



**SKFH**

# **Q3 2017 Results Update**

**2017/11/16**

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Figures in this presentation and the presentation materials distributed herewith are reviewed numbers.

# Contents

## I. SKFH

II. Life Insurance Business

III. Banking Business

IV. Appendix

- Life Premium Summary
- Capital Adequacy

# SKFH – 9M 2017 Overview

- SKFH recorded consolidated after-tax profit of NT\$10.84bn for 9M 2017; consolidated comprehensive income reached NT\$17.72bn. Consolidated shareholders' equity increased 11.7% YTD to NT\$151.48bn, and book value per share was NT\$13.66.
- Subsidiaries' core business remained robust.
  - SKL:
    - ◆ Consolidated comprehensive income for 9M 2017 reached NT\$14.28bn, up 141.9% YoY.
    - ◆ Shareholders' equity amounted to NT\$88.31bn, 19.7% higher YTD.
    - ◆ FYP was NT\$84.08bn, representing market share of 8.9%. Annualized cost of liabilities declined 9 bps to 4.28%, compared to 2016.
  - SKB:
    - ◆ Net interest income and investment income for 9M 2017 grew 5.3% and 80.5% YoY, respectively. Consolidated after-tax profit was NT\$3.10bn.
    - ◆ Due to decreasing market yield for short-term fund utilization, NIM for Q3 fell 2 bps QoQ to 1.55%. NIS was 1.97%, similar to the level in Q2.
    - ◆ NPL ratio and coverage ratio were 0.26% and 478.27%, respectively, better than industry average.

# Financial Highlights – 9M 2017

	9M 2016	9M 2017	YoY Growth
NT\$m (except per share data), %			
Consolidated comprehensive income	9,767	17,721	81.4%
Consolidated net income	2,061	10,837	425.9%
First year premium (Insurance)	89,285	84,077	-5.8%
Loans (Bank)	493,918	525,680	6.4%
Total assets (Consolidated)	3,050,541	3,327,797	9.1%
Shareholders' equity <sup>(1)</sup>	117,769	136,935	16.3%
ROA (unannualized)	1.11%	6.77%	
ROE (unannualized)	1.33%	8.00%	
Earnings per share	0.15	1.03	586.7%

Note:

(1) Consolidated shareholders' equity for 9M 2016 and 9M 2017 were NT\$132,476mn and NT\$151,477mn, respectively

# Net Income – 9M 2017

## Net income contribution

NT\$bn

Subsidiaries	9M 2016	9M 2017	YoY Growth
Shin Kong Life	-2.01	7.26	-
Shin Kong Bank	3.36	3.10	-7.8%
Shin Kong Investment Trust	0.02	0.02	39.9%
Shin Kong Venture Capital International	0.02	0.05	223.6%
Shin Kong Property Insurance Agency	0.04	0.04	7.1%
Others <sup>(1)</sup>	0.07	-0.14	-300.0%
<b>Net income <sup>(2)</sup></b>	<b>1.50</b>	<b>10.33</b>	<b>589.4%</b>

Note:

(1) Includes other income of SKFH, income taxes, and profit from MasterLink Securities

(2) Net income attributable to SKFH

# Contents

I. SKFH

**II. Life Insurance Business**

III. Banking Business

IV. Appendix

- Life Premium Summary
- Capital Adequacy

## SKL – 9M 2017 Overview

- SKL posted consolidated after-tax profit of NT\$7.29bn for 9M 2017; total comprehensive income reached NT\$14.28bn. Shareholders' equity was NT\$88.31bn, up 19.7% YTD.
- FYP for 9M 2017 declined 5.8% YoY to NT\$84.08bn, representing market share of 8.9%. However, VNB remained similar to 9M 2016 with strong FX savings sales.
- Fueled by strong NT dollar and market demand, FYP of FX policies increased 138.9% YoY to NT\$38.16bn, accounting for 45.4% of total.
- Annualized cost of liabilities decreased from 4.37% for 2016 to 4.28%.
- Annualized investment return was 3.89% in 9M 2017, 31 bps higher YoY. Positions in high-dividend yield stocks and foreign fixed income continued to increase, driving up recurring yield before hedging to 3.97%.

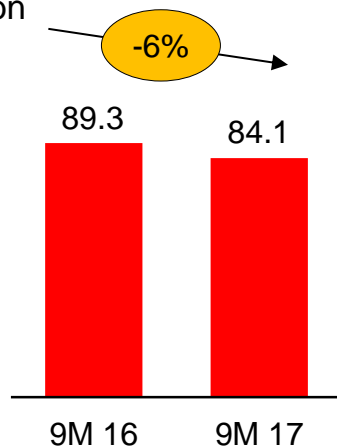


# Financial Highlights – 9M 2017

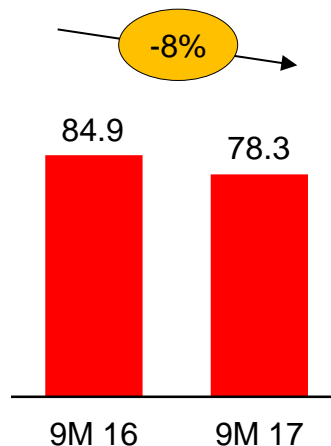
	9M 2016	9M 2017	YoY Growth
NT\$mn, %			
First year premium	89,285	84,077	-5.8%
Total premium	197,726	209,855	6.1%
Investment income	57,487	68,487	19.1%
Consolidated net income	-2,003	7,291	-
Consolidated total assets	2,243,743	2,468,456	10.0%
Consolidated total shareholders' equity	70,323	88,306	25.6%
ROE (unannualized)	-2.97%	9.00%	
ROA (unannualized)	-0.09%	0.30%	

# First Year Premium – 9M 2017

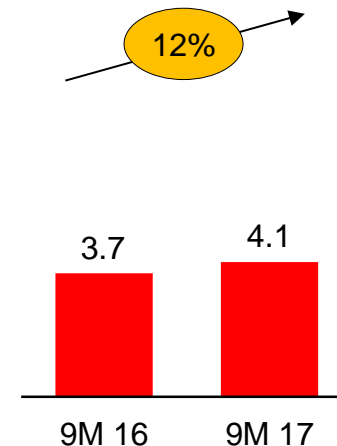
NT\$bn



Traditional (1)



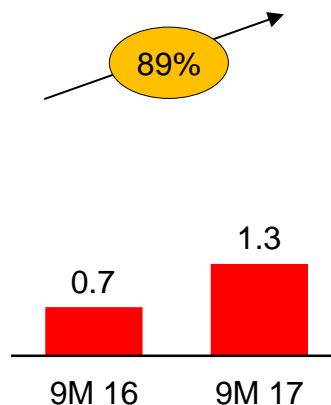
PA, Health and Group (2)



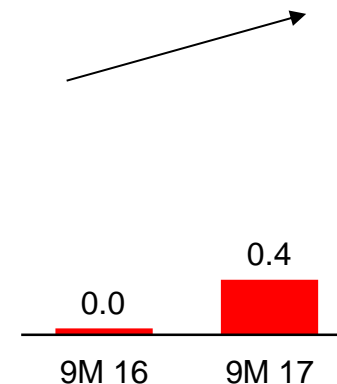
## Comments

- FYP was NT\$84.08bn, down 5.8% YoY. Sales of FX policies remained strong, accounting for 45.4% of total FYP
- FYP of FX policies increased 138.9% YoY to NT\$38.16bn, offering SKL stable interest spread with proper asset-liability match and no hedging cost
- Protection products was strategic focus in 2017. FYP of health insurance was NT\$2.26bn, up 5.6% YoY
- Savings policies continued to drive down cost of liabilities as sales focus. Boosted by market demand, FYP of investment-linked products increased 88.6% YoY to NT\$1.29bn
- Annualized cost of liabilities declined to 4.28%, 9 bps lower compared to 2016

Investment-linked



Interest-sensitive



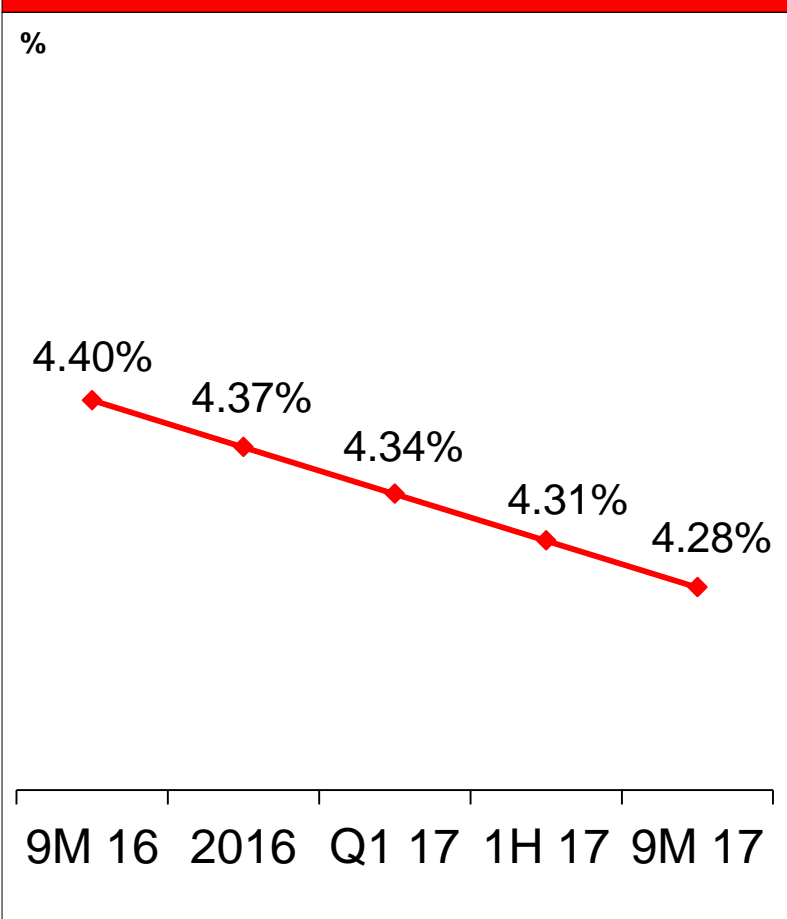
Note:

(1) Includes interest-sensitive life insurance

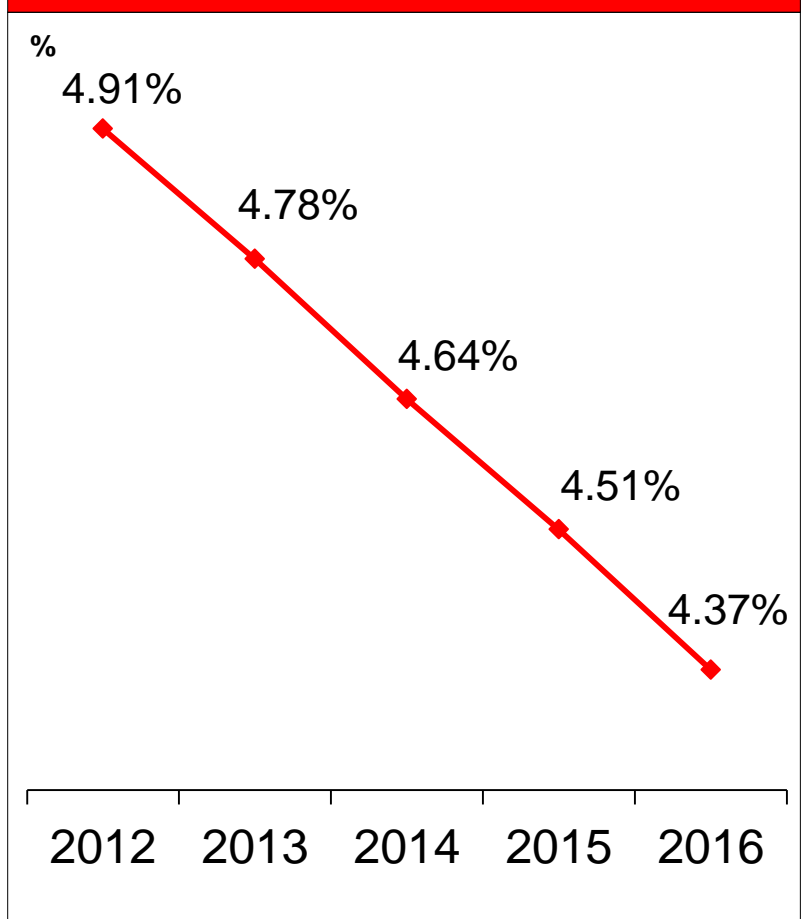
(2) Long-term disability Type A policies are classified as health insurance

# Cost of Liabilities

Cost of Liabilities (quarterly)

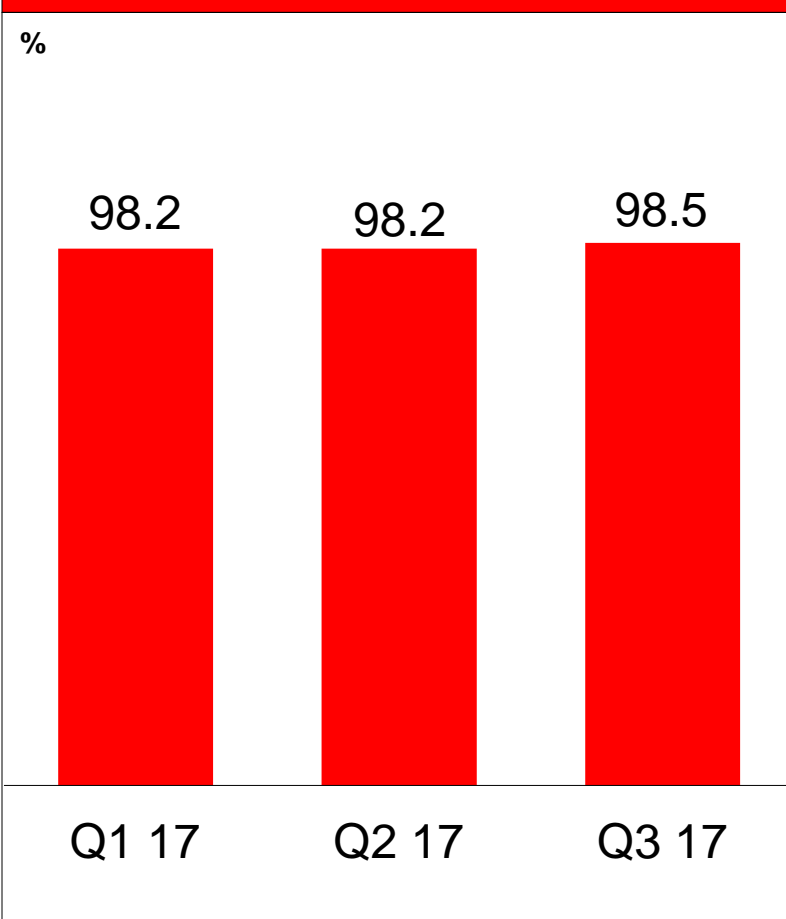


Cost of Liabilities (annual)

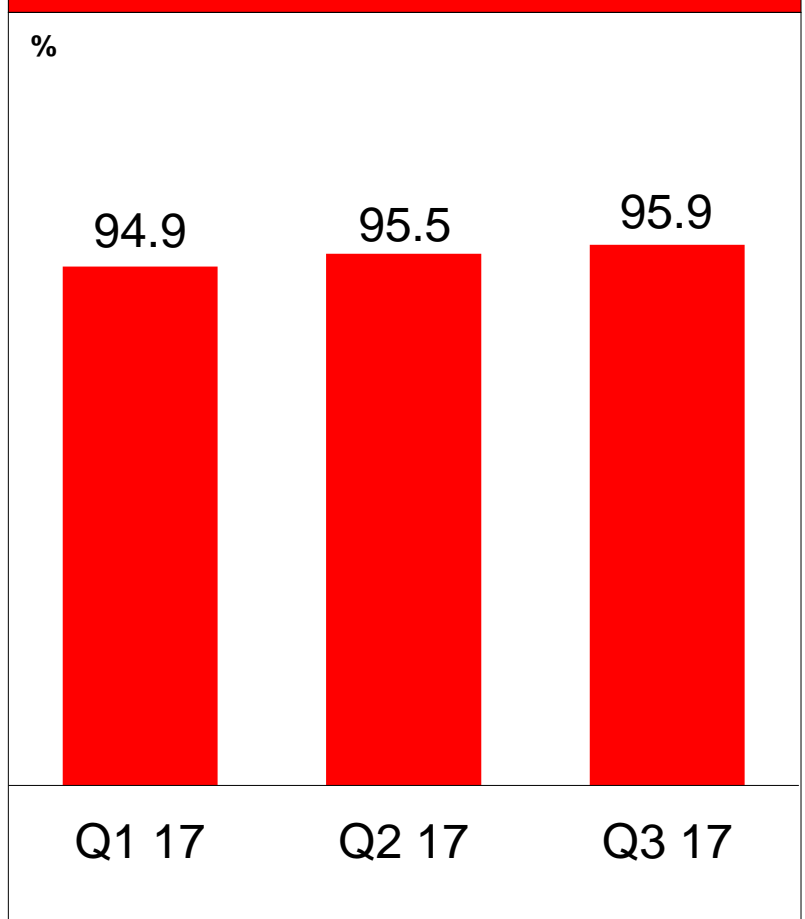


# Persistency Ratio

13 Month Persistency

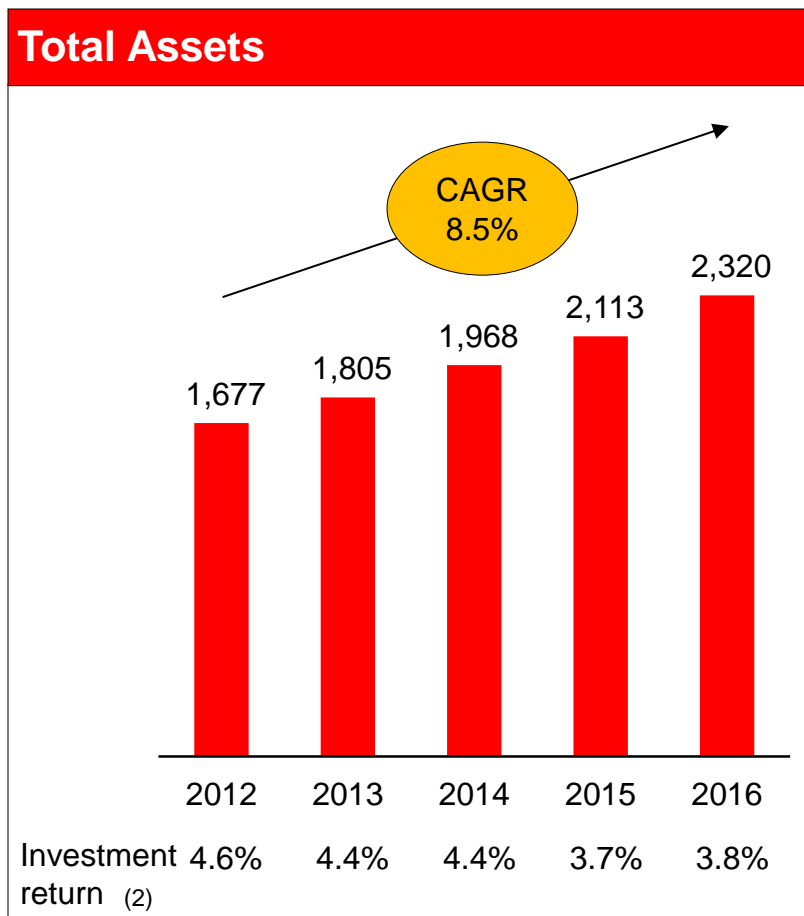


25 Month Persistency



# Investment Portfolio

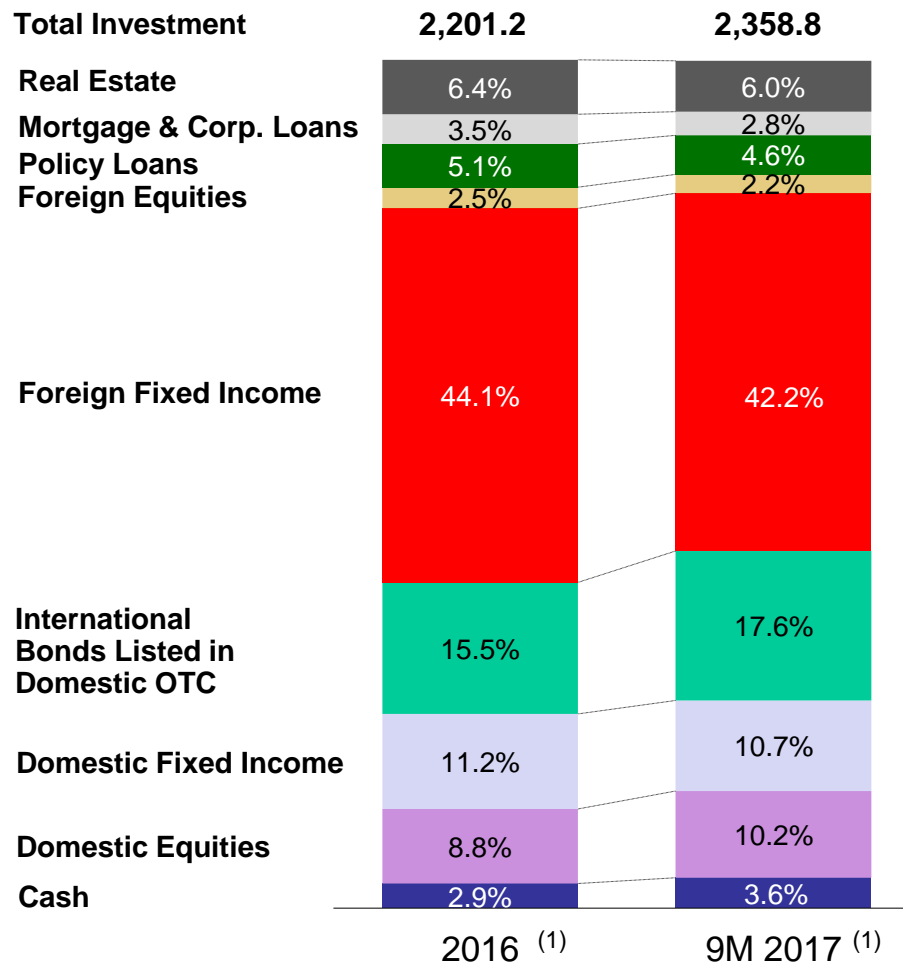
NT\$bn



Note:

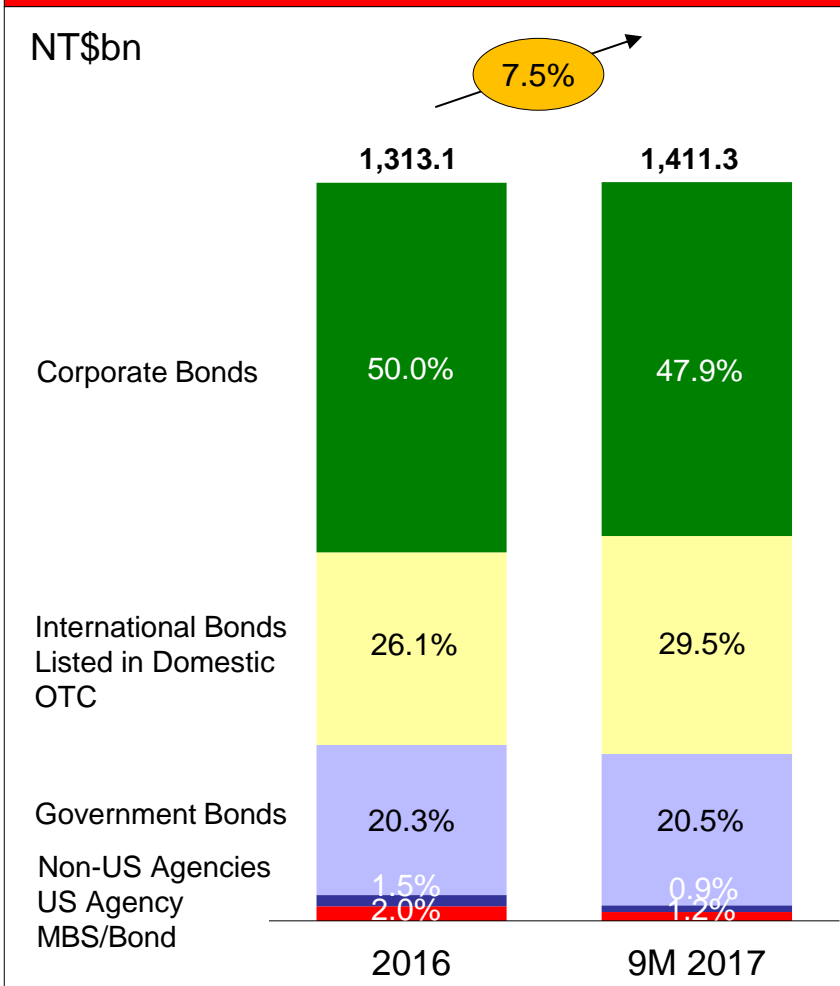
(1) Due to rounding, asset allocation figures may not add up to 100%

(2) Includes capital gains and FX hedging cost

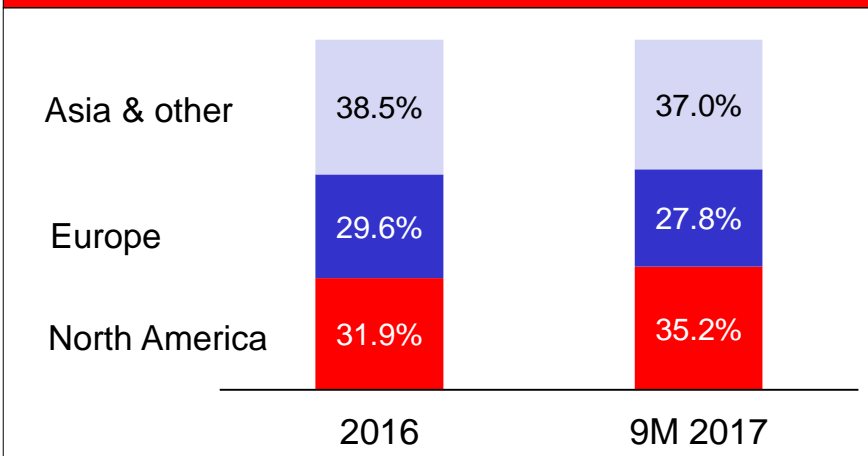


# Overseas Fixed Income

## Overseas Fixed Income Portfolio



## Overseas Fixed Income by Region



## Comments

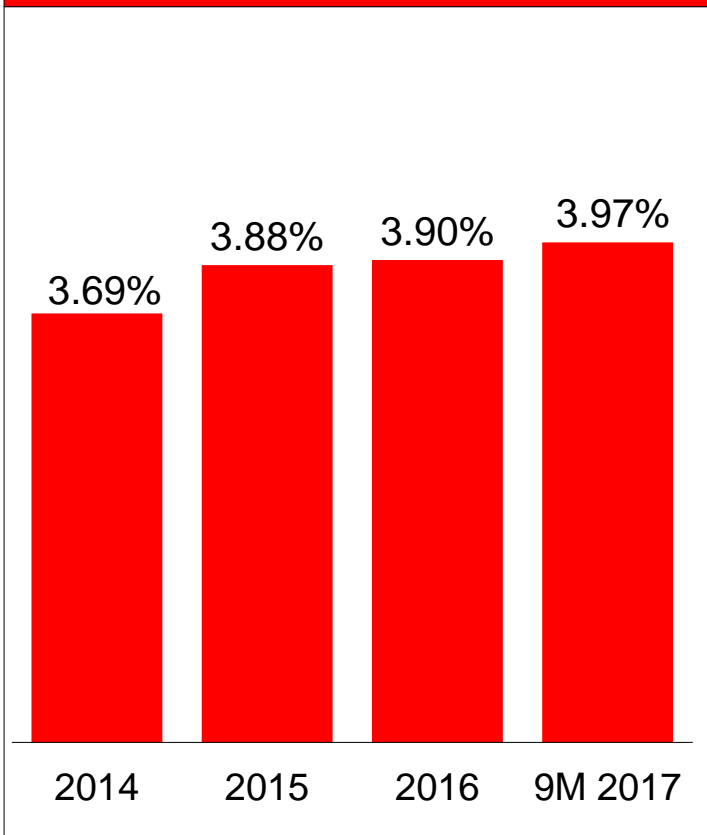
- Overseas fixed income grew 7.5% YTD, mainly deployed in emerging market USD government bonds and international bonds listed in domestic OTC
- As of end of 9M 2017, average yield before hedging of overseas fixed incomes was 4.85%
- SKL holds corporate bonds with stable credit quality, diversifying across sectors, including communication, consumer, utilities and financials

Note:

(1) Due to rounding, asset allocation figures may not add up to 100%

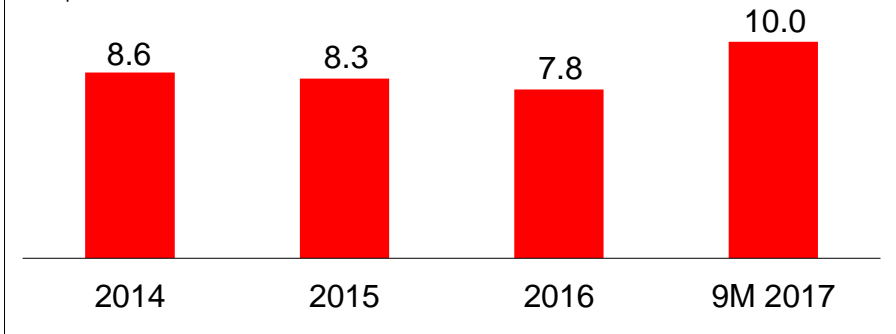
# Recurring Income

### Recurring Yield Before Hedging



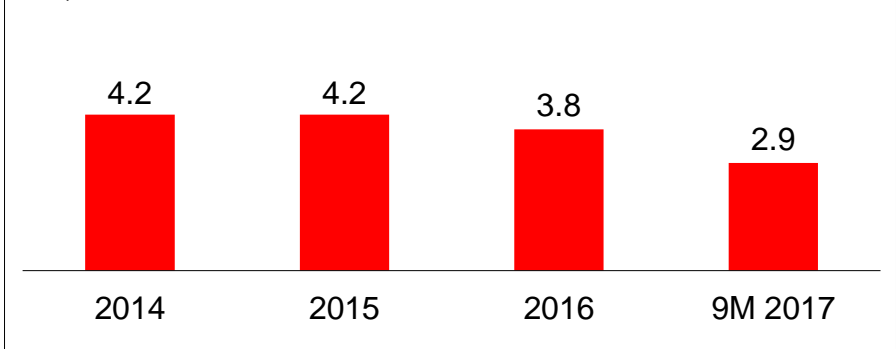
### Domestic and Foreign Cash Dividend

NT\$bn



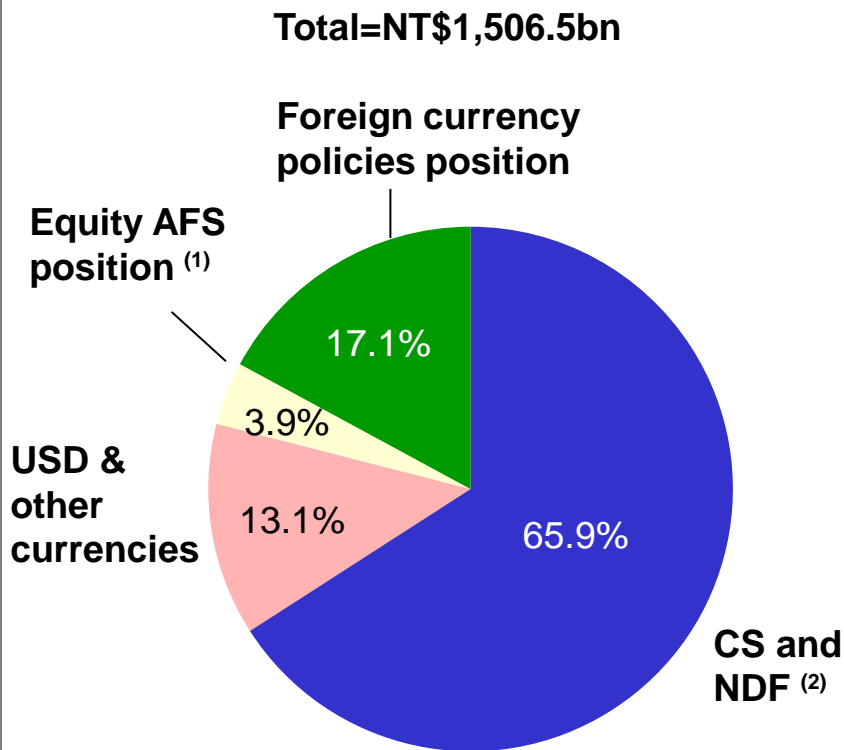
### Real Estate Rental Income

NT\$bn



# Hedging Strategy

## Mix of Hedging Strategies Used



## Comments

- Unannualized hedging cost for 9M 2017 was 1.21%; FX volatility reserve was NT\$2.87bn
- Hedging ratio was 83.0%, including CS, NDF, and naturally-hedged foreign currency policies position
- Among traditional hedges, CS and NDF accounted for 61% and 39%, respectively
- AFS<sup>(1)</sup> position in foreign equities accounted for 3.9% and was not marked to market in income statement

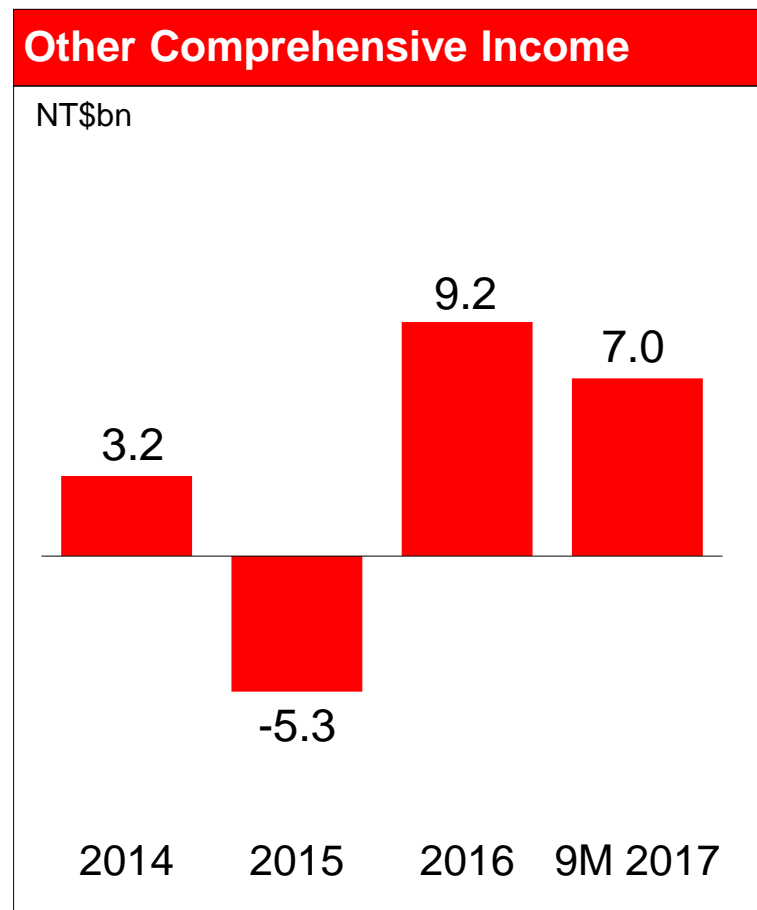
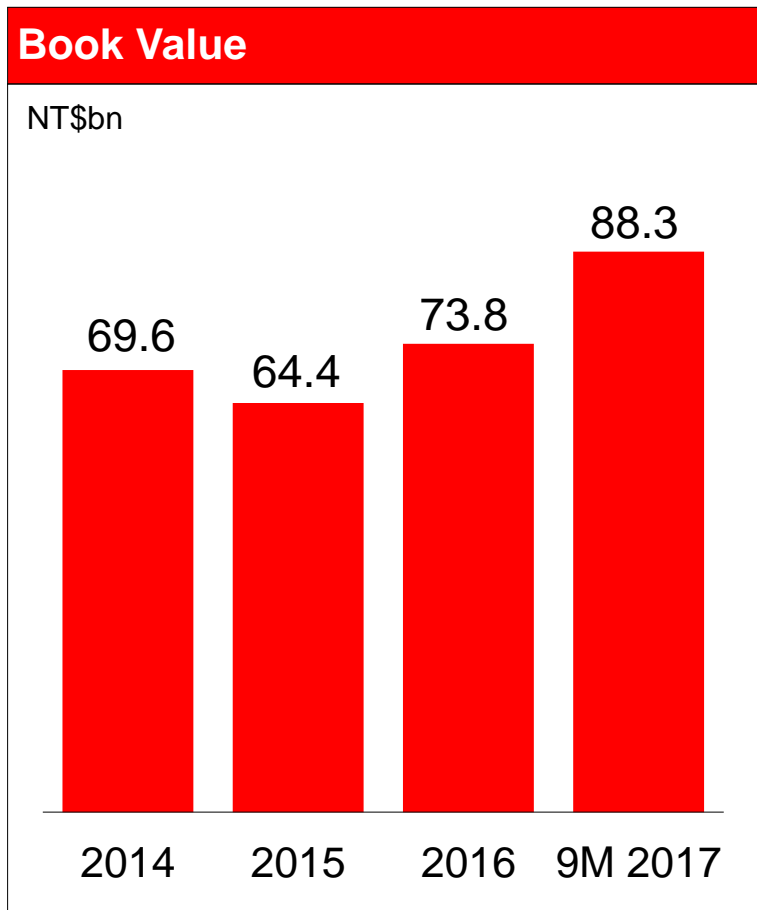
Note:

(1) Available for sale position

(2) Currency swaps and non-delivery forwards



# Consolidated Book Value and Other Comprehensive Income



# Investment Strategy

## Strong ALM Discipline

- Increase share of FX policy sales to control hedging cost and enhance recurring income
- Develop Strategic Asset Allocation based on liability profile and capital budget

## Well-diversified Portfolio

- Diversification by asset class (equity, credit, currency, commodity, real estate)
- Achieve diversification and yield pick-up through overseas investments. Continue to deploy in investment grade bonds to increase interest income
- Increase exposure to assets with lower volatility

## Cost-effective Currency Hedging

- Dynamically adjust FX hedging ratio. Mid- to long-term target ranges from 80% to 100%
- Target hedging cost at 100~120 bps or below in the mid- to long-term

## Enhance Investment Risk Management

- Consider current situations and characteristics of asset and liability to effectively manage overall investment risks through stringent SAA and TAA plans
- Enhance VAR models under risk management system to cope with changes in financial markets and strictly manage market, credit and business risks

# Contents

I. SKFH

II. Life Insurance Business

**III. Banking Business**

IV. Appendix

- Life Premium Summary
- Capital Adequacy

## SKB – 9M 2017 Overview

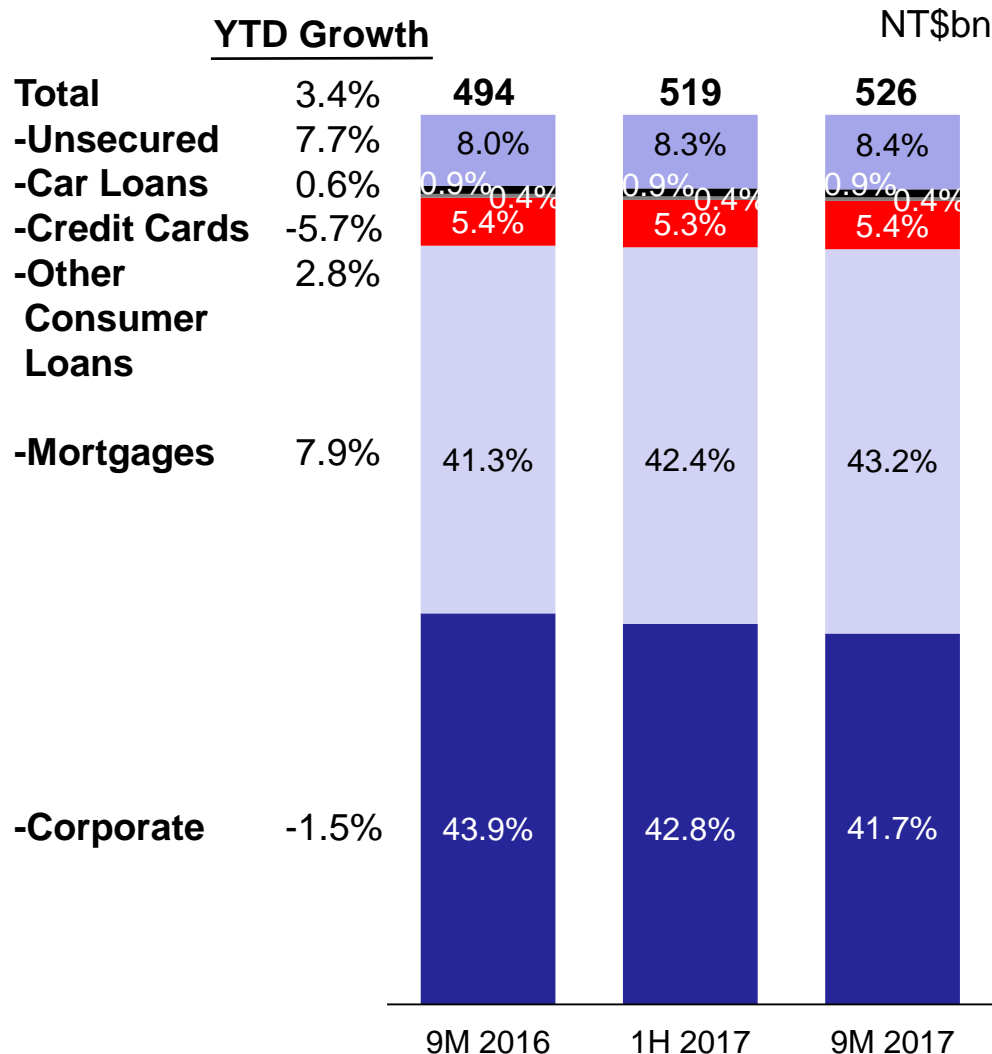
- Driven by net interest income and investment income growing 5.3% and 80.5% YoY, respectively, pre-provision operating income for 9M 2017 reached NT\$5.41bn, up 12.0% YoY. Because provision expense increased NT\$0.84bn YoY, consolidated net income for 9M 2017 was NT\$3.10bn.
- Loan balance of 9M 2017 was NT\$525.68bn, up 3.4% YTD. Consumer loan business maintained solid with mortgage and personal consumer loans increased 7.9% and 7.7% YTD, respectively.
- NIS for Q3 2017 was 1.97%, similar with Q2 . Due to decreasing market yield for short-term fund utilization, NIM for Q3 2017 lowered 2 bps QoQ to 1.55%.
- NPL ratio and coverage ratio were 0.26% and 478.27%, respectively, better than industry average. SKB will continuously monitor its asset quality.
- Wealth management income for 9M 2017 was NT\$1.49bn, driven by mutual fund and overseas securities fee incomes up 81.9% and 89.0% YoY, respectively. SKB will strengthen sales of regular premium and FX policies in Q4 to improve fee income.

# Net Income – 9M 2017

	9M 2016	9M 2017	YoY Growth
NT\$mn, %			
Net interest income	7,898	8,314	5.3%
Net fee income	2,451	2,386	-2.7%
Investment income and other income	559	888	59.0%
Operating expense	-6,078	-6,181	1.7%
Pre-provision operating income	4,830	5,408	12.0%
Provision expense	-849	-1,690	99.1%
Income tax benefit (expense)	-621	-619	-0.3%
<b>Consolidated Net Income</b>	<b>3,361</b>	<b>3,099</b>	<b>-7.8%</b>

Note: Total may not add up exactly due to rounding

# Loan Mix



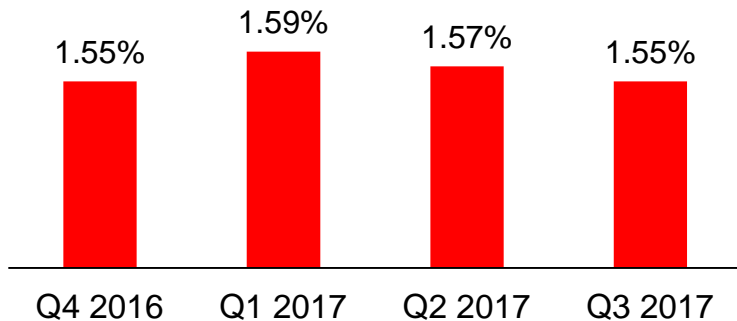
## Comments

- Consumer loans grew 7.1% YTD, driving overall loan balance up 3.4% YTD to NT\$525.68bn
- Momentum for overseas syndicated loans rose continuously. Loan balance of 9M 2017 was NT\$15.49bn, up 71.5% YTD

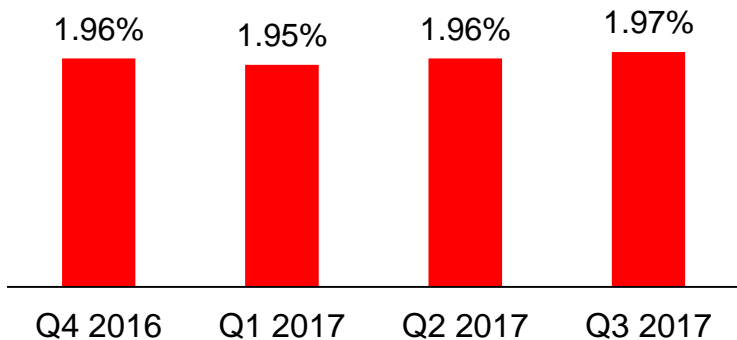
Note: Due to rounding, loan mix may not add up to 100%

# Interest Income

## Net Interest Margin



## Net Interest Spread

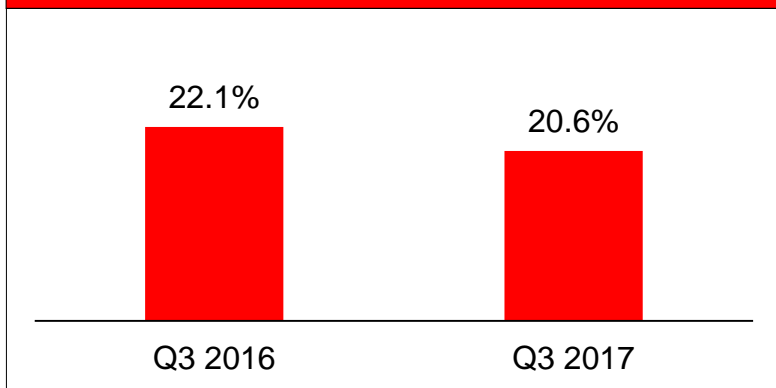


## Comments

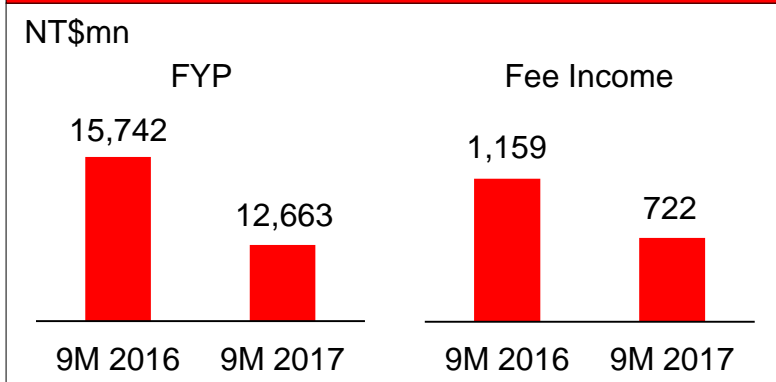
- NIM and NIS for 9M 2017 were 1.57% and 1.96%, respectively. NIM and NIS yearly expected to remain at similar level to 9M 2017
- SKB will continue to:
  - Increase demand deposit to lower cost of funds
  - Stably expand investments and domestic and overseas loans to sustain spread
  - Continuously promote foreign deposit to expand overseas business

# Fee Income

## Net Fee Income / Total Income



## Bancassurance



## Fee Income Breakdown

NT\$m

Total =

3,220

3,132

FX, Trust & Others

18.3%

17.1%

WM (incl. Bancassurance)

45.0%

44.6%

Loan

12.0%

12.8%

Credit Card

24.7%

25.5%

9M 2016

9M 2017

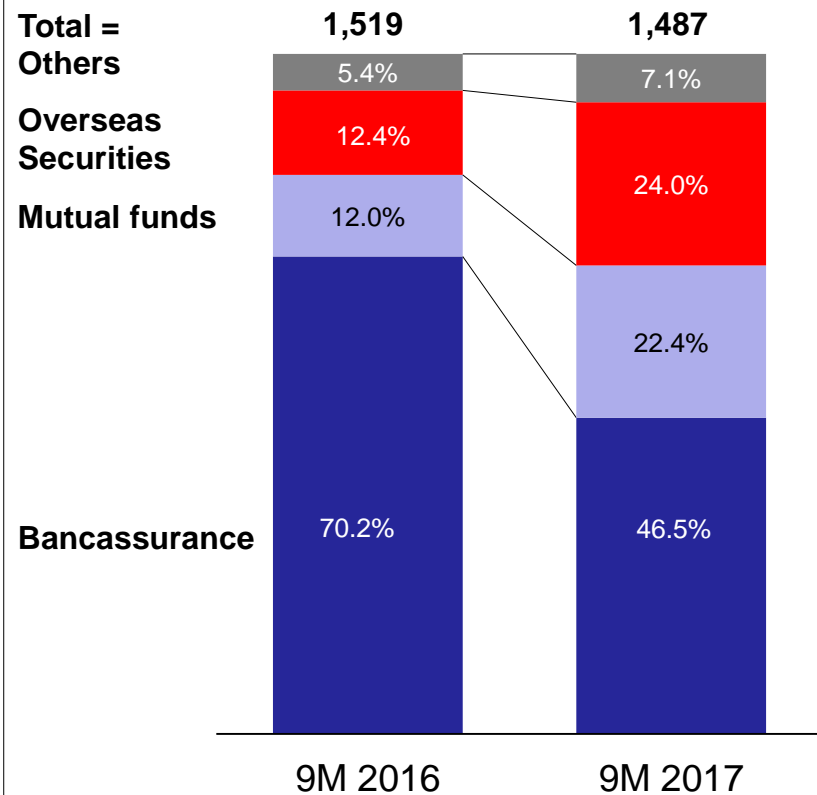
Note: Due to rounding, fee income breakdown may not add up to 100%



# Wealth Management

## Wealth Management Income Breakdown

NT\$mn



Note: Due to rounding, WM income breakdown may not add up to 100%

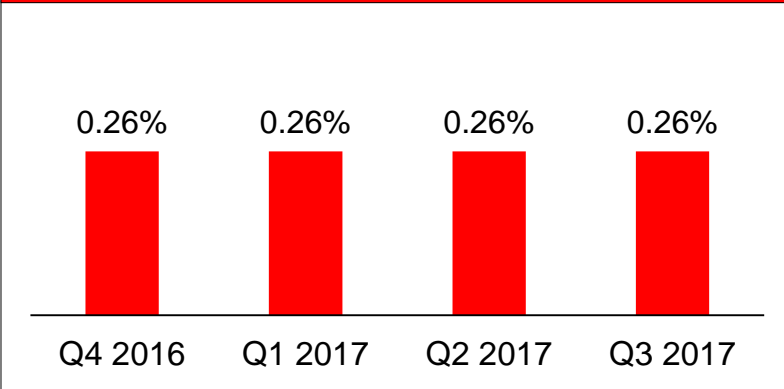
## Wealth Management Center



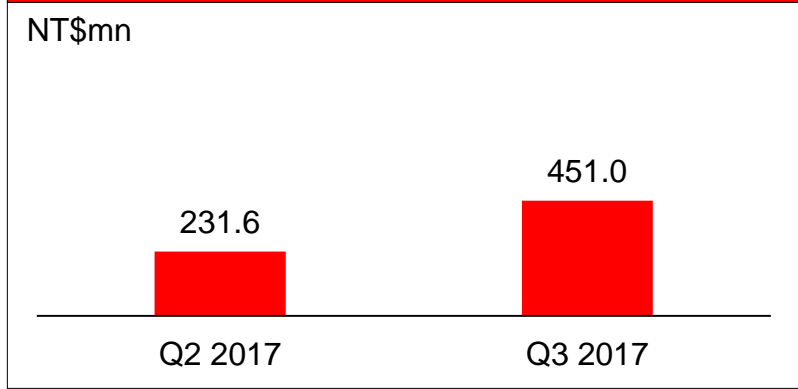
- Sales in mutual fund and overseas securities remained strong, with fee incomes up 81.9% and 89.0% YoY, respectively, amounting to 46.4% of total wealth management income
- Sales of higher margin products including regular premium and FX policies expected to enhance bancassurance fee income
- Clients' asset allocation optimization facilitated by recruitments of experienced financial consultants and investment research platform

# Asset Quality

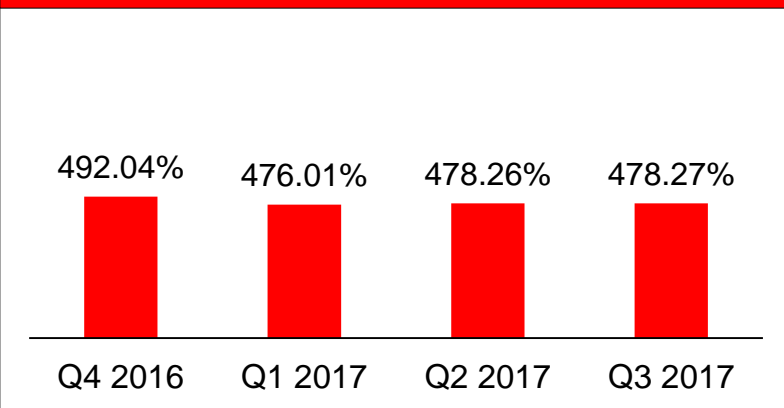
## NPL Ratio



## New NPL Generation



## Coverage Ratio



- New NPL generated in Q3 2017 was NT\$451mn, NT\$219mn higher QoQ. New NPL mostly came from one fully-collateralized case with no expected loss
- NPL and coverage ratios for Q3 2017 were 0.26% and 478.27%, respectively, better than industry average

# Contents

- I. SKFH
- II. Life Insurance Business
- III. Banking Business
- IV. Appendix
  - **Life Premium Summary**
  - Capital Adequacy

# SP / RP Breakdown

NT\$bn

9M 2017 FYP	Single Premium	Regular Premium	Flexible Payment	Total
Traditional	58.18	20.08		78.27
Investment-linked				
VUL / VA		0.07	1.23	1.29
Structured note	0.00			0.00
Interest sensitive				
Annuity / UL	0.00		0.39	0.39
PA, health and others <sup>(1)</sup>		4.13		4.13
<b>Total</b>	<b>58.18</b>	<b>24.28</b>	<b>1.62</b>	<b>84.08</b>
<b>Share</b>	<b>69.2%</b>	<b>28.9%</b>	<b>1.9%</b>	<b>100.0%</b>

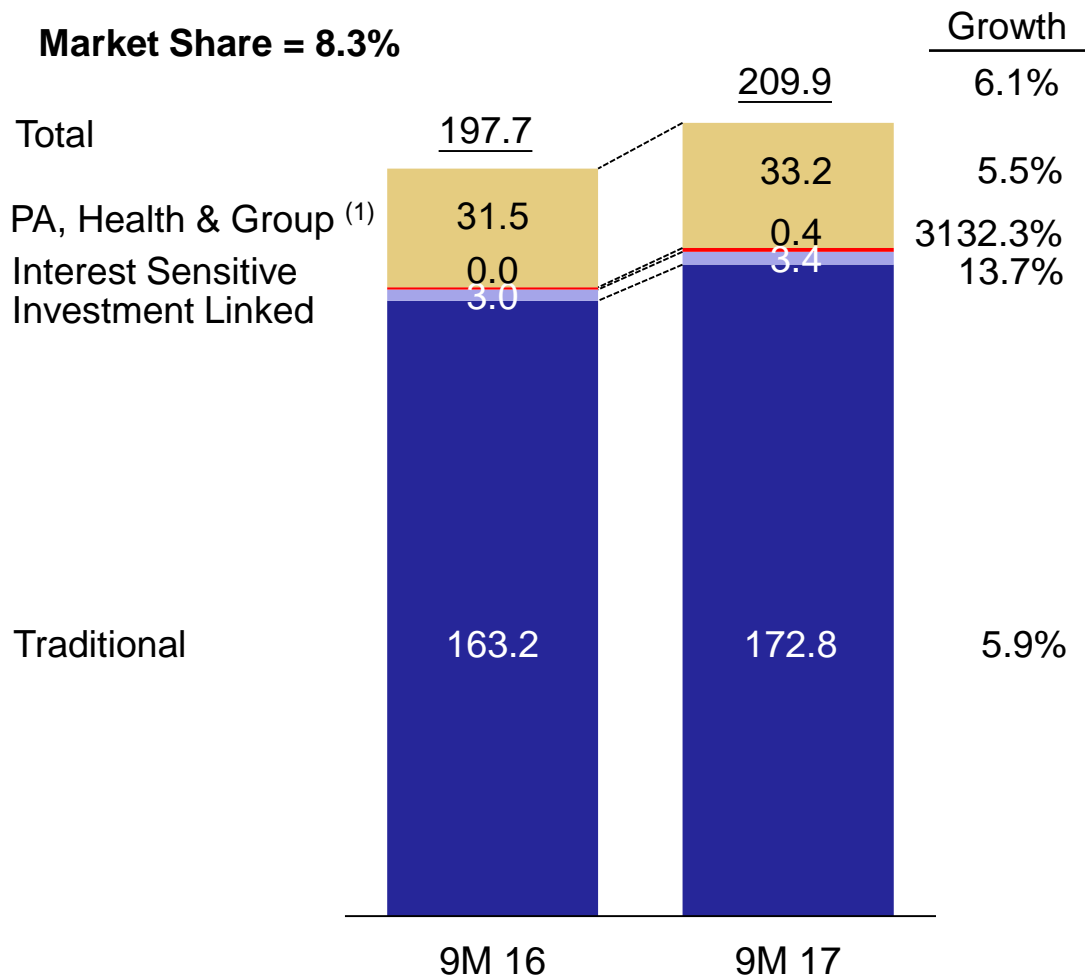
Note :

(1) Long-term disability Type A policies are classified as health insurance

# Total Premium – 9M 2017

NT\$bn

**Market Share = 8.3%**



## Comments

- Driven by renewal premium up 16.0% YoY, overall total premium increased 6.1% YoY
- PA, Health & Group products grew steadily, 5.5% higher YoY

Note :

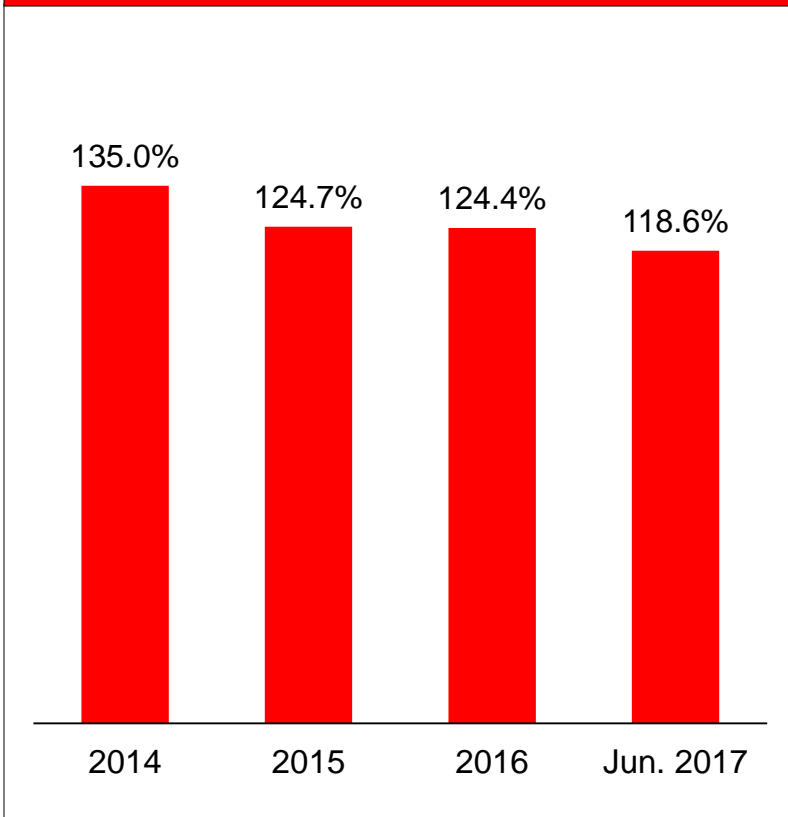
(1) Long-term disability Type A policies are classified as health insurance

# Contents

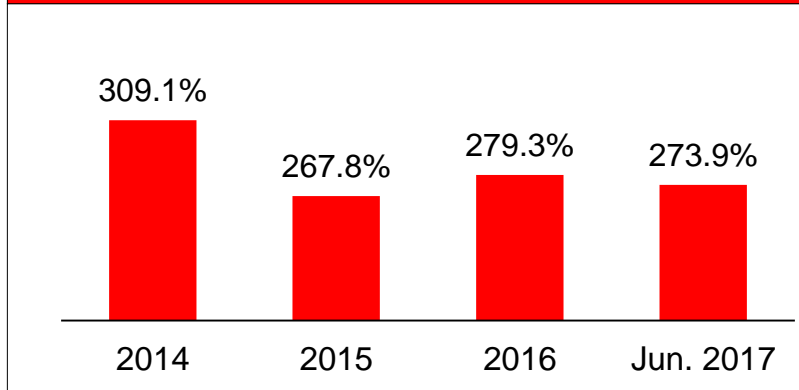
- I. SKFH
- II. Life Insurance Business
- III. Banking Business
- IV. Appendix
  - Life Premium Summary
  - **Capital Adequacy**

# Capital Adequacy

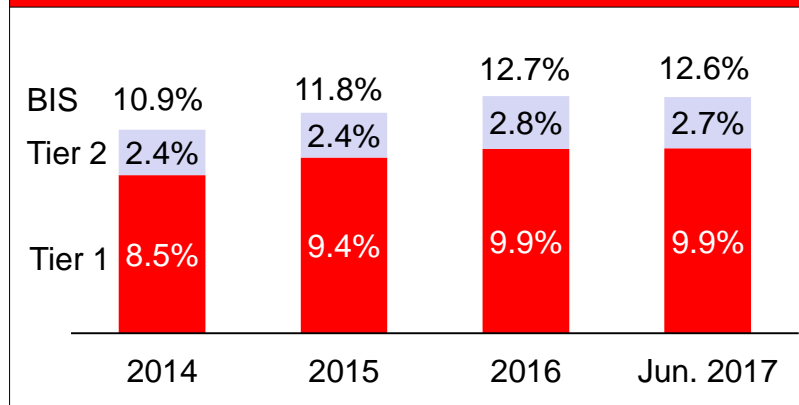
## CAR of SKFH



## RBC of SKL



## BIS of SKB





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**E-mail : [ir@skfh.com.tw](mailto:ir@skfh.com.tw)**



**Shin Kong Financial Holding**

## Financial Summary

(NT\$m)

<b>Income Statement Data</b>	<b>2016</b>	<b>9M 2016</b>	<b>9M 2017</b>	<b>9M 17/9M 16</b>		<b>Q3 17/Q3 16</b>	
				<b>% change</b>	<b>Q3 2016</b>	<b>Q3 2017</b>	<b>% change</b>
Net interest income	(196)	(148)	(141)	-4.7%	(49)	(48)	-2.6%
Income from subsidiaries							
Shin Kong Life	126	(2,011)	7,262	-461.2%	1,310	7,650	484.2%
Shin Kong Bank	4,630	3,361	3,099	-7.8%	1,145	1,131	-1.2%
MasterLink Securities	135	270	238	-12.0%	103	96	-6.3%
Shin Kong Investment Trust	86	18	25	39.9%	7	8	19.7%
Shin Kong Venture Capital International	25	15	48	223.6%	6	19	241.8%
Shin Kong Property Insurance Agency	53	40	43	7.1%	13	14	8.6%
Total income from subsidiaries	5,055	1,693	10,715	532.8%	2,582	8,919	245.4%
Other income	53	42	226	441.1%	33	17	-49.1%
Administrative and general expenses	(224)	(169)	(199)	17.6%	(60)	(79)	32.4%
Income tax benefit (expense)	122	80	(272)	-440.6%	37	13	-63.6%
Cumulative effect of changes in accounting principle	0	0	0		0	0	
Net income	4,810	1,498	10,329	589.4%	2,543	8,822	247.0%
Other comprehensive income (loss), after tax	8,236	7,941	6,965	-12.3%	6,588	(5,147)	-178.1%
Total comprehensive income (loss)	13,046	9,439	17,294	83.2%	9,131	3,674	-59.8%

<b>Balance Sheet Data</b>	<b>2016</b>	<b>9M 2016</b>	<b>9M 2017</b>	<b>9M 17/9M 16</b>		<b>Q3 17/Q3 16</b>	
				<b>% change</b>	<b>Q3 2016</b>	<b>Q3 2017</b>	<b>% change</b>
Long term investment	133,173	129,494	150,296	16.1%	129,494	150,296	16.1%
Total assets	3,157,673	3,050,541	3,327,797	9.1%	3,050,541	3,327,797	9.1%
Shareholders' equity (excl. minority)	121,397	117,769	136,935	16.3%	117,769	136,935	16.3%

Note:

(1) Numbers have been reviewed by the auditors.

**Shin Kong Life**Financial Summary  
(NT\$m)

Income Statement Data	9M 17/9M 16				Q3 17/Q3 16		
	2016	9M 2016	9M 2017	% change	Q3 2016	Q3 2017	% change
Premium income	260,759	195,380	206,518	5.7%	69,294	65,205	-5.9%
Investment income							
Interest income	70,225	52,017	57,212	10.0%	17,526	19,559	11.6%
Gains on investments in securities	17,032	12,273	25,640	108.9%	8,378	12,828	53.1%
Gains on real estate investments	3,811	2,867	2,884	0.6%	928	994	7.1%
FX	(14,850)	(13,460)	(17,469)	29.8%	(7,534)	(1,689)	-77.6%
FX gain or loss	(28,598)	(55,673)	(69,516)	24.9%	(30,693)	(4,234)	-86.2%
Hedging	13,748	42,213	52,047	23.3%	23,159	2,544	-89.0%
FX Reserve	3,767	4,280	240	-94.4%	2,847	(1,175)	-141.3%
Impairment loss	(489)	(489)	(21)	-95.8%	(330)	0	-100.0%
Total Investment income	79,496	57,487	68,487	19.1%	21,814	30,517	39.9%
Other operating income	1,675	1,344	1,352	0.7%	552	317	-42.6%
Provisions for reserves							
Provisions	(301,824)	(224,220)	(237,573)	6.0%	(78,556)	(76,459)	-2.7%
Recoveries	97,467	66,111	83,909	26.9%	21,576	33,965	57.4%
Total provisions for reserves, net	(204,356)	(158,109)	(153,663)	-2.8%	(56,980)	(42,494)	-25.4%
Insurance payments	(109,538)	(76,455)	(95,882)	25.4%	(25,171)	(38,397)	52.5%
Commission expenses	(13,247)	(10,081)	(8,692)	-13.8%	(3,721)	(2,572)	-30.9%
Separate account revenues	5,773	5,188	5,676	9.4%	1,548	2,669	72.3%
Separate account expenses	(5,773)	(5,188)	(5,676)	9.4%	(1,548)	(2,669)	72.3%
General and administrative expenses	(13,984)	(10,236)	(10,140)	-0.9%	(3,490)	(3,607)	3.4%
Other operating costs and expenses	(1,508)	(1,370)	(1,568)	14.5%	(540)	(513)	-5.1%
Operating income	(703)	(2,040)	6,411	-414.3%	1,759	8,455	380.6%
Non-operating income and expenses	114	114	(205)	-278.7%	(93)	(300)	222.3%
Income taxes	727	(78)	1,085	-1497.7%	(355)	(496)	39.6%
Cumulative effect of changes in accounting principles	0	0	0		0	0	
Net income	138	(2,003)	7,291	-464.0%	1,311	7,659	484.1%
Other comprehensive income (loss)							
Exchange differences on translation of foreign operations financial statements	(2)	9	(4)	-146.3%	4	(0)	-107.3%
Unrealized gains (losses) on available-for-sale financial assets	11,256	8,959	8,090	-9.7%	7,687	(5,518)	-171.8%
Gains (losses) on effective portion of cash flow hedges	0	0	0		0	0	
Actuarial gains (losses) on defined benefit plans	(620)	0	0		0	0	
Share of other comprehensive income of associates and joint ventures accounted for using equity method	(12)	(14)	0	-100.0%	7	0	-100.0%
Income tax relating to components of other comprehensive income	(1,410)	(1,049)	(1,102)	5.1%	(1,045)	578	-155.3%
Total comprehensive income (loss)	9,350	5,901	14,275	141.9%	7,964	2,719	-65.9%

Balance Sheet Data	9M 17/9M 16				Q3 17/Q3 16		
	2016	9M 2016	9M 2017	% change	Q3 2016	Q3 2017	% change
Total assets	2,319,734	2,243,743	2,468,456	10.0%	2,243,743	2,468,456	10.0%
Total shareholders' equity	73,772	70,323	88,306	25.6%	70,323	88,306	25.6%

Note:

(1) Numbers have been reviewed by the auditors.

**Shin Kong Bank**  
Financial Summary  
(NT\$m)

Income Statement Data	2016	9M 2016	9M 2017	9M 17/9M 16		Q3 17/Q3 16	
				% change	Q3 2016	Q3 2017	% change
Interest income	15,279	11,438	11,521	0.7%	3,770	3,906	3.6%
Interest expense	(4,590)	(3,539)	(3,206)	-9.4%	(1,084)	(1,093)	0.9%
Net interest income	10,688	7,898	8,314	5.3%	2,686	2,812	4.7%
Fee income	4,258	3,220	3,132	-2.7%	1,067	1,070	0.2%
Fee expense	(1,026)	(769)	(746)	-3.0%	(244)	(260)	6.4%
Net fee income	3,233	2,451	2,386	-2.7%	823	809	-1.6%
Gains on bill & securities	638	392	851	116.9%	284	373	31.5%
Gains on foreign exchange, net	96	42	(67)	-258.4%	(127)	16	-112.7%
Other gains or losses, net	95	124	104	-16.2%	53	41	-21.9%
Operating expense	(7,980)	(6,078)	(6,181)	1.7%	(2,049)	(2,105)	2.8%
Pre-provision income or loss	6,769	4,830	5,408	12.0%	1,670	1,947	16.6%
Provision expense	(1,263)	(849)	(1,690)	99.1%	(328)	(607)	85.3%
Income tax (expense) benefit	(876)	(621)	(619)	-0.3%	(197)	(208)	5.6%
Net income	4,630	3,361	3,099	-7.8%	1,145	1,131	-1.2%
Other comprehensive income (loss)							
Exchange differences on translation of foreign operations financial statements	(14)	(28)	(7)	-73.9%	(17)	(0)	-97.8%
Unrealized gains (losses) on available-for-sale financial assets	(539)	250	37	-85.0%	5	(207)	-4556.7%
Actuarial gains and losses on defined benefit plans	(190)	0	0		0	0	
Income tax relating to components of other comprehensive income	32	0	0		0	0	
Other comprehensive income (loss), after tax	(712)	222	30	-86.4%	(12)	(207)	1628.9%
Total comprehensive income (loss)	3,919	3,583	3,130	-12.7%	1,133	924	-18.4%

Balance Sheet Data	2016	9M 2016	9M 2017	9M 17/9M 16		Q3 17/Q3 16	
				% change	Q3 2016	Q3 2017	% change
Total assets	782,380	763,715	788,908	3.3%	763,715	788,908	3.3%
Total shareholders' equity	49,197	48,862	51,827	6.1%	48,862	51,827	6.1%
Total loans, net <sup>(1)</sup>	501,315	486,669	517,997	6.4%	486,669	517,997	6.4%
Total deposits	686,883	661,394	693,289	4.8%	661,394	693,289	4.8%

Operating Metrics	2016	9M 2016	9M 2017	Q3 2016		Q3 2017	
Fee income ratio	21.9%	22.5%	20.6%	22.1%	20.0%		
Cost income ratio	53.8%	55.5%	53.1%	54.8%	51.7%		
Loan/deposit ratio (excl. credit card)	73.0%	73.6%	74.7%	73.6%	74.7%		
Loan/deposit ratio (incl. credit card)	73.3%	73.9%	75.0%	73.9%	75.0%		
Net interest margin	1.50%	1.48%	1.57%	1.50%	1.55%		
Net interest spread	1.97%	1.97%	1.96%	1.96%	1.97%		
Pre-provision earnings/assets	0.86%	0.62%	0.69%	0.22%	0.25%		
Pre-provision earnings/equity	14.26%	10.21%	10.71%	3.53%	3.85%		

Note:

(1) Excludes credit cards but include overdue receivables.

(2) Numbers have been reviewed by the auditors.