u>-</u>	<u>13,901,328</u>

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

With KPMG audit report dated March 3, 2006

JIH SUN INTERNATIONAL BANK LTD.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004
(New Taiwan Dollars in Thousands)

	2005	2004
Cash flows from operating activities:		
Net (loss) income	(\$ 5,596,447)	\$ 747,132
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	274,839	211,638
Amortization	200,549	52,347
Investment income recognized under equity method	(27,589)	(55,947)
Losses on sale of investments	-	(4,973)
Loss on decreasing of capital of long-term investments	-	5,204
(Gain)loss on decline in market value of Foreclosed properties	(60,203)	80,570
Various reserves and provisions	5,782,738	1,638,028
Amortization of premium on bond investments	9,591	10,535
Gain on sale of property and equipment	(379)	(142)
Loss on sale and scrapping of property and equipment	13,165	1,950
Loss on sale of property and equipment	33	2,181
Amortization of non-performing loans	2,975,217	1,433,378
Loss(gain) on disposal of foreclosed properties	110,944	(12,468)
Change in assets and liabilities:		
Accounts receivable	2,276,476	(1,830,544)
Prepayments	212,011	109,954
Payables	667,085	122,395
Temporary advances	273,036	(1,252,139)
Advance collection	105,215	(98,928)
Net cash provided by operating activities	<u>7,216,281</u>	<u>1,160,171</u>
Cash flows from investing activities:		
(Increase) decrease in Central Bank required reserve	(820,684)	1,163,568
Proceeds from securitizations	-	3,761,711
Increase in marketable securities	(547,602)	(17,650,487)
Increase in discounted bills and loans	(16,890,809)	(25,862,735)
Proceeds from cash dividends and capital returned from long-term investments	59,039	79,453
Proceeds from sale of long-term investments	-	22,919
Purchase of property and equipment	(336,319)	(339,474)
Proceeds from sale of property and equipment	685	13,177
Proceeds from sale of non-performing loans	1,582,588	414,978
Proceeds from disposal of foreclosed properties	24,288	111,020
Purchase of pledged collateral	(776,820)	-
Increase in other assets	(42,251)	(3,065,373)
Proceeds from purchase of the assets and liabilities of Trust Department of Taiwan Development Co.,Ltd.	5,292,759	-
Increase in other financial assets	(142,523)	(554,471)
Net cash used in investing activities	<u>(12,597,649)</u>	<u>(41,905,714)</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, 2005 AND 2004
(New Taiwan Dollars in Thousands)

	2005	2004
Cash flows from financing activities:		
Increase in due to Central Bank	2,118	1,126
(Decrease)increase in due to banks	(284,156)	552,000
Increase in short-term borrowings	3,378,420	4,513,514
(Decrease)increase in customer deposits	(8,089,772)	30,855,005
(Decrease)increase in long-term debt	(59,481)	2,880
Increase(decrease) in other liabilities	216,272	(466,537)
Increase in capital with cash	6,000,000	-
Treasury stock transferred to employees	-	323,061
Issued financial debentures	2,000,000	4,000,000
Net cash provided by financing activities	3,163,401	39,781,049
Net decrease in cash	(2,217,967)	(964,494)
Cash, beginning of the year	17,206,237	18,170,731
Cash, end of the year	\$ 14,988,270	\$ 17,206,237
 Supplemental disclosures of cash flow information:		
Income taxes paid during the year	\$ 31,290	\$ 55,777
Non-cash flow activities resulting from purchases of the assets and liabilities of Trust Department of Taiwan Development Co.,Ltd.	\$ 5,292,759	\$ -
Cash (excluding time deposits due beyond 90 days)	\$ 9,139,649	\$ 6,717,540
Due from Central Bank and banks (excluding required reserve and call loans to banks)	3,443,161	5,358,013
Short-term bills due within 90 days	2,405,460	5,130,684
Total	\$ 14,988,270	\$ 17,206,237

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

(With KPMG audit report dated March 3, 2006)

(English Translation)
JIH SUN INTERNATIONAL BANK LTD.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

(All amounts expressed in thousands of New Taiwan dollars, unless otherwise indicated)

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, its paid-in capital amounted to \$10,000,000 and its establishment of the Bank was approved on March 26, 1992. Operations commenced on April 9, 1992. As of December 31, 2005, its outstanding capital stock amounted to \$19,247,600.

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. Its trust business includes domestic and overseas fund purchases and sales entrusted by customers, employee investments and trust, etc.

On May 16, 2001, the shareholders resolved during their meeting to change its name to Jih Sun International Bank, Ltd., expand business and promote the Bank's image. Furthermore, in order to fully utilize the economics of scale and operating synergies, the shareholders of the Bank also resolved during their special stockholders' meeting on December 14, 2001, to establish 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, 2005, the Bank had 3,038 employees.

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. The significant accounting policies were summarized as follows:

(1) Assets Impairment

Commencing from the first quarter of year 2005, the Bank adopted SFAS No. 35 "Accounting for Impairment of Assets." In accordance with SFAS No. 35, unless inapplicable, the recoverable amount (individual assets or cash generating units other than goodwill) of an asset is estimated and compared with the carrying amount whenever there is an indication that the asset may be impaired. An impairment loss is recognized when the recoverable amount is less than the carrying amount (the higher of fair market value and value in use). For assets other than goodwill, reversal of impairment loss is recognized when the recoverable amount of the asset has increased from its prior period estimation, the carrying value after the reversal should not exceed the recoverable amount or the depreciated or amortized balance of the assets assuming no impairment loss was recognized in prior periods.

(2) Cash

Cash refers to short-term and highly liquid investments that are readily convertible to known amounts of cash and with short-term maturities. 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.

(English Translation)
JIH SUN INTERNATIONAL BANK LTD.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

(All amounts expressed in thousands of New Taiwan dollars, unless otherwise indicated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(3) 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, these marketable securities are revalued at the lower of aggregate cost or market value.

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.

(4) 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 the 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.

(5) Allowance for Credit Losses

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

(6) Long-Term Investments

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

- 1) For investments in listed companies, an allowance for loss on market decline is provided if the market value declines below cost. The unrealized loss on market decline is recorded as a contra account to stockholders' equity.
- 2) For investments in non-listed companies, the investment loss is recognized currently if the estimated recovery value declines below cost and the probability of loss recovery be minimal, and the book value net of the loss write-off is reflected as the new carrying value.

(English Translation)
JIH SUN INTERNATIONAL BANK LTD.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

(All amounts expressed in thousands of New Taiwan dollars, unless otherwise indicated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

- 3) Investees in which the Bank has equity ownership of more than 20% or has significant influence are accounted for under the equity method according to R.O.C. Statement of Financial Accounting Standards ("SFAS") No. 5. Upon sale, gain or loss on disposal of long-term equity investment is calculated based on the differences between selling price and the book value. The remaining capital surplus arising from a long-term equity investment is adjusted to profit and loss based on the percentage of sales.

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

(7) Property and Equipment

Property 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 the acquisition of properties and until these properties are ready for use is capitalized as part of the acquisition costs. Repairs and maintenance are expensed currently.

Depreciation is computed using the straight-line method over the government prescribed useful lives. Premises and equipment still in use after their original estimated useful lives may be depreciated continuously over their estimated remaining useful lives. Useful lives of major premises and equipment are as follows: 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.

(8) Deferred Charges

Deferred charges consist of capitalized costs of telephone line installation expense and purchase of computer software, which are amortized using the straight-line method over five years.

(9) 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.

(10) 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, commissions and fees income, gain from securities trading, gain from long-term equity investments, exchange gain or loss, etc.

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JIH SUN INTERNATIONAL BANK LTD.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

(All amounts expressed in thousands of New Taiwan dollars, unless otherwise indicated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2) Non-operating revenues:

Includes all revenues collected that are not related to the Bank's business operations, such as gain from property transactions, miscellaneous income, etc.

These revenues are recognized when realized. 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.

(11) Foreclosed properties

Foreclosed properties received are stated at estimated net realizable value, and any difference from the nominal value of the original claim is reflected as a credit loss. On the balance sheet date, if the foreclosed properties are still unsold, their net realizable values are reassessed. If there is sufficient evidence indicating that market value is lower than book value, the difference is recognized as a current loss. Gain or loss on disposal of foreclosed properties is accounted for under a recovery of doubtful accounts.

(12) 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 are written off as bad debts after deducting the collectible amount.

- 1) The debt in full or in part is not collectible due to dissolution, disappearance, settlement or bankruptcy announcement of the debtor or other reasons.
- 2) 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) There is no buyer and the Bank has not received any actual benefit despite numerous reduced price auctions of the debtor's assets including the collateral.
- 4) Overdue loans that are past due for two years and have not been repaid despite aggressive collection measures.
- 5) Overdue loans and past-due amounts which have been overdue for anywhere from six months to two years and are deemed uncollectible are written-off as bad debts after deducting the collectible amount.

(13) 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 selling price over book value is recorded as "capital surplus – treasury stock"; the excess of book value over selling price is offset against 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 book value over par value and additional paid-in capital is offset against 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

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stock transactions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(14) 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 year-end foreign currency exchange rate, and the resulting gains or losses are credited or charged to current income.

(15) 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 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 receivable and payables arising from forward contracts are offset on the balance sheet date, with the balance reflected as an asset or a liability.

2) Non-Delivery Forward (NDF) Contracts

Because 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 receivable are offset against the related 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 on unsettled positions are computed by the 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 paid or collected is reflected as other assets or other liabilities. 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 exercise of options is recognized currently as transaction gain or loss.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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 exercise 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

An asset swap is an agreement to exchange a fixed interest rate and bond redemption premium with a market floating rate using a convertible bond as its underlying asset. As a result, it involves not only the swap of a fixed interest rate and bond redemption premium with market floating rate, but also the convertible bond call option during the contract period. For trading purpose transactions, any revaluation of the profit/loss is recognized using the mark-to-market method; for non-trading purpose transactions, uncollected interest receivable or unpaid interest payable is accrued.

(16) 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 realizability of deferred income tax assets is further assessed, and a valuation account, if needed, is provided accordingly. The classification of 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 period of realization. The 10% surtax on undistributed retained earnings is recorded as current expense on the date when the stockholders met and resolved not to distribute the earnings.

As a subsidiary of Chinatrust Financial Holding Company, the Bank files a consolidated corporate income tax return with its parent company. The difference between the consolidated income tax and the Bank's ordinary income tax as described above is adjusted at the parent company level and the Bank recognizes such difference as a payable or receivable.

(17) Pension Plan

The Bank has a defined benefit and contributory retirement plan for its employees. Under this plan, contribution is made annually to an independent pension fund at rates ranging from 4% to 8.5% of the employees monthly salary. In addition, the pension fund is independently managed by a Pension Fund Administration Committee and not included in the financial statements.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(17) Pension Plan(Cont'd)

Effective from May 1, 1997, the Bank is covered by the Labor Standards Law and as such, its pension fund contribution conforms with the Labor Standards Law.

In compliance with the R.O.C Labor Standards Law, the Company contributes an amount to the employees independent pension fund at the rate of 6% of employee's salary. This contribution rate is merely based on government approved contribution rate and determined by an independent actuary.

The Bank has adopted SFAS No. 18 "Accounting for Pensions." Accordingly, the recognition of net pension costs 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." and a minimum pension liability is recorded in the financial statements based on difference between the accumulated benefit obligation and the fair value of plan assets.

(18) Financial Asset Securitization

Under the Regulations for Financial Assets Securitization, the Bank, with the assistance of a trustee, securitized its financial assets for the purpose of offering asset-backed securities in the form of related beneficiary certificates through a special-purpose trust. Because the Bank surrendered its rights and control on these securitized financial assets, such financial assets are no longer recognized on the Bank's accounts, and the gain or loss from securitization is recognized thereon, except for the retained interests in the form of subordinated seller certificates necessary for credit enhancement, which are classified as other long-term bond investments because those certificates do not have quoted market prices.

The gain or loss from securitization of the financial assets is determined based on the difference between the proceeds from securitization and the carrying value of the securitized financial assets. The cost of each class of asset-backed securities, which is determined based on the previous carrying value of the securitized financial assets, is allocated in proportion to the fair value of each class of the asset-backed securities and the retained interests on the date of transfer. Because the securitized financial assets do not have a quoted market price, the fair value of each class of the asset-backed securities and the retained interests are evaluated based on the present value of future cash flows considering the expected credit loss rate, prepayment rate and discount rate on the financial assets.

The cash receipts of subordinated seller certificates from the trustee are accounted for using the cost recovery method. On the balance sheet date, the fair value of these certificates is evaluated based on the present value of expected future cash flows, and the resulting losses (if any) are recognized as current losses.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(19) Commitments and Contingencies

If the loss from a commitment or a 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. REASONS FOR AND EFFECT OF ACCOUNTING CHANGES

Commencing from the first quarter of 2005, the Bank adopted SFAS No. 35 "Accounting for Impairment of Assets." However, the adoption of this new accounting standard did not effect the Bank's results of operations because no impairment of assets was noted as of December 31, 2005.

4. CASH

	<u>December 31, 2005</u>	<u>December 31, 2004</u>
Cash on hand	\$ 1,523,819	1,192,774
Petty cash	4,440	3,350
Checks for clearing	1,038,818	529,845
Foreign currency on hand	240,476	221,077
Bank deposit	6,332,096	4,770,494
Total	<u>\$ 9,139,649</u>	<u>6,717,540</u>

4. CASH (CONT'D)

(1) Checks for clearing consisted of checks deposited with the Bank after the checks clearing cut-off time.

(2) Certificate of deposits included over-90-day non-cash equivalents, which amounted to approximately \$0 as of December 31, 2005 and 2004.

5. DUE FROM CENTRAL BANK AND BANKS

	<u>December 31, 2005</u>	<u>December 31, 2004</u>
General account	\$ 3,141,145	5,054,538
Deposit reserve	5,448,053	5,280,728
Financial center	302,016	303,475
Call loans to banks	2,693,700	2,040,341
Total	<u>\$ 11,584,914</u>	<u>12,679,082</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."

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6. MARKETABLE SECURITIES, NET

	<u>December 31, 2005</u>	<u>December 31, 2004</u>
Government bonds	\$ 14,486,103	9,849,793
Corporate bonds	147,969	-
Convertible overseas bonds	335,337	351,552
Financial debenture bonds	4,207,007	214,289
Stock and beneficiary certificates	1,052,673	1,413,722
Commercial paper	2,405,460	5,130,684
Overseas stock	10,938	19,546
Overseas bonds	752,789	-
Collateralized debt obligation(CDO)	947,505	159,585
Sub-total	<u>24,345,781</u>	<u>17,139,171</u>
Less: Allowance for market decline	-	-
Sub-total	<u>24,345,781</u>	<u>17,139,171</u>
Securities purchased under resale agreements		
Government bonds	3,529,933	6,140,428
Commercial paper	2,098,850	6,073,831
Sub-total	<u>5,628,783</u>	<u>12,214,259</u>
Net	<u>\$ 29,974,564</u>	<u>29,353,430</u>
Total market prices(Note)	<u>\$ 30,065,425</u>	<u>29,464,431</u>

Note : The market prices of securities purchased under resale agreements is valued as its book value.

The securities purchased under resale agreements were sold for \$5,631,027 and \$12,217,946 by the end of January 2006 and 2005, respectively.

The government bonds listed above are subject to restriction. Please refer to Note 27 (4)① for more information.

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7. RECEIVABLES, NET

	<u>December 31, 2005</u>	<u>December 31, 2004</u>
Accounts receivable for credit cards	\$ 7,385,008	7,630,596
Accrued interest receivable	1,382,452	1,641,636
Accounts receivable	2,638,244	3,616,085
Other receivables	1,017,019	743,484
Notes receivable	19,630	24,038
Tax refund receivable	21,095	21,095
Receivables of forward contracts	-	67,346
Receivables on premiums	3,248	2,856
Subtotal	<u>12,466,696</u>	<u>13,747,136</u>
Allowance for bad debts	<u>(192,109)</u>	<u>(372,095)</u>
Net	<u>\$ 12,274,587</u>	<u>13,375,041</u>

8. NEGOTIATED BILLS OF EXCHANGES, NOTES DISCOUNTED AND LOANS, NET

	<u>December 31, 2005</u>	<u>December 31, 2004</u>
Discounted bills	\$ 135,387	163,233
Bills and notes discounted	-	17,548
Overdrafts	17,276	21,141
Loans	<u>191,553,423</u>	<u>178,104,835</u>
Sub-total	191,706,086	178,306,757
Allowance for bad debts	<u>(419,540)</u>	<u>(399,128)</u>
Net	<u>\$ 191,286,546</u>	<u>177,907,629</u>

(1) As of December 31, 2005 and 2004, the ratio of the Bank's equity capital to risk-based assets was 8.65% and 10.06%, respectively, and there were no loans written-off without prior recourse.

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8. NEGOTIATED BILLS OF EXCHANGES, NOTES DISCOUNTED AND LOANS, NET (CONT'D)

(2)As of December 31, 2005 and 2004, the balance of bad debt allowance on loans and advances amounted to \$3,194,103 and \$2,429,448, respectively, and the related increases and decreases thereof were as follows:

Item	Beginning balance	Increase	Increase from purchase of the assets and liabilities of the department of trust of Taiwan Developme nt co.,Ltd.	Reclassificati on	Amount written off	Adjustmen t for exchange rate fluctuation	Ending balance
December 31, 2005							
Allowance for bad debts - account receivables	\$ 371,930	1,180,850	-	-	(1,292,780) (68,000)	-	192,000
Allowance for bad debts - other receivables	165	5,758	4,300	-	(10,129)	15	109
Allowance for bad debts - bills and discounts	18,089		-	-	-	2	18,091
Allowance for bad debts - short- term loans and overdrafts	93,736	3,961	-	-	(3,961)	52	93,788
Allowance for bad debts - short- term secured loans and overdrafts	1,360	-	-	-	-	-	1,360
Allowance for bad debts - medium- term loans	196,748	-	600	-	-	1,158	198,506
Allowance for bad debts - medium- term secured loans	6,418	-	-	-	-	-	6,418
Allowance for bad debts - long- term loans	16,343	-	400	-	-	-	16,743
Allowance for bad debts - long- term secured loans	66,434		18,200	-	-	-	84,634
Allowance for bad debts - overdue receivables	1,653,969	4,592,1 69	-	68,000	(3,735,951)	-	2,578,187
Allowance for guarantee reserve	4,256	-	-	-	-	11	4,267
Total	\$ 2,429,4 48	5,782,738	23,500	-	(5,042,821)	1,238	3,194,103

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8. NEGOTIATED BILLS OF EXCHANGES, NOTES DISCOUNTED AND LOANS, NET (CONT'D)

Item	Beginning balance	Increase	Increase from purchase of the assets and liabilities of the department of trust of Taiwan Developme nt co.,Ltd.	Reclassificati on	Amount written off	Adjustmen t for exchange rate fluctuation	Ending balance
December 31, 2004							
Allowance for bad debts - account receivables	\$ 404,998	526,786	-	(52,635)	(507,2 19)	-	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	1,385,07 4	-	60,120	(1,073,071)	515	1,653,969
Allowance for guarantee reserve	14,281	-	-	(10,000)	-	(25)	4,256
Total	\$ 2,378,050	1,638,028	-	-	(1,583,898)	(2,732)	2,429,448

(3) The Bank's overdue receivables consisted of various loans and other credit amounts which have been reclassified to "overdue receivables" account. Loans which are overdue for six months from the repayment due date are reclassified to "overdue receivables" account. The accrual of interest thereon is discontinued for internal purposes, but continues for external purposes. In addition, the interest accrual is noted in each sub-account through 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, 2005 and 2004, such loans and advances with discontinued interest accrual amounted to \$3,154,240 and \$6,287,959, respectively.

(4) As of December 31, 2005 and 2004, the unaccrued interest revenue for loans and advances with overdue interest and principal, amounted to \$316,409 and \$965,674, respectively.

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9. LONG-TERM INVESTMENTS

<u>Name of invested company</u>	December 31, 2005		December 31, 2004	
	Book value	Percentage of Owner- ship	Book value	Percenta ge of Owner- ship
Long-term equity investments				
<u>①Equity method:</u>				
Jin Sun Life Insurance Agent Co., Ltd. (Original Cost \$1,980)	\$ 38,615	99.00%	61,340	99.00%
<u>②Cost method:</u>				
Taipei Forex Inc.	800	0.40%	800	0.40%
Dah Chung Bills Finance Co., Ltd.	268,644	7.51%	268,644	7.23%
Fubon Securities Finance Co., Ltd.	109,950	2.91%	109,950	2.91%
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.	8,525	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	4.63%	75,000	4.93%
Financial Information Service Co., Ltd.	46,890	1.17%	46,890	1.17%
Super Tech Venture Capital Co., Ltd.	23,250	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	-%
Taiwan High Speed Rail Co., Ltd	486,000	-%	-	-
			-	%
Sub-total	1,211,480		734,205	
Long-term bond investments				
Government bonds	1,877,496		1,887,087	
Other Long-Term investments				
Subordinated trust certificate	478,796		478,796	
Total	\$ 3,606,387		3,161,428	

(1) The Bank received cash dividends amounting to \$46,494 and \$45,192 for 2005 and 2004, respectively.

(2) As of December 31, 2004, the Bank recognized \$5,204 as loss on long-term equity investment in Pacific Resources Co., Ltd. because its market value declines below carrying value and such decline was considered other than temporary. The Bank sold its entire equity in the third quarter of 2004.

As of December 31, 2005, the Bank wrote off the cost of its investment in Fubon Securities Finance Co., Ltd. of \$66,889 because the said investee proceeded to decrease its capital and return the money to its shareholders.

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9. LONG-TERM INVESTMENTS (CONT'D)

- (3) As of December 31, 2005, the Bank wrote off the cost of its investment in Hanrung Venture Capital Investment Co., Ltd. of \$6,975 because the said investee proceeded to decrease its capital and return the money to its shareholders.
- (4) As of December 31, 2005, the Bank wrote off the cost of its investment in Super Tech Venture Capital Co., Ltd. of \$1,750 because the said investee proceeded to decrease its capital and return the money to its shareholders
- (5) Financial asset securitization

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

- (1) Investor certificates of \$4,035,409, with interest payable in accordance with the contract;
- (2) Subordinated seller certificates of \$478,796, bearing a fixed interest rate of 5.00%.
The holder of subordinated seller certificates of \$478,796 has the right to interest in excess of the fixed amount payable to the investors. If debtors fail to repay the securitized loans, the investor Deutsche Bank AG, Taipei Branch cannot exercise the right of recourse to the Bank. The repayment of the principal amount of subordinated seller certificates will be executed after the execution of 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 are 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.

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9. LONG-TERM INVESTMENTS (CONT'D)

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)	3.76
Expected credit losses (monthly rate)	0.04 %
Discounted rate for residual cash flows	5.24 %

C. Sensitivity analysis

As of December 31, 2005, the key assumptions and sensitivity of the current fair value of residual cash flows with immediate 10 percent and 20 percent adverse changes in these assumptions were as follows: (in NTD 1,000):

Carrying amount of retained interest	\$ 739,116
Weighted-average life (in years)	2.20
Prepayment rate (monthly rate)	1.02 %
Impact on fair value of 10% adverse change	(397)
Impact on fair value of 20% adverse change	(753)
Expected credit losses (monthly rate)	0.04 %
Impact on fair value of 10% adverse change	(928)
Impact on fair value of 20% adverse change	(1,852)
Discounted rate for residual cash flows	5.24 %
Compensation rate of Change	0 %

D. The cash flows received from and paid to securitization trusts are summarized as follows (in NTD 1,000):

	<u>December 31, 2005</u>	<u>December 31, 2004</u>
Received from securitization	\$ -	3,761,711
Service profit	16,876	-
Reserved right of cash flow	45,452	-
Prepayment of service	(3,146)	-
Received prepayment of service	2,689	-

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9. LONG-TERM INVESTMENTS (CONT'D)

E. Information on delinquencies, net credit losses, and un-securitized financial assets (in NT\$ 1,000):

Type of Loan	December 31, 2005		
	Total Principal of Loans	Principal of Loans 60 Days or More Past Due	Net Credit Losses
Auto loans managed or securitized	\$ 23,302,900	<u>357,328</u>	<u>-</u>
Less: Loans securitized	(1,157,742)		
Loans held for sale or securitization	<u>(739,116)</u>		
Loans held in portfolio	<u>\$ 21,406,042</u>		

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. As of December 31, 2005 and 2004, the carrying value of loans held for securitization amounting NT\$739,116 and NT\$766,719 were securitized by the Bank with Deutsche Bank AG, Taipei Branch, respectively.

10. PROPERTY AND EQUIPMENT

December 31, 2005	Cost	Accumulated Depreciation	Net
Land	\$ 2,646,894	-	2,646,894
Buildings	2,639,302	503,790	2,135,512
Transportation equipment	9,462	6,629	2,833
Other equipment	1,155,873	631,181	524,692
Leasehold improvements	313,153	173,751	139,402
Construction in progress	4,351	-	4,351
Prepayment for equipment	82,933	-	82,933
Total	<u>\$ 6,851,968</u>	<u>1,315,351</u>	<u>5,536,617</u>

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10. PROPERTY AND EQUIPMENT (CONT'D)

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

- (1) As of December 31, 2005 and 2004, the total insurance coverage for property and equipment amounted to approximately \$3,183,376 and \$3,109,304, respectively.
- (2) The property and equipment listed above were not pledged as collateral.

11. OTHER FINANCIAL ASSETS AND OTHER ASSETS

	<u>December 31, 2005</u>	<u>December 31, 2004</u>
Other Financial Assets:		
Overdue receivables	\$ 3,601,383	7,201,532
Allowance for bad debts	<u>(2,578,187)</u>	<u>(1,653,969)</u>
Subtotal	<u>1,023,196</u>	<u>5,547,563</u>
Refundable deposits	735,336	745,231
Options	40,953	20,472
Total other financial assets	<u>\$ 1,799,485</u>	<u>6,313,266</u>
Other Assets:		
Deferred income tax assets	1,669,975	413,506
Allowance for deferred income tax assets	<u>(1,669,975)</u>	<u>(413,506)</u>
Sub-total	<u>-</u>	<u>-</u>
Foreclosed properties received	2,902,785	2,324,270
Allowance for Foreclosed properties received	<u>(145,153)</u>	<u>(205,356)</u>
Foreclosed properties received, net	<u>2,757,632</u>	<u>2,118,914</u>
Deferred charges	<u>186,792</u>	<u>124,868</u>
Sundry assets	<u>10,477</u>	<u>10,423</u>
Deferred loss on disposal of non-performing loans	11,621,017	9,151,164
Total	<u>\$ 14,575,918</u>	<u>11,405,369</u>

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11. OTHER FINANCIAL ASSETS AND OTHER ASSETS(CONT'D)

As of December 31, 2005 and 2004, the above refundable deposits included approximately \$0 of rental deposit only, without related rental payments. Using an annual interest rate of 1.55% and 1.0% for 2005 and 2004, respectively, rental expense and corresponding interest income amounted to approximately \$472 and \$320, respectively, and was reflected in the financial statements.

In 2005, 2004 and 2002, the Bank sold non-performing loans amounting to \$7,027,657, \$5,697,374 and \$7,215,208, respectively, to an asset management company for \$1,582,588, \$414,978 and \$446,509, respectively. The sale resulted in a loss of \$5,445,069, \$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 \$2,975,217 and \$1,433,378, respectively. If the loss on non-performing loans were recognized currently, deferred assets would be decreased by \$11,621,017 and \$9,151,164 as of December 31, 2005 and 2004, respectively. Undistributed earnings would be decreased by \$11,621,017 and \$9,151,164 thousand as of December 31, 2005 and 2004, respectively. Net income would be decreased by \$2,469,853 and \$3,849,018 for the year ended December 31, 2005 and 2004, respectively.

12. SHORT-TERM LIABILITIES

	December 31, 2005	December 31, 2004
<u>Notes Sold Under Repurchase Agreements</u>		
Government bonds - 1.39%~1.43% for 2005	\$ 10,376,009	
-1.00%~1.05% for 2004		6,997,589

The securities sold under resale agreements were sold by the end of February 2006 and 2005 at the approximate price of \$10,382,634 and 7,000,943, respectively.

13. DUE TO BANKS

	December 31, 2005	December 31, 2004
Deposits from banks	\$ 6,305,130	6,723,918
Loan financing from banks	-	23,346
Call loans from banks	9,556,003	7,777,283
Total	\$ 15,861,133	14,524,547

14. PAYABLES

	December 31, 2005	December 31, 2004
Interest payable	\$ 1,132,113	896,026
Accrued expenses	601,263	429,640
Other payables	446,086	540,260
Accounts payable	1,349,367	1,425,147
Collection payable	79,097	51,992
Forward payable	25,826	-
Checks awaiting clearance (see Note 4)	1,038,818	529,845
Total	\$ 4,672,570	3,872,910

15. DEPOSITS AND REMITTANCES

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	December 31, 2005	December 31, 2004
Checking deposits	\$ 1,244,185	1,180,323
Bank checks	104,488	1,183,644
Demand deposits	17,122,870	20,040,059
Time deposits	62,402,808	67,697,719
Savings deposits	131,735,600	116,169,884
Post Office deposits	14,940,640	14,510,491
Outward remittance and remittance pending release	-	272
Total	\$ 227,550,591	220,782,392

As of December 31, 2005 and 2004, negotiable certificates of time deposits amounted to \$8,720,800 and \$13,126,800, respectively.

16. FINANCIAL DEBENTURES

	December 31, 2005	December 31, 2004
Financial debentures	\$ 11,000,000	9,000,000
Less: Amortization of discount	-	-
Net	\$ 11,000,000	9,000,000

- (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: 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: 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.
- (3) On July 5, 2005, the Bank issued senior financial debentures totaling \$2,000,000. Terms and conditions of the issuance are as follows:
- ① Issue price: At face value.
 - ② Issue period: From July 5, 2004, to July 5, 2012.
 - ③ Interest rate: Fixed rate of 2.93%.
 - ④ Interest accrual: Annual interest payments.
 - ⑤ Repayment of principal: Full repayment of principal at maturity.

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17. LONG-TERM DEBT

	December 31, 2005	December 31, 2004
Appropriated loan fund	\$ 87,300	162,570
Reserve for land revaluation increment tax	30,560	14,771
Total	\$ 117,860	177,341

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, 2005 and 2004, the above-stated appropriated fund loan was granted financing from the Executive Yuan's Development Fund and MOEA Industrial Development and Management Fund.

On December 20, 2002 and August 6, 2005, the Bank merged with The Cooperative Trust of Hsing Ying and Trust Department of Taiwan Development Corporation. Because of these merged, the Bank acquired the rights and obligations related to all assets and liabilities originally belonging to The Cooperative Trust of Hsing Ying and Trust Department of Taiwan Development Corporation. Pursuant to Article 17, Section 1, Rule 3 of the Law Governing Merger of Financial Institutions, the unpaid land revaluation increment tax, resulted from the merge amounted to \$14,771 and \$15,789 as of December 31, 2005.

18. PENSION PLAN

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

Under the previous employee pension plan, the Bank's monthly pension contributions ranged from 4% to 8.5% of total monthly salaries of the employees. The employees' contribution to the plan is based on a fixed rate of 3% of total monthly salaries regardless of employee classification. According to the plan, upon retirement, the employee is paid the employee's total contribution and related earnings, in addition to the employer's total contribution and related earnings directly from the Bank's designated retirement fund account to the employee.

The employee pension benefit 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 service 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, 2005 and 2004, the Bank's pension fund balance amounted to \$46,704 and \$50,129, respectively, and the related changes thereon were as follows:

	December 31, 2005	December 31, 2004
Beginning balance	\$ 50,129	52,031
Add: Interest	833	830
Less: Current year's payments	(4,258)	(2,732)
Fund balance	\$ 46,704	50,129

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:

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18. PENSION PLAN(CONT'D)

	December 31, 2005	December 31, 2004
Beginning balance	\$ 134,537	108,463
Add: Current year's contributions	17,630	24,656
Interest	-	1,418
Less: Current year's payments	(3,371)	-
Fund balance	\$ 148,796	134,537

Effective April 15, 2001, the pension fund was reflected as part of pension fund assets. As of December 31, 2005 and 2004, the pension fund amounted to \$146,459 and \$143,973, respectively.

Actuarial assumptions used for pension cost computation were as follow:

	2005	2004
Discount rate	3.50%	3.50%
Future salary increase rate	3.00%	2.00%
Estimated long-term rate of return on pension plan assets	2.50%	2.50%

As of December 31, 2005 and 2004 ,the components of net pension costs were as follow:

	2005	2004
Service cost	\$ 17,580	27,116
Interest cost	5,614	3,972
Expected return on pension plan assets	(7,238)	(9,204)
Amortization of unrecognized transitional net benefit obligation	(1,738)	(1,738)
Amortization of pension fund gain or loss	-	(116)
Net pension costs	\$ 14,218	20,030

The 2005 and 2004 year-end reconciliations for pension provision and accrued pension liabilities per book were as follow:

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18. PENSION PLAN(CONT'D)

	December 31,2005	December 31,2004
Vested benefit obligation	\$ 499	1,956
Non-vested benefit obligation	90,105	122,273
Accumulated benefit obligation	90,604	124,229
Effect of future salary increase	55,790	39,434
Estimated benefit obligation	146,394	163,663
Fair value of pension fund assets	(297,351)	(278,510)
Funded status	(150,957)	(114,847)
Unrecognized transitional net benefit obligation	12,167	13,906
Unrecognized pension fund gain	38,680	1,984
Accrued pension liabilities	(100,110)	(\$ 98,957)

As of December 31,2005 and 2004 ,the Bank's vested benefit obligation under the Bank's employee pension plan amounted to \$499 and \$1,956,respectively.

In compliance with the R.O.C Labor Standards Law ,the Bank contributes \$43,367 to the employees independent pension fund.

19. COMMON STOCK

The Bank's original authorized, issued and outstanding capital stock of \$10,000,000 was divided into 1,000,000 thousand shares at \$10 par value per share. After subsequent stock issuances resulting from capital increases over the years, the Bank's authorized and outstanding common stock amounted to \$19,247,600 and \$13,247,600, divided into 1,924,760 and 1,324,760 thousand shares as of December 31, 2005 and 2004, respectively, at \$10 par value per share.

20. TREASURY STOCK

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, is still treated as the Bank's treasury stock and deducted from stockholders' equity. Treasury shares purchased by the Bank prior to February 5, 2002, aggregated to 87,688 thousand shares (with aggregate purchase cost of \$363,270). 50,648 thousand 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>2005</u>	<u>Repurchase Reasons</u>	<u>Beginning balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending balance</u>
Shares (in thousand)	Transferred to employees	-	-	-	-
Amounts	"	\$ -	-	-	-

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20. TREASURY STOCK(CONT'D)

<u>2004</u>	Repurchase Reasons	Beginning balance	Increase	Decrease	Ending balance
Shares(in thousand)	Transferred to employees	43,666	-	43,666	-
Amounts	"	<u>\$ 323,491</u>	<u>-</u>	<u>323,491</u>	<u>-</u>

As of December 31, 2005 and 2004, the Bank had transferred treasury stock to employees in accordance with the stock transfer law, resulting in a capital stock - treasury stock transaction of \$0 and \$430, respectively.

21. RETAINED EARNINGS DISTRIBUTION

In accordance with the Bank's Articles of Incorporation, 30% of its 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 distribution of the Bank's 2005 earnings has not yet been proposed.

22. 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 Financial Holding Co., Ltd and its affiliate Jih Sun Securities Co., Ltd.

The joint filing of the tax returns of the Company, Jih Sun Financial Holding Co., Ltd and its affiliate Jih Sun Securities Co., Ltd. resulted in a lowered tax burden due to tax incentives received, and management efficiency was enhanced because the individual company's tax burden was fairly distributed.

(1) The Bank's statutory income tax rate is 25%. The income tax expense was calculated as follows:

	<u>December 31, 2005</u>	<u>December 31, 2004</u>
Income tax refund	\$ (31,290)	(43,100)
Add:		
Separate income tax levied on short-term bills	21,390	12,676
Income tax prepayment and withholding	31,290	43,100
Increase in deferred income tax assets	(3,388)	(284)
Income tax benefit resulting from tax incentives	(11,059)	-
Adjustment of prior years' income tax expense	-	(16,490)
Income tax expense (benefit)	<u>\$ 6,943</u>	<u>(4,098)</u>

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

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22. INCOME TAX(CONT'D)

	<u>December 31, 2005</u>	<u>December 31, 2004</u>
Current income tax	\$ 21,390	(3,814)
Deferred income tax	(3,388)	(284)
Income tax benefit resulting from tax incentives	(11,059)	-
Income tax expense (benefit) for continuing operations	<u>\$ 6,943</u>	<u>(4,098)</u>

(2)The income tax calculated at statutory tax rate was reconciled with income tax expense(benefit) as follows:

	<u>December 31, 2005</u>	<u>December 31, 2004</u>
Income tax calculated at statutory tax rate	\$ (1,397,376)	185,759
Effect on income tax of adjusting items:		
Tax exempt securities transaction	40,306	(36,497)
Gain from bond transactions	(21,154)	(10,702)
Tax separately levied on marketable securities transactions	(9,488)	-
Tax separately levied on marketable securities tax	21,390	6,721
Gain on domestic investments, net	(34,190)	(40,463)
Gain on land transactions	(1,647)	(3,326)
Tax exempt OBU income	(26,972)	800
Operating loss carryforwards	1,310,777	(43,832)
Allowance for credit loss exceeding the prescribed limit	168,062	(43,717)
(Gain)loss on market upswing of foreclosed properties	(23,736)	20,142
Adjustment of prior years' income tax expense	-	(16,490)
Unrealized exchange gain (loss) , net	(26,198)	(24,815)
Unrealized loss on derivative financial instruments	21,616	-
Other	(3,388)	2,322
Sub-total	18,002	(4,098)
Income tax benefit resulting from tax incentives	(11,059)	-
Income tax expense (benefit)	<u>\$ 6,943</u>	<u>(4,098)</u>

(3) The components of deferred income tax benefit were as follows:

	<u>December 31, 2005</u>	<u>December 31, 2004</u>
Operating loss carryforwards	\$ (1,260,536)	40,160
Investment tax credits	679	(2,583)
Pension fund expense	-	561
Allowance for income tax assets	1,256,469	(38,422)
	<u>\$ (3,388)</u>	<u>(284)</u>

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22. INCOME TAX(CONT'D)

(4) The components of deferred income tax assets (liabilities) were as follows:

	December 31, 2005	December 31, 2004
Deferred income tax assets	\$ 1,689,358	429,501
Valuation allowance – deferred income tax assets	(1,669,975)	(413,506)
Net deferred income tax assets	19,383	15,995
Deferred income tax liabilities	(19,383)	(19,383)
Current deferred income tax liabilities, net	\$ -	(3,388)

Information regarding tax incentives resulting from joint filing of income tax return:

	December 31, 2005	December 31, 2004
Refunds received from the parent company	\$ 104,539	43,100
	\$ 104,539	43,100

(5) Details of temporary differences between financial and tax reporting purposes which resulted in deferred income tax assets and liabilities, operating loss carryforwards, and income tax deductions were as follows:

	December 31, 2005		December 31, 2004	
	Amount	Tax effect	Amount	Tax effect
Operating loss carryforwards	\$ 6,689,216	1,672,304	1,647,072	411,768
Investment tax credits	68,216	17,054	71,782	17,733
Pension fund expense	(77,532)	(19,383)	(77,532)	(19,383)
Allowance for deferred tax assets	(6,679,900)	(1,669,975)	(1,647,072)	(413,506)
Net	\$ -	-	(5,750)	(3,388)

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

Year occurred	Available tax credits	Expiration year
2002	\$ 10,109	2006
2003	1,956	2007
2004	1,714	2008
2005	3,275	2009
Total	\$ 17,054	

(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 five years following the loss. As of December 31, 2005, the Bank's unused carryforwards and expiration dates were as follows:

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22. INCOME TAX(CONT'D)

Period of loss	Year of expiration	Amount
2001	2006	\$ 284,306
2002	2007	1,161,805
2005(estimated)	2010	5,243,105
Net		\$ 6,689,216

(8) As of December 31, 2005 and 2004, the balance of stockholders' imputation credit account amounted to \$ 437,027 and \$300,840, respectively. The deductible rate for the first half of 2005 and 2004 earnings distributed to R.O.C. residents is 0%.

(9) Details of undistributed earnings were as follows:

	<u>December 31, 2005</u>	<u>December 31, 2004</u>
Earned prior to December 31, 1997	\$ -	-
Earned after January 1, 1998	(5,596,447)	(728,216)
	\$ (5,596,447)	(728,216)

23. EARNINGS PER SHARE

Earnings per share are calculated based on the weighted-average number of common shares outstanding during each period, except for the 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 2005 and 2004 was 1,544,204 and 1,307,428, respectively.

24. NON-CASH FLOW ACTIVITIES RESULTING FROM PURCHASES OF THE ASSETS AND LIABILITIES OF TRUST DEPARTMENT OF TAIWAN DEVELOPMENT CO.,LTD

Marketable Securities	\$ (3,324,606)
Receivables	(2,319,181)
Discounted bills and loans	(3,519,726)
Fixed assets	(626,796)
Intangible assets	(1,660,737)
Other financial assets	64,135
Deposits from banks	1,620,742
Payables	172,425
Advances	5,615
Deposits and remittances	14,857,970
Other liabilities	22,918
assets and liabilities of Trust Department of Taiwan Development Co.,Ltd.	\$ 5,292,759

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25. RELATED-PARTY TRANSACTIONS

(1) Names of related parties 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 Jin Sun Securities Co., Ltd.
Jih Sun International Leasing & Finance Co., Ltd.	"
Jih Sun Futures Co., Ltd.	"
Jin Sun Managed Futures Co., Ltd	"
Jin Sun Financial Services (Cayman) Ltd.	"
Yong Da Investment Co., Ltd.	A subsidiary of the Company
Jin Sun Cresvalue Securities International Ltd	A subsidiary of Jin Sun Securities Co., Ltd.
Jin Sun educated foundation	A subsidiary of the Company
Other related parties	The Company's directors, supervisors, relatives and spouses

(2) Material transactions with related parties

Item	2005		2004	
	Ending Balance	Interest Rate	Ending Balance	Interest Rate
1. Customer deposits	\$ 6,757,410	0%~7.05%	5,869,114	0%~13%
2. Loans	123,815	1.99%~3.34%	119,032	1.55%~3.91%
3. Rental:				
① Refundable guarantee deposit	12,396		5,713	
② Rental expenses	47,721		22,917	
③ Rental revenues	6,164		6,279	
④ Payable guarantee deposit	82		130	
4. Purchased property	-		2,949	
Sold property	140		-	
5. Fee income from handling securities delivery for securities brokerage firm	108,893		109,007	
6. Stock brokerage fee	2,954		6,245	
7. Investment in marketable securities	-		285,000	
8. Interest income from investment in marketable securities and short-term notes	1,874		477	
9. Bonds sold under repurchase agreements	3,891,096		2,360,202	
10. Interest expense for bonds sold under repurchase agreements	24,902		11,413	

25. RELATED-PARTY TRANSACTIONS (Con't)

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(2) Material transactions with related parties(Con't)

Item	2005		2004	
	Ending Balance	Interest Rate	Ending Balance	Interest Rate
11. Expense for stock agent	440		480	
12. Tax refund receivable from joint filing of tax	104,539		61,841	
13. Transaction fee for car loans	232,043		265,023	
14. Network service expense	33,783		51,996	
14. Consalting expense	1,000		3,675	

As of December 31, 2005 and 2004, the Bank's guaranteed line of credit to Jih Sun Securities Co., Ltd. both amounted to \$1,100,000. As of December 31, 2005 and 2004, the loan balance was \$0 in both years.

As of December 31, 2005 and 2004, there was no delinquency in the credit line provided to related parties. Allowance for bad debts was similarly provided as that of general financing and was computed at the rate of 1% of the loan balance. 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 normally consists 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 of other parties for similar types of loan. 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, 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, 2005, there were no off-balance sheet commitments between the Bank and its related parties.

26. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

- (1) As of December 31, 2005 and 2004, contracts for equipment purchase and office renovations were approximately \$188,846 and \$453,048, respectively, of which \$108,490 and \$111,981, were paid respectively.
- (2) As of December 31, 2005 and 2004, the Bank acted as an agent for various collections amounting to approximately \$859,155 and \$683,381, respectively.
- (3) As of December 31, 2005 and 2004, the Bank handled several guarantees (including joint handling of foreign exchange transactions); the related outstanding guarantee deposits were approximately \$9,789,207 and \$5,863,062, respectively.
- (4) As of December 31, 2005 and 2004, the Bank had outstanding bank acceptance liabilities, which amounted to approximately \$607,809 and \$364,368, respectively, and letters of credit, which amounted to approximately \$1,914,377 and \$2,075,410, respectively.

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26. SIGNIFICANT COMMITMENTS AND CONTINGENCIES(CONT'D)

- (5) As of December 31, 2005 and 2004, the Bank acted as custodian of post-dated checks for its clients (excluding next day's checks for clearing) which amounted to approximately \$29,436,772 and \$23,293,377, respectively.
- (6) As of December 31, 2005 and 2004, the Bank was entrusted with the sale of U.S dollar traveler's checks of \$188,655 and 188,598, respectively.
- (7) As of December 31, 2005, 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:

Year	Interest on deposits treated as rent	Rent payable	Present value
1.1.2006 ~ 12.31.2006	Note	\$ 183,984	170,035
1.1.2007 ~ 12.31.2007	Note	112,002	103,620
1.1.2008 ~ 12.31.2008	Note	60,763	56,222
1.1.2009 ~ 12.31.2009	Note	38,425	35,635
1.1.2010 ~ 12.31.2010	Note	21,410	20,190

Note: As of December 31, 2005, the above interest on deposits treated as rent was based upon rent-free deposits and deposits in excess of 3 months' rent of \$15,323 and at 1.55% annual interest rate for the rental period.

- (8) 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. All of the Bank's credit commitments can be cancelled by the accelerated terms'. Therefore, as of December 31, 2005 and 2004, the Bank had no non-cancelable credit commitments and credit commitments that require significant payment to be canceled.
- b. As of December 31, 2005 and 2004, the Bank had direct credit guarantees consisting of general guaranteed bonds (corporate bonds) which amounted to \$165,916 and \$241,983, respectively, and guarantee letters for financial guarantees of loans and securities (commercial paper), which amounted to \$5,349,625 and \$2,440,934, respectively.
- c. As of December 31, 2005 and 2004, the Bank had performance guarantee bonds of \$1,591,372 and \$1,329,425, respectively. Auction deposits were \$0 and \$7,500, respectively, and guarantee letters issued for specified transactions were \$4,273,666 and \$3,180,145, respectively. In addition, as of December 31, 2005 and 2004, the Bank still had credit line for financial undertaking of \$5,309,978 and \$5,461,400, respectively.
- d. Please refer to Note 2, (4) for details of the Bank's repurchase and resale commitments.
- e. Please refer to Note 27, (4)④ for details of the Bank's interest rates and exchange rates and related derivative financial instrument contracts.

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27. OTHER

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

Function Nature	2005			2004		
	Operating Expenses	Administrative Expenses	Total	Operating Expenses	Administrative Expenses	Total
Personnel Expense						
Salaries and Wages	\$ 1,151,039	856,549	2,007,588	1,144,151	583,393	1,727,544
Insurance	89,922	63,249	153,171	83,766	35,186	118,952
Pension Expenses	34,425	24,550	58,975	13,593	6,437	20,030
Other Expenses	55,722	29,298	85,020	46,907	18,445	65,352
Depreciation	124,389	150,450	274,839	106,725	104,913	211,638
Wastage	-	157,203	157,203	-	18,808	18,808
Amortizations	9,686	33,660	43,346	8,695	24,844	33,539

(2) The bank, after a bidding procedure made on January 27, 2005, won the tender offer of 6 billion dollars made by Taiwan Development & Trust Corporation to the Bank, thereby absorbing its trust department's operation, assets and liabilities excluding non performance loan, non operating real estate, foreclosed properties and exploitative assets. Until December 31, 2005, the operating and property conveyance agreement was compacted. Conveyance date and payday will be on August 6, 2005. As of August 6, 2005 the Bank has received 5.35 billion dollars and received other obligations on February 3, 2006.

(3) Risk management

① Loan Authorization Risk

Non-Performing Loans:

	December 31, 2005	December 31, 2004
Amount	\$ 5,333,693	7,247,010
Ratio	2.73%	3.91%

As of December 31, 2005 and 2004, there were certain concentrations of risk as follows:

	December 31, 2005		December 31, 2004
	Ratio		Ratio
Manufacturing	14.72%	Manufacturing	13.36%
Wholesale and resale	9.26%	Finance, insurance and real estate	7.02%
Construction	5.59%	Wholesale and resale	7.86%

② The amounts of Bank's contracts with concentrations of credit risk were as follows:

	Loans		Customer deposits		Off balance sheet	
	December 31, 2005	December 31, 2004	December 31, 2005	December 31, 2004	December 31, 2005	December 31, 2004
According to region						
Domestic	\$ 184,804,064	174,313,161	211,055,837	211,669,275	12,365,693	8,228,301
Central America	2,157,079	2,630,761	1,145,913	1,088,773	49	84,675
Other	4,744,943	1,362,835	408,202	8,024,344	613,804	210,640
Total	<u>\$ 191,706,086</u>	<u>178,306,757</u>	<u>212,609,952</u>	<u>220,782,392</u>	<u>12,979,546</u>	<u>8,523,616</u>
By Industry						
Financial	\$ 8,796,723	8,266,117	11,034,919	16,601,176	-	-
Construction	10,407,093	10,788,297	1,432,349	1,902,437	1,570,313	1,018,260
Other	172,502,270	159,252,343	200,142,684	202,278,779	11,409,233	7,505,356
Total	<u>\$ 191,706,086</u>	<u>178,306,757</u>	<u>212,609,952</u>	<u>220,782,392</u>	<u>12,979,546</u>	<u>8,523,616</u>

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27. OTHER(CONT'D)

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

	December 31, 2005		December 31, 2004	
	Average balance	Average interest rate	Average balance	Average interest rate
Interest-Bearing Assets				
Due from Central Bank	\$ 9,026,609	0.92%	8,718,885	0.94%
Marketable securities	25,632,258	2.24%	17,391,270	2.54%
Deposit and call loans to banks	14,955,886	1.33%	11,426,461	1.02%
Discounted bills and loans	185,878,016	5.04%	157,097,532	4.84%
Accounts receivable finance	1,608,928	3.14%	-	-
Accounts receivable- revolving credit of credit card	6,865,364	20.00%	-	-
Interest-Bearing Liabilities				
Financial debentures	9,986,301	3.86%	5,731,183	3.97%
Deposits and call loans from banks	25,768,009	1.53%	18,043,961	1.18%
Demand deposits	18,065,344	0.46%	18,479,539	0.32%
Time deposits	67,200,808	1.58%	54,819,725	1.47%
Demand savings deposits	39,007,917	0.66%	37,581,050	0.67%
Time savings deposits	84,797,925	1.73%	78,945,747	1.83%
Post Office deposits	14,652,568	1.90%	14,908,611	1.67%

④ Market risk sensitivity

	December 31, 2005	December 31, 2004
Interest-rate-sensitive asset to interest rate sensitive liability ratio	49.99%	54.48%
Interest rate sensitivity gap to net value ratio	(832.10)%	(710.37)%

⑤ Main Foreign Currency Net Position

	December 31, 2005		December 31, 2004	
	Currency	NTD	Currency	NTD
Foreign Currency Amount	1. USD	(556,043)	1. USD	(2,408,495)
	2. GBP	269,224	2. EUR	269,169
	3. JPY	(170,418)	3. JPY	248,300
	4. SWF	120,885	4. GBP	181,263
	5. CAD	56,599	5. SGD	20,505

⑥ Maturity analysis of assets and liabilities

A. Profitability

	December 31, 2005	December 31, 2004
Return on total assets	(2.02)%	0.30%
Return on equity	(40.80)%	5.73%
Net income ratio	(40.31)%	6.11%

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27. OTHER(CONT'D)

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 one years
	Amount	Amount	Amount	Amount	Amount	Amount
Assets	\$275,518,000	28,429,000	6,364,000	6,270,000	30,589,000	203,866,000
Liabilities	331,125,000	70,478,000	38,344,000	45,110,000	82,192,000	95,001,000
Gap-to-net	(55,607,000)	(42,049,000)	(31,980,000)	(38,840,000)	(51,603,000)	108,865,000
Total gap-to-net	-	(42,049,000)	(74,029,000)	(112,869,000)	(164,472,000)	(55,607,000)

(4) Financial structure

	December 31, 2005	December 31, 2004
Risk-Based Capital Ratio	8.65%	10.06%
Liabilities to Assets Ratio	1,945.75%	1,895.94%

(5) 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, 2005 and 2004, the Bank provided government bonds with an approximate face value of \$172,100 and \$290,500, 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 trust department deposited with the Central Bank. Credit card deposit reserve of the credit card center amounted to \$90,720 and \$82,000, respectively. Guarantee deposits of the finance department deposited with the Central Bank amounted to \$50,000 and \$0.

b. As of December 31, 2005 and 2004, the Bank has provided no collateral for its liabilities.

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27. OTHER(CONT'D)

②Maturity analysis of the Bank's assets and liabilities:

	December 31, 2004					
	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
Total	\$ 10,627,397	24,936,088	11,492,220	84,739,822	65,784,371	197,579,898
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
Total	\$ 35,609,033	60,789,512	66,033,788	11,803,567	-	174,235,900

③Major Foreign Currency Position

Currency	Foreign Currency Amount	
	December 31, 2005	December 31, 2004
AUD	\$ 2,350	(1,379)
CAD	56,599	8
SWF	120,885	2,790
EUR	(13,948)	269,169
GBP	269,224	181,263
HKD	15,212	1,660
JPY	(170,418)	248,300
NZD	(6,498)	(1,636)
SEK	2,581	4,425
SGD	19,913	20,505
THB	28,295	437
USD	(556,043)	(2,408,495)
ZAR	(437)	(2,969)
	\$ (232,285)	(1,685,922)

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27. OTHER(CONT'D)

④Financial instruments

a. Derivative financial instruments

(a) Contract or nominal amount and credit risk

	December 31,2005		December 31,2004	
	Contract Amount (Nominal Amount)	Credit Risk	Contract Amount (Nominal Amount)	Credit Risk
<u>Purpose for transacting</u>				
Foreign exchange contracts:				
Forward contracts and futures held for trading purposes	\$ 5,887,293	33,142	12,051,543	106,566
Exchange rate contracts:				
Exchange rate options	1,858,500	9,664	1,119,296	-
Equity security contracts:				
Security price options	315,775	-	353,529	-
Futures	159,641	-	306,738	-
Swaps and options:				
Interest swaps	19,100,000	85,475	-	-
Asset swaps and options	11,400	11,400	91,400	-
	\$ 27,332,609	139,681	13,922,506	106,566

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 offsetting the 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 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, 2005, the derivative financial instruments held by the Bank for trading purposes had maturity dates of 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.

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27. OTHER(CONT'D)

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

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

	2005	2004
Foreign exchange contracts	\$ (22,985)	51,536
Exchange rate contracts	(44,192)	20,444
Equity security contracts	(4,400)	(19,214)
Swaps and options	33,270	3,680
	\$ (38,307)	94,874

b. Fair value of financial instruments

Financial Assets	December 31, 2005		December 31, 2004	
	Book Value	Fair Value	Book Value	Fair Value
Financial assets with book value equal to fair value	\$ 257,562,732	257,562,732	247,731,551	247,731,551
Financial assets held for trading purposes -				
Foreign exchange contracts	-	-	67,346	67,346
Equity security contracts	40,953	40,953	20,472	20,472
Purchased securities - stocks	1,052,672	1,101,010	1,413,722	1,371,198
Long-term investments	3,606,387	3,820,274	3,161,428	3,248,239
Total financial assets	\$ 262,262,744	262,524,969	252,394,519	252,438,806

Financial Liabilities	December 31, 2005		December 31, 2004	
	Book Value	Fair Value	Book Value	Fair Value
Financial liabilities with book value equal to fair value	\$ 259,045,342	259,045,342	246,227,988	246,227,988
Long-term liabilities	117,860	104,093	162,570	115,783
Total financial liabilities	\$ 259,163,202	259,149,435	246,390,558	246,343,771

Methods and assumptions used by the Bank for determining 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 have short-term maturities, their face value serves as 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 valued based on discounted value of future cash flow. The discount rate is based on the best available rate.

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27. OTHER(CONT'D)

(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 the unrealized Gain or loss on outstanding contracts for the current period. Most of the Bank's derivative instruments have valuation reports from financial institutions to serve as a reference.

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

Because the Bank provides loans and issues 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 amounts as follows:

	<u>December 31, 2005</u>	<u>December 31, 2004</u>
Loan commitments	\$ 68,869,000	54,707,000
Credit card commitments	88,442,047	86,177,731
Financial guarantees and commercial letters of credit	<u>5,890,676</u>	<u>2,699,860</u>
Total	<u><u>\$ 163,201,723</u></u>	<u><u>143,584,591</u></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 limit has been fully utilized and the collateral or other guarantees have lost their value, the credit risk is the same as the contract amount which is 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 58.84% of the total loans outstanding. The rate of the collateral to the collateralized financial guarantees and commercial letters of credit is between 0% to 100%, with an average rate of 13%. The collateral for loans, financial guarantees, and letters of credit usually comprise of cash, inventory, liquid marketable securities, or other property. Upon customer's 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, 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.

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

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

TRUST BALANCE SHEET			
<u>Trust Assets</u>	<u>December 31, 2005</u>	<u>Trust Liabilities</u>	<u>December 31, 2005</u>
Cash	\$ -	Short-Term Borrowings	\$ -
Cash in Bank	69,638	Payables	-
Short-Term Investments	16,571,540	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	8,093,598		
Securities	28,023		
Monetary obligation trust	307,484		
Intangible Assets	-	Trust Capital	25,070,283
Other Assets	-	Reserves and Accumulated	-
		Earnings	
Total Trust Assets	<u>\$ 25,070,283</u>	Total Trust Liabilities	<u>\$ 25,070,283</u>

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27. OTHER(CONT'D)

TRUST PROPERTY INDEX

Investment Item	December 31, 2005
Short-Term Investment	
Bonds	\$ 8,057,356
Preferred Stock	-
Common stock	-
Fund	8,514,184
Short-Term Notes or Investments with Resale Agreements	-
Cash in Bank	69,638
Securities	28,023
Monetary obligation trust	307,484
Long-Term Investment	
Investments in Stocks	-
Investments in Bonds	-
Personal Property, Net	
Gold	-
Real Estate, Net	
Land	8,093,598
Land Improvements	-
Buildings and Structures	-
Intangible Assets	
Leasehold	-
Superficies	-
Patents	-
Copyright	-
Total	\$ 25,070,283

(6) Reclassification

Certain accounts in the 2004 financial statements have been reclassified for a comparative purpose.

28. 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.

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28. BUSINESS SEGMENT FINANCIAL INFORMATION(CONT'D)

(3) Major customer information

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