



SKFH

Q4 2017 Results Update

2018/3/29

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

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- Life Premium Summary
- Capital Adequacy

SKFH – 2017 Overview

- SKFH recorded consolidated after-tax profit of NT\$11.22bn for 2017; consolidated comprehensive income reached NT\$20.51bn. Consolidated shareholders' equity increased 15.0% YoY to NT\$155.97bn, and book value per share was NT\$13.87.
- Subsidiaries' core business remained robust.
 - SKL:
 - ◆ Consolidated comprehensive income for 2017 reached NT\$16.77bn, up 79.4% YoY.
 - ◆ Shareholders' equity amounted to NT\$90.80bn, 23.1% higher YoY.
 - ◆ FYP was NT\$110.96bn, representing market share of 8.8%. Cost of liabilities declined 14 bps to 4.23%, compared to 2016.
 - SKB:
 - ◆ Net interest income and investment income for 2017 grew 4.7% and 27.5% YoY, respectively. Consolidated after-tax profit was NT\$4.06bn.
 - ◆ Benefited from well-controlled funding cost, full-year NIM increased 7 bps YoY to 1.57%, while full-year NIS was 1.96%, similar to the level in 2016.
 - ◆ Asset quality remained solid with NPL ratio at 0.24% and coverage ratio at 488.29%.
- Capital adequacy ratios of the group and subsidiaries were all significantly above regulatory requirements. Group CAR was 117.7%, RBC of SKL was 257.4%, and BIS of SKB was 13.1%.

Financial Highlights – 2017

	2016	2017	YoY Growth
NT\$m (except per share data), %			
Consolidated comprehensive income	12,976	20,510	58.1%
Consolidated net income	5,099	11,219	120.0%
First year premium (Insurance)	114,892	110,963	-3.4%
Loans (Bank)	508,522	534,822	5.2%
Total assets (Consolidated)	3,157,673	3,384,388	7.2%
Shareholders' equity ⁽¹⁾	121,397	141,310	16.4%
Consolidated ROA	0.17%	0.34%	
Consolidated ROE	3.94%	7.70%	
Earnings per share ⁽²⁾	0.48	1.05	118.8%

Note:

- (1) Consolidated shareholders' equity for 2016 and 2017 were NT\$135,568mn and NT\$155,971mn, respectively
- (2) The after-tax earnings per share (EPS) in 2016 and 2017 would be NT\$0.17 and NT\$1.00, respectively, if the foreign exchange valuation reserve mechanism were not adopted.

Net Income – 2017

Net income contribution

NT\$bn

Subsidiaries	2016	2017	YoY Growth
Shin Kong Life	0.13	6.92	5407.1%
Shin Kong Bank	4.63	4.06	-12.3%
Shin Kong Investment Trust	0.09	0.03	-64.4%
Shin Kong Venture Capital International	0.03	0.05	110.5%
Shin Kong Property Insurance Agency	0.05	0.06	5.5%
Others ⁽¹⁾	-0.12	-0.59	391.7%
Net income ⁽²⁾	4.81	10.53	118.9%

Note:

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

(2) Net income attributable to SKFH

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SKL – 2017 Overview

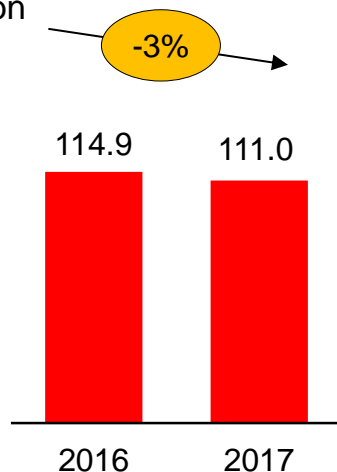
- SKL posted consolidated after-tax profit of NT\$6.97bn for 2017; total comprehensive income reached NT\$16.77bn. Shareholders' equity was NT\$90.80bn, up 23.1% YoY.
- FYP for 2017 was NT\$110.96bn, representing market share of 8.8%.
- FX policies showed strong momentum in 2017 with sales growing 118.9% YoY to NT\$52.04bn, accounting for 46.9% of total FYP.
- Cost of liabilities decreased 14 bps YoY from 4.37% to 4.23%, better than expectation.
- Although fluctuations in foreign exchange drove hedging cost higher to 1.55% (1.29% excluding FX gain or loss resulting from disposal of foreign equities), investment return for 2017 increased 12 bps YoY to 3.92%. Recurring yield before hedging grew 8 bps YoY to 3.98% with increased exposure to high-dividend yield stocks and foreign fixed incomes.

Financial Highlights – 2017

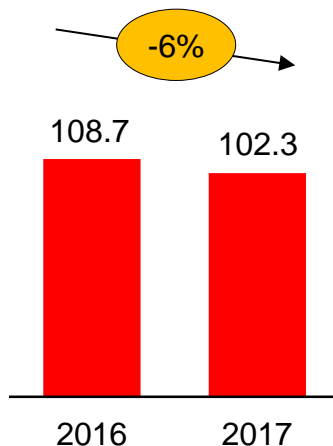
	2016	2017	YoY Growth
NT\$mn, %			
First year premium	114,892	110,963	-3.4%
Total premium	264,381	280,976	6.3%
Investment income	79,496	89,877	13.1%
Consolidated net income	138	6,972	4939.1%
Consolidated total assets	2,319,734	2,496,691	7.6%
Consolidated total shareholders' equity	73,772	90,801	23.1%
ROE	0.20%	8.49%	
ROA	0.01%	0.29%	

First Year Premium – 2017

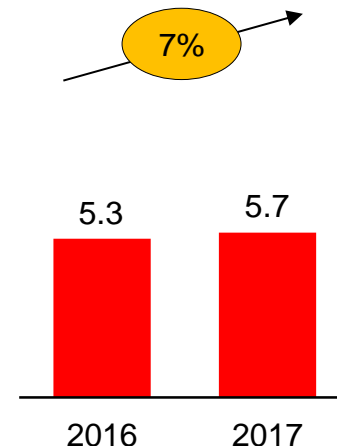
NT\$bn



Traditional ⁽¹⁾



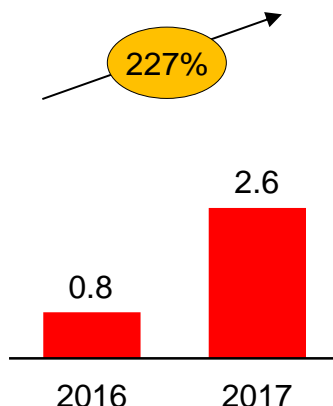
PA, Health and Group ⁽²⁾



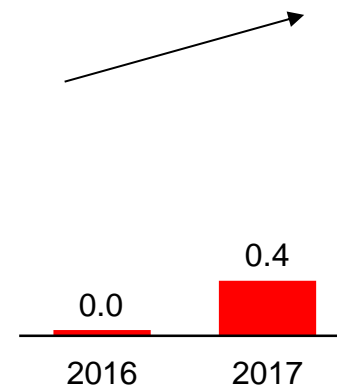
Comments

- FYP decreased 3.4% YoY to NT\$110.96bn
- FYP of FX policies grew 118.9% YoY to NT\$52.04bn, representing 46.9% of total FYP and offering stable interest spread with proper asset-liability match and no hedging cost
- Traditional products remained marketing focus and contributed 92.2% of total FYP, driving down cost of liabilities to 4.23% for 2017, 14 bps lower YoY. Boosted by market demand, FYP of investment-linked products increased to NT\$2.65bn
- FX policies and protection products to be actively promoted in 2018 to support better ALM matching and VNB growth

Investment-linked



Interest-sensitive



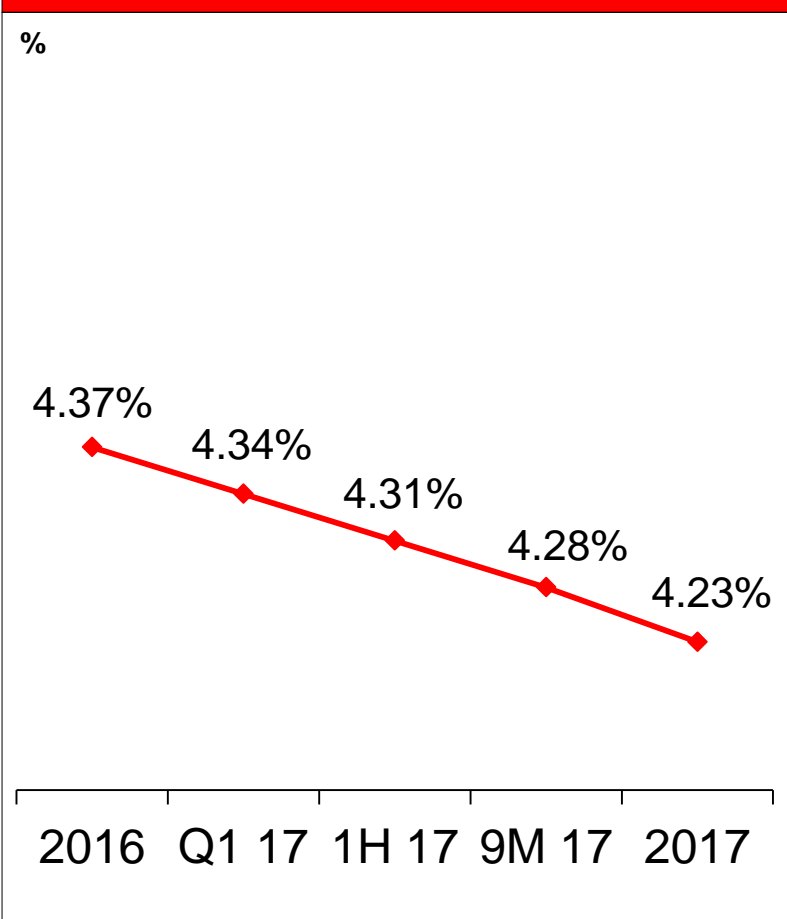
Note:

(1) Includes interest-sensitive life insurance

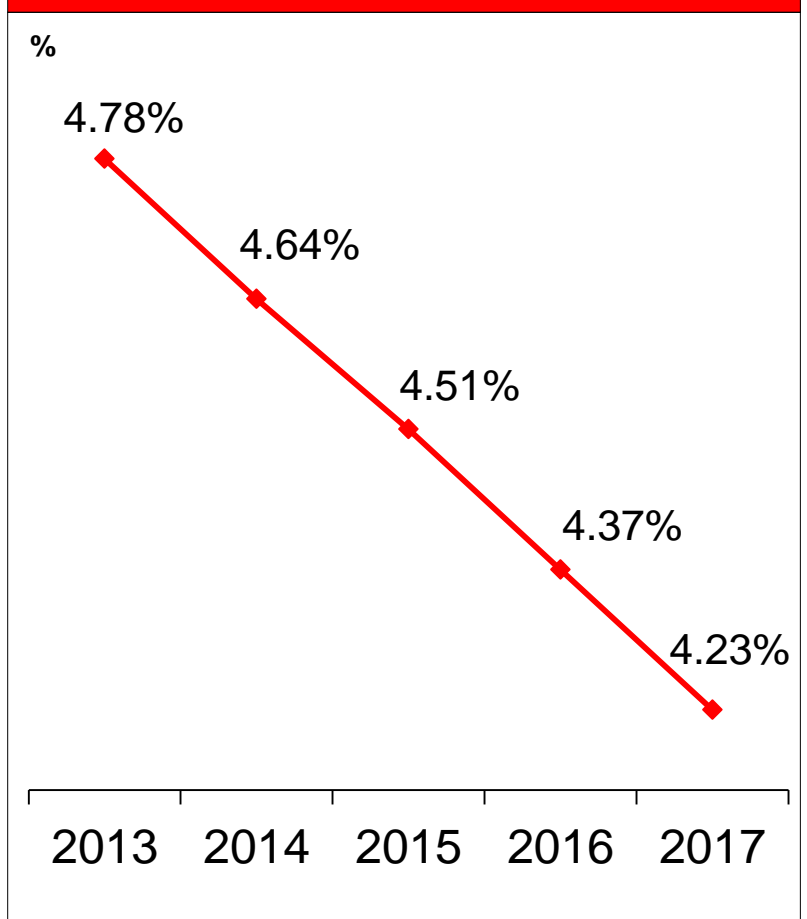
(2) Long-term disability Type A policies are classified as health insurance

Cost of Liabilities

Cost of Liabilities (quarterly)



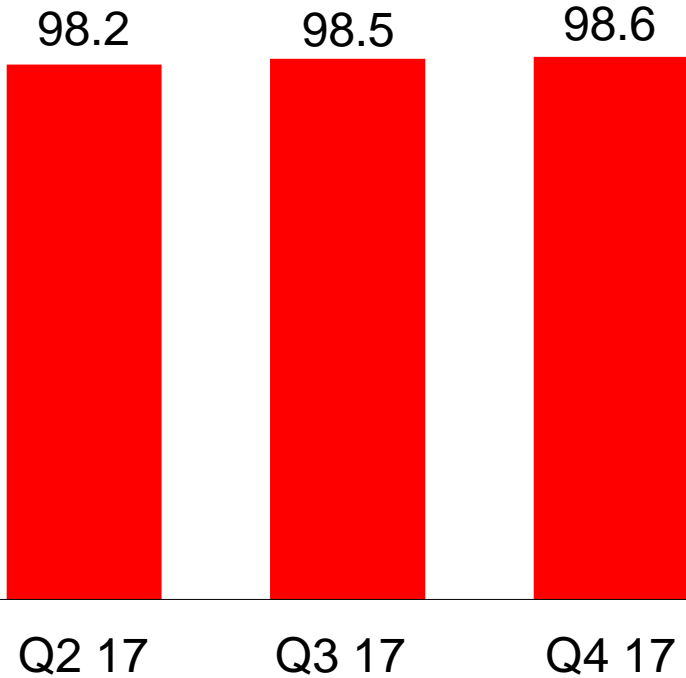
Cost of Liabilities (annual)



Persistency Ratio

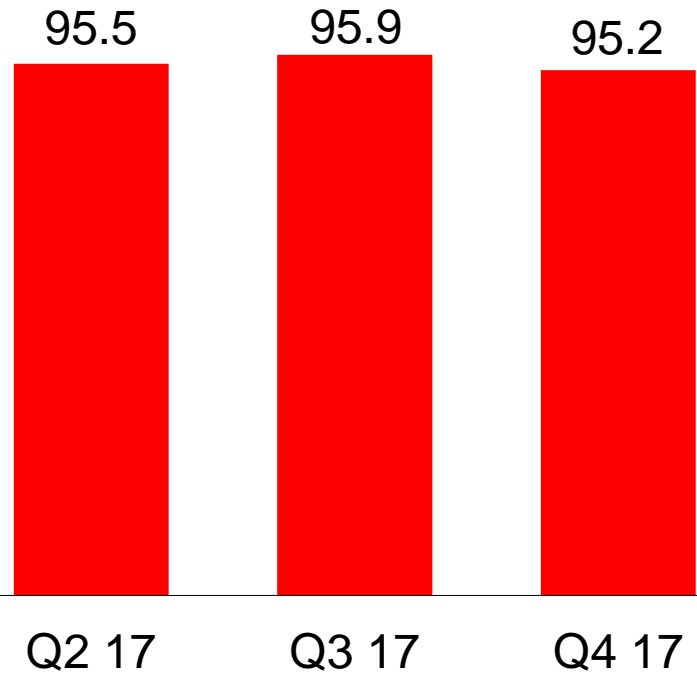
13 Month Persistency

%



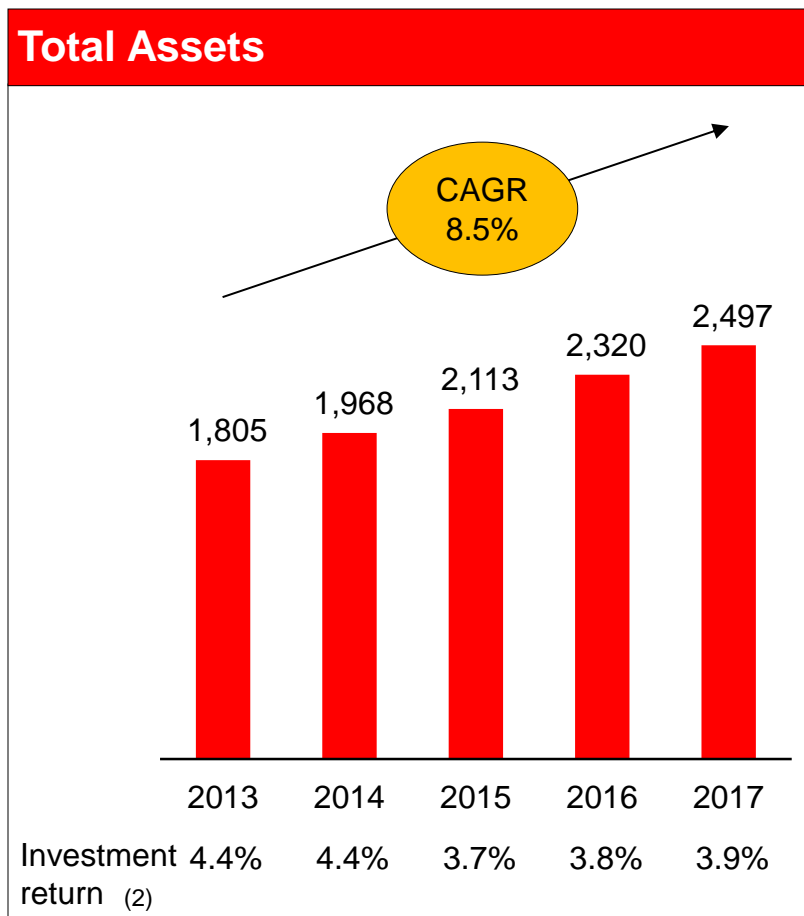
25 Month Persistency

%



Investment Portfolio

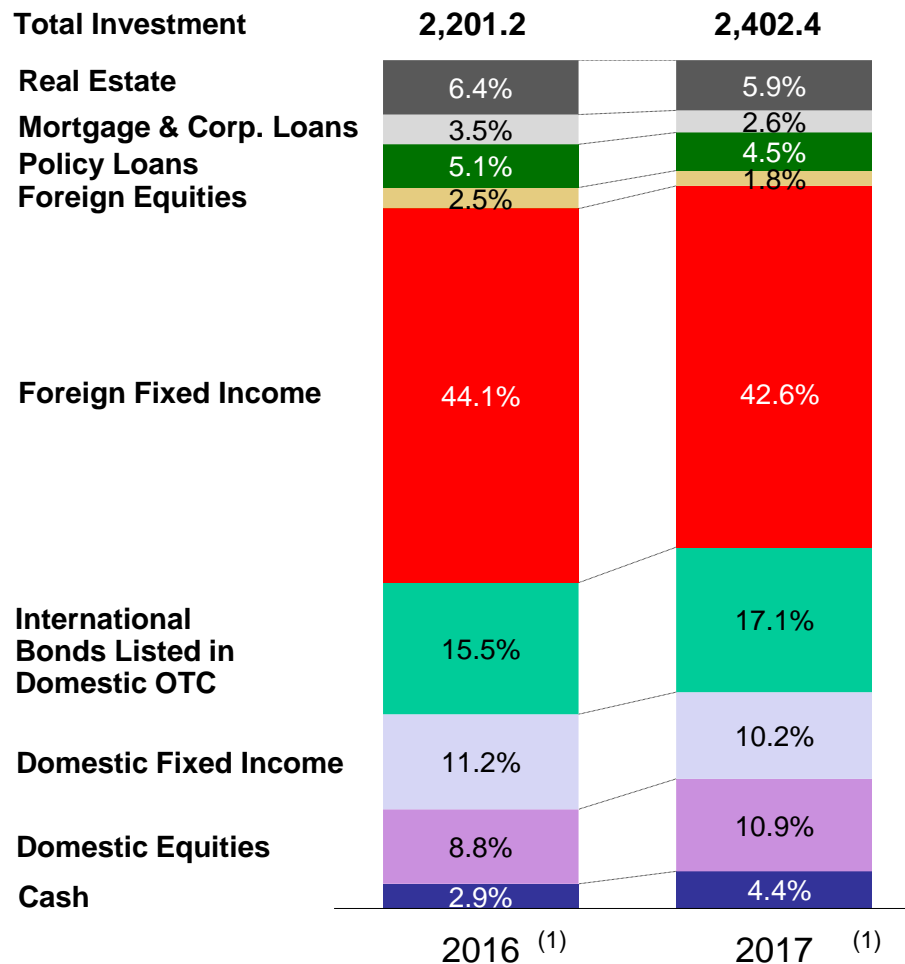
NT\$bn



Note:

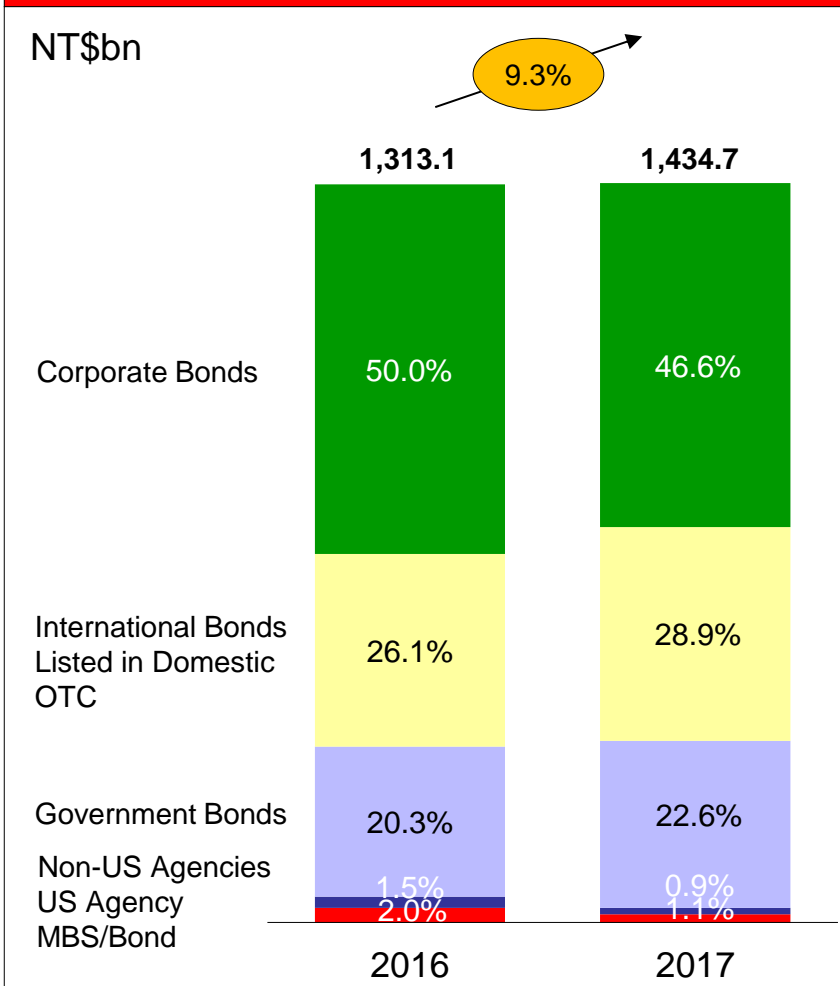
(1) Due to rounding, asset allocation figures may not add up to 100%

(2) Includes capital gains and FX hedging cost

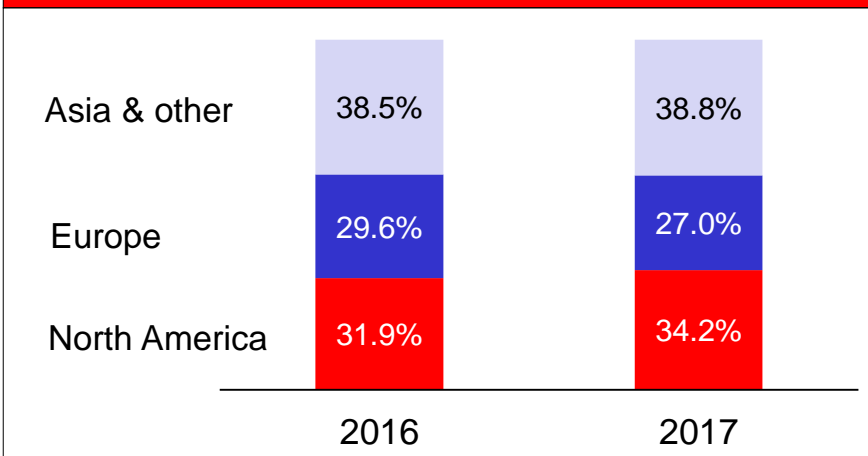


Overseas Fixed Income

Overseas Fixed Income Portfolio



Overseas Fixed Income by Region



Comments

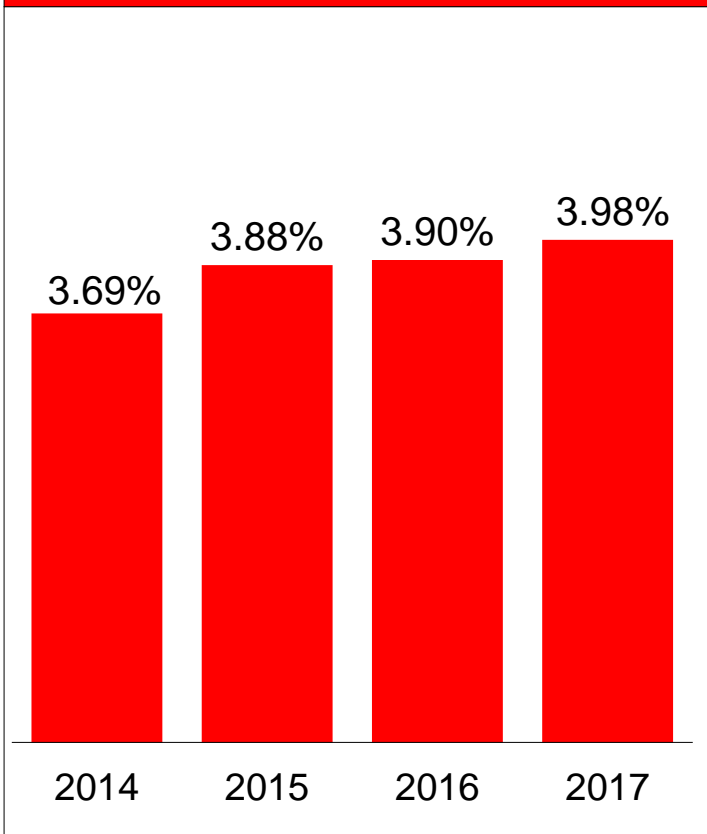
- Overseas fixed income grew 9.3% YoY, mainly deployed in emerging market USD government bonds and international bonds listed in domestic OTC
- Average yield before hedging of overseas fixed incomes was 4.73% for 2017
- SKL holds corporate bonds with stable credit quality, diversifying across sectors, including communication, consumer, utilities and financials

Note:

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

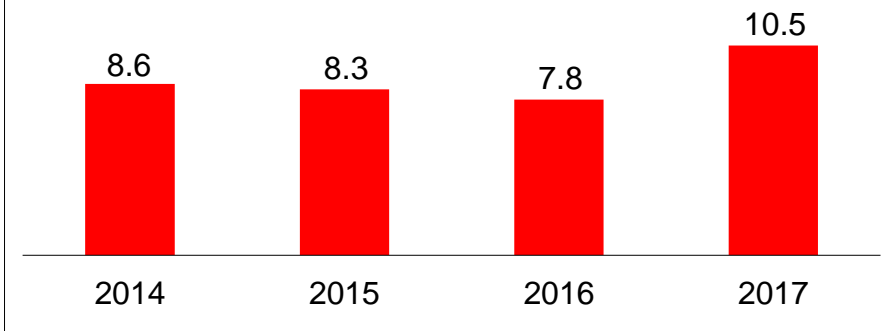
Recurring Income

Recurring Yield Before Hedging



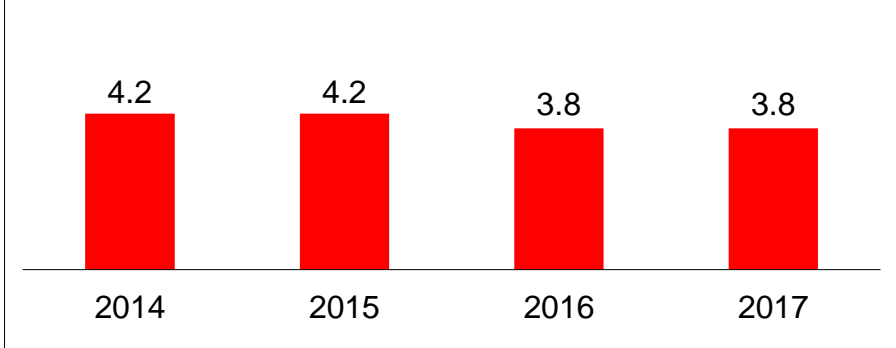
Domestic and Foreign Cash Dividend

NT\$bn



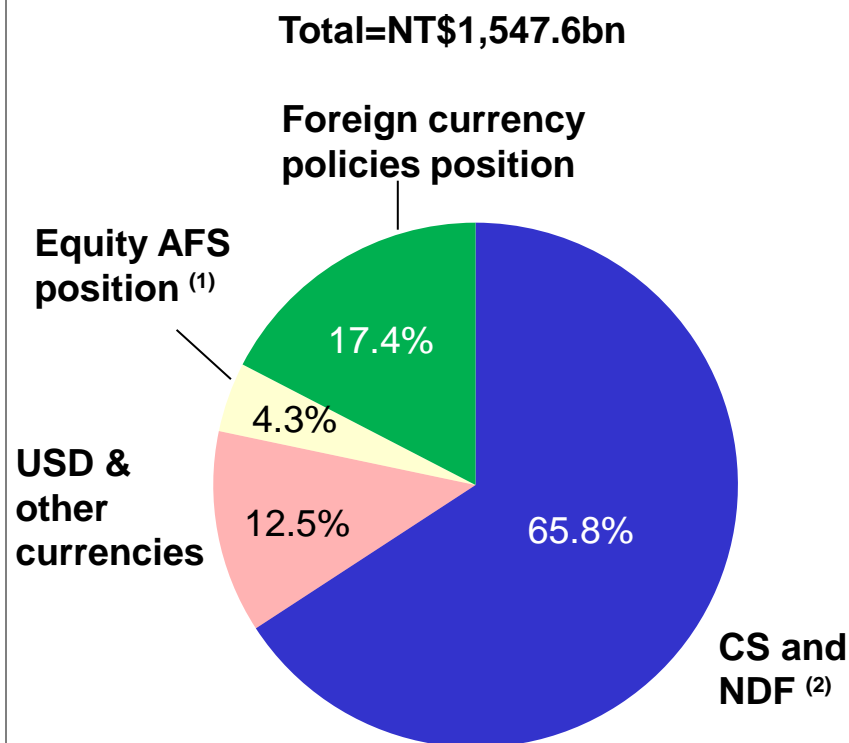
Real Estate Rental Income

NT\$bn



Hedging Strategy

Mix of Hedging Strategies Used



Comments

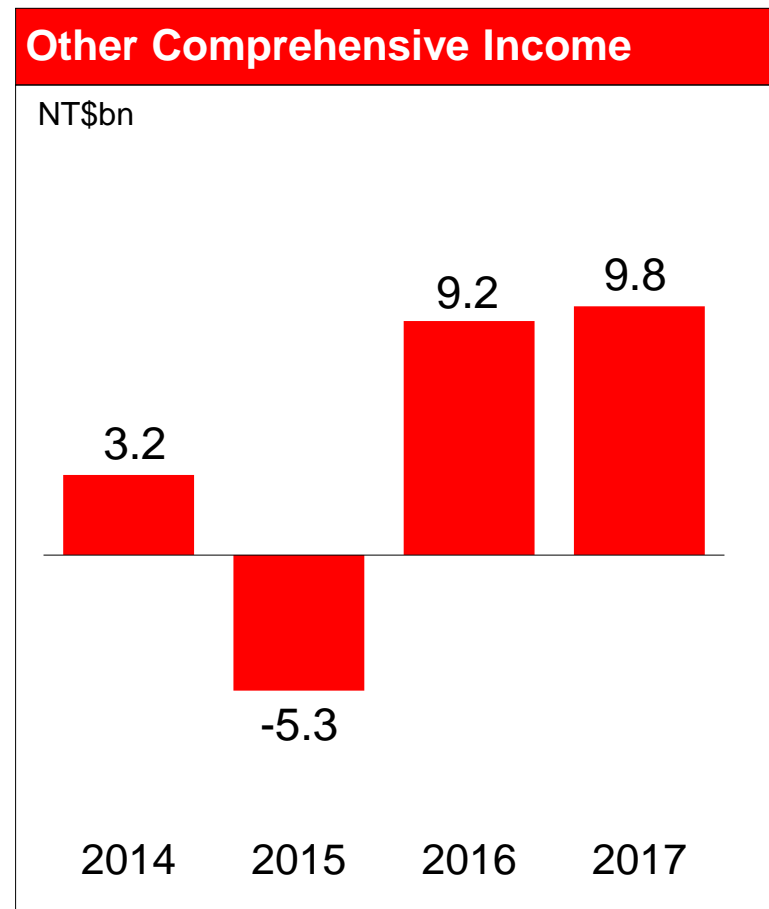
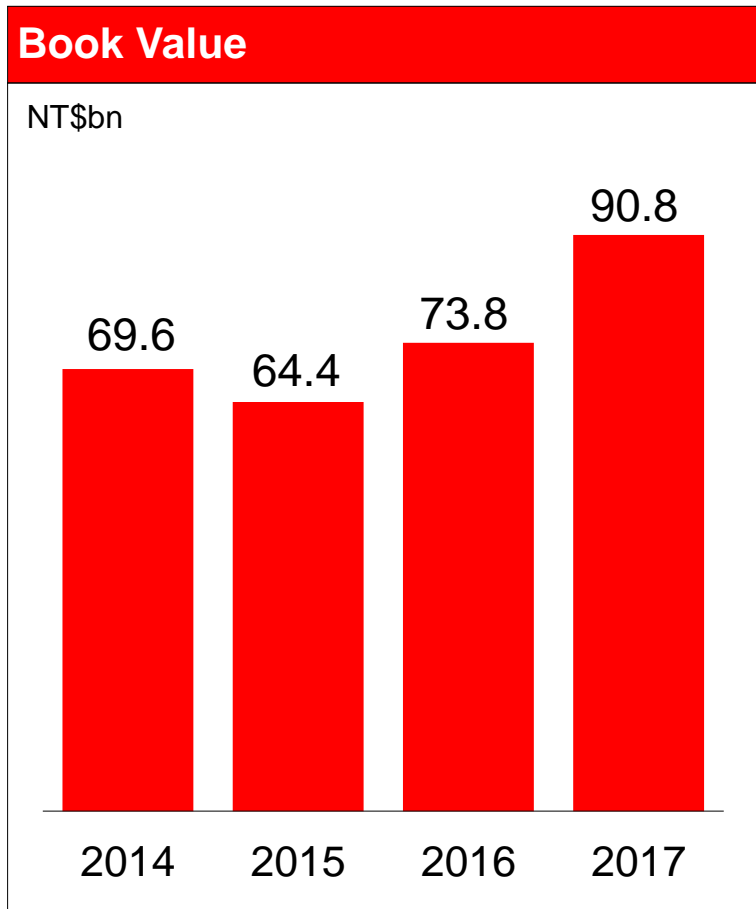
- Hedging cost for 2017 was 1.55% (1.29% excluding FX gain or loss resulting from disposal of foreign equities); FX volatility reserve was NT\$2.55bn
- Hedging ratio was 83.2%, including CS, NDF, and naturally-hedged foreign currency policies position
- Among traditional hedges, CS and NDF accounted for 60% and 40%, respectively

Note:

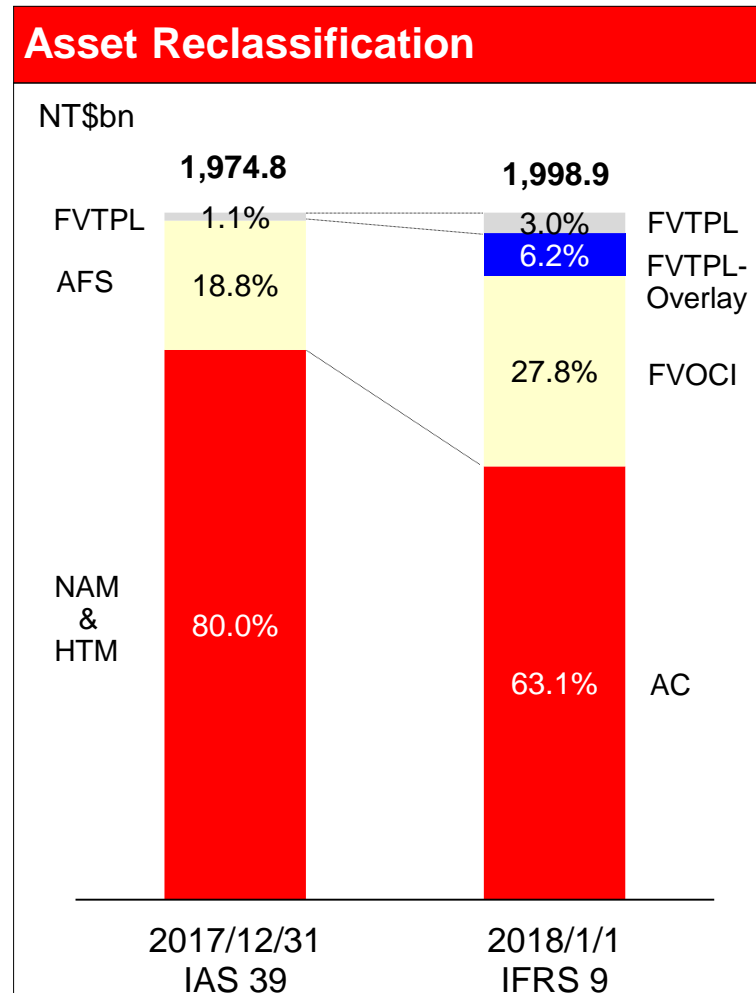
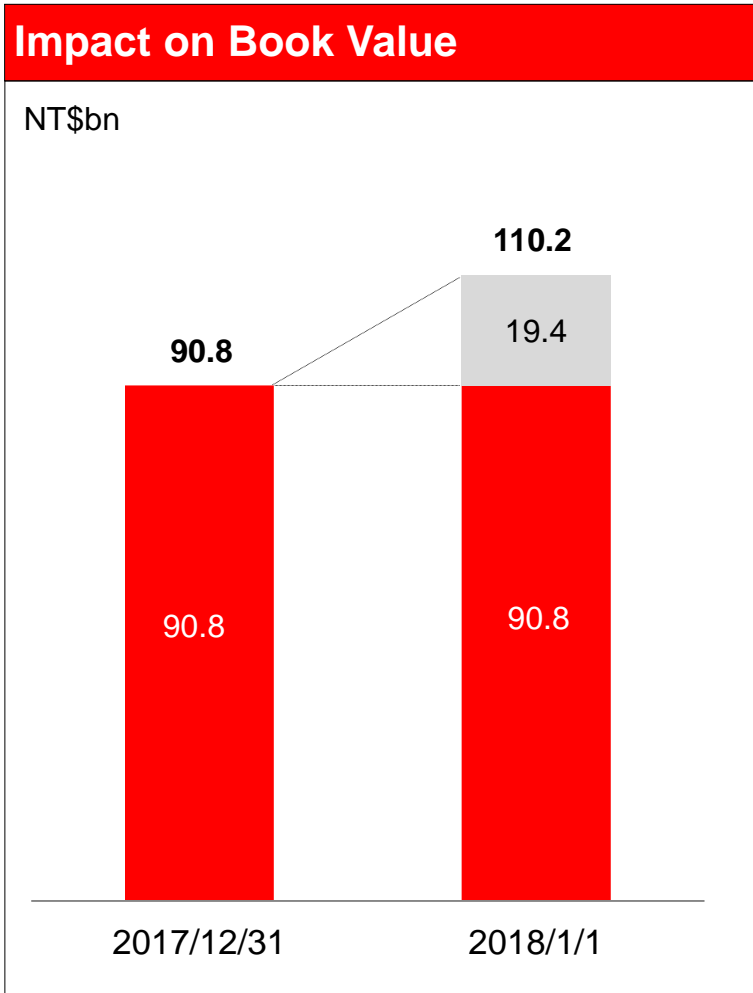
(1) Available for sale position

(2) Currency swaps and non-delivery forwards

Consolidated Book Value and Other Comprehensive Income



Impact of IFRS 9 Adoption



Investment Strategy

Strong ALM Discipline

- Promote 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 grow interest income
- Increase exposure to low beta, high-dividend yield stocks classified as FVOCI to increase cash dividend income

Cost-effective Currency Hedging

- Dynamically adjust FX hedging ratio. Mid- to long-term target ranges from 80% to 100%
- Target hedging cost at 100~150 bps or below in 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

SKL – 2018 Outlook

- Strengthen recruitment and optimize organizational constitution. Reinforce customer management and precise marketing through client data platform. Target FYP over NT\$110bn and cost of liabilities at least 10 bps lower than 2017.
- Focus on sales of FX policies and protection products to control hedging cost, gain stable interest spread and improve VNB.
- Enhance new money and reinvestment yield with eyes on rising interest rates and invest in high-dividend yield stocks to stabilize recurring income. Pre-hedge recurring yield expected to cover cost of liabilities in 2018. Post-hedge recurring profitability expected to gradually reach break-even in mid-to long-term with proper ALM aiming at duration and currency matching.
- Promote digital services, including e-service platform, self-service platform and e-policies to achieve double-digit growth in online membership and business volume. Use AI customer support chatbot to enhance service efficiency and customer satisfaction.
- Launch brand new marketing channel “LIFE Lab” by end of Q2 2018 to provide insurance plans, product consultation and digital self-service to boost customer loyalty and prospect potential customers.

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SKB – 2017 Overview

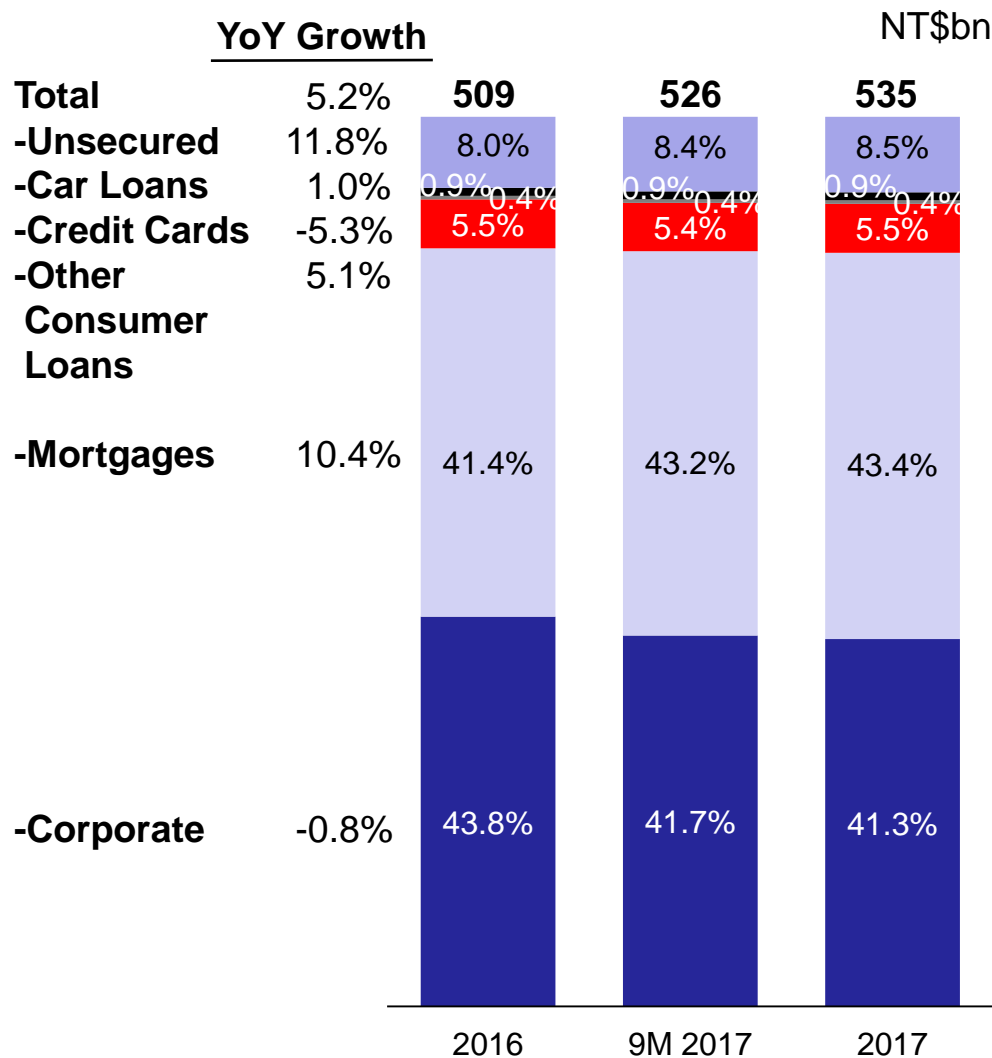
- Consolidated net income for 2017 reached NT\$4.06bn. Pre-provision operating income grew 6.2% YoY to NT\$7.19bn. Net interest income and investment income increased 4.7% and 27.5% YoY, respectively.
- Loan balance as of end of 2017 was NT\$534.82bn, up 5.2% YoY. Momentum mostly came from consumer loans, up 9.8% YoY.
- Benefited from well-controlled funding cost, NIM for Q4 2017 rose 3 bps QoQ to 1.58%. NIS was 1.96%, similar to previous quarter.
- Asset quality remained solid. NPL and coverage ratios for Q4 2017 were 0.24% and 488.29%, respectively. Provision expense expected to normalize in 2018.
- Wealth management income for 2017 was NT\$2.05bn, up 3.7% YoY. Sales for mutual funds and overseas securities grew 84.9% and 83.7%, respectively.

Net Income – 2017

	2016	2017	YoY Growth
NT\$mn, %			
Net interest income	10,688	11,191	4.7%
Net fee income	3,233	3,203	-0.9%
Investment income and other income	828	1,043	26.0%
Operating expense	-7,980	-8,250	3.4%
Pre-provision operating income	6,769	7,187	6.2%
Provision expense	-1,263	-2,322	83.8%
Income tax benefit (expense)	-876	-806	-7.9%
Consolidated Net Income	4,630	4,059	-12.3%

Note: Total may not add up exactly due to rounding

Loan Mix



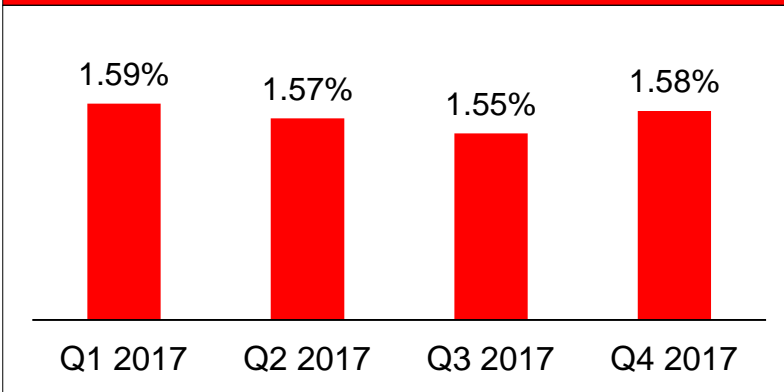
Comments

- Mortgage and unsecured consumer loans increased 10.4% and 11.8% YoY, respectively, resulting in 9.8% YoY growth of consumer loans in 2017
- Continuously developed in overseas syndicated loans. Loan balance as of end of 2017 grew 92.4% YoY to NT\$17.37bn

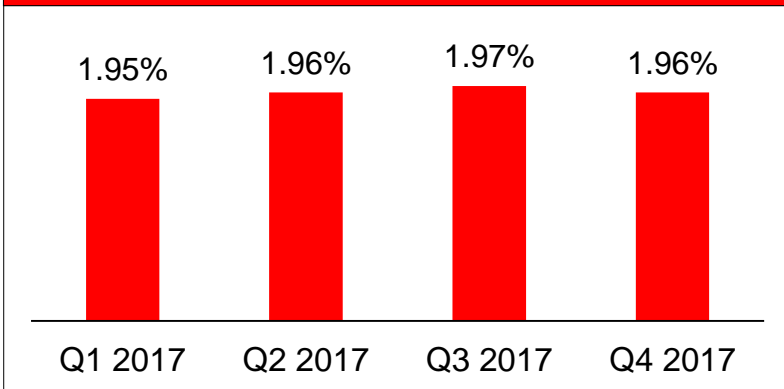
Note: Due to rounding, loan mix may not add up to 100%

Interest Income

Net Interest Margin



Net Interest Spread

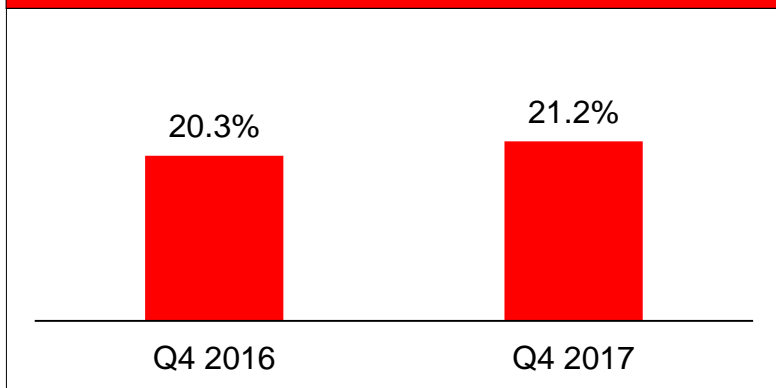


Comments

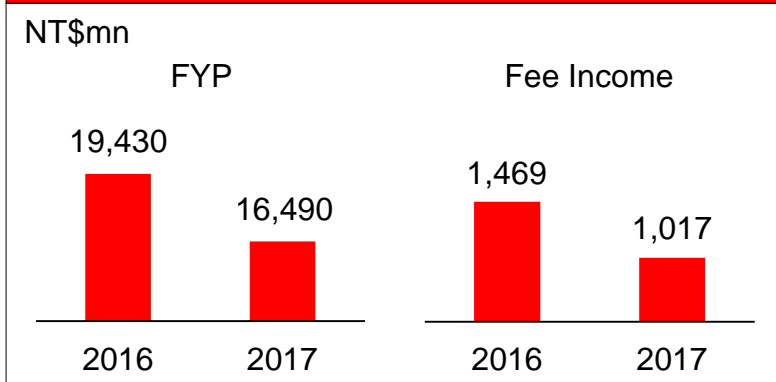
- NIM and NIS for 2017 were 1.57% and 1.96%, respectively
- NIM and NIS for 2018 expected to be slightly lower, resulting from higher loan growth target and lack of further funding cost decline
- SKB will continue to:
 - Increase demand deposit to lower cost of funds
 - Stably expand investments and overseas loans to sustain interest spread
 - Continuously promote foreign deposit to expand overseas business

Fee Income

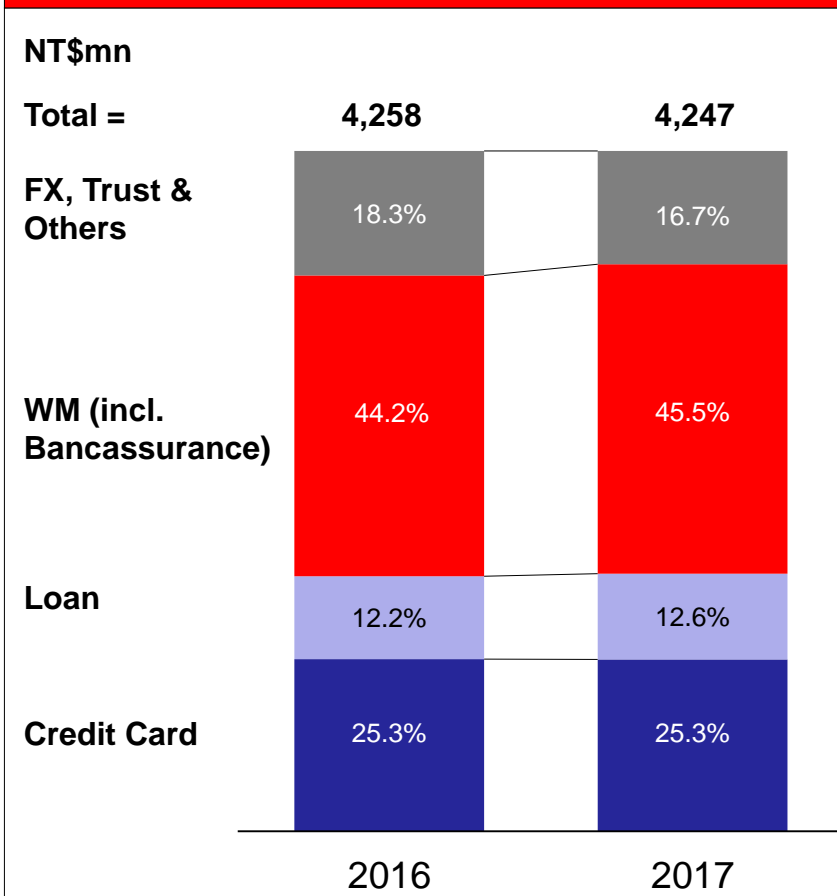
Net Fee Income / Total Income



Bancassurance



Fee Income Breakdown

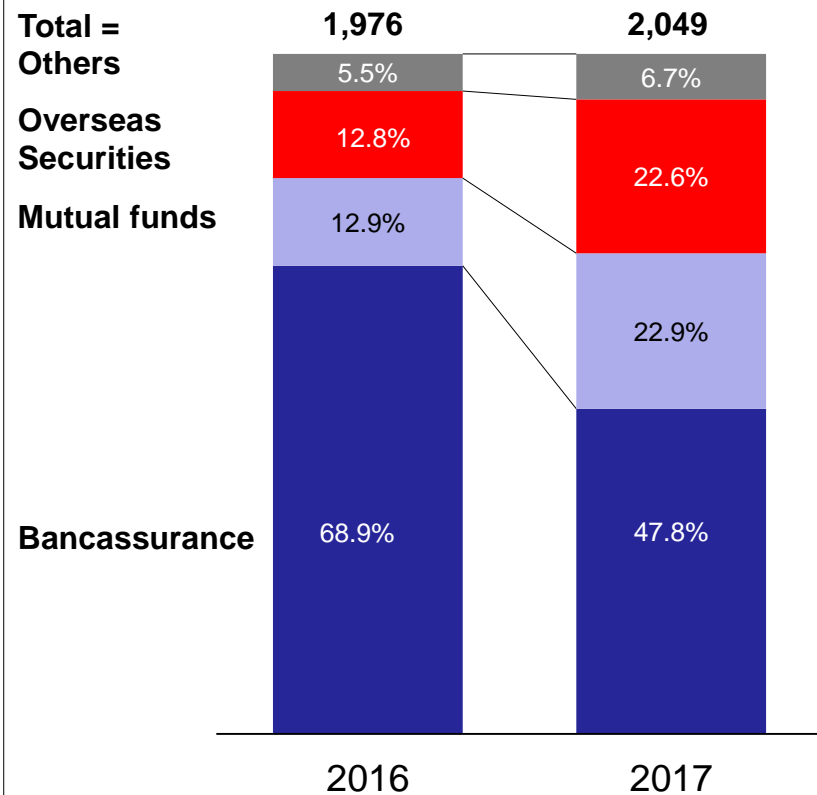


Note: Due to rounding, fee income breakdown may not add up to 100%

Wealth Management

Wealth Management Income Breakdown

NT\$m



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

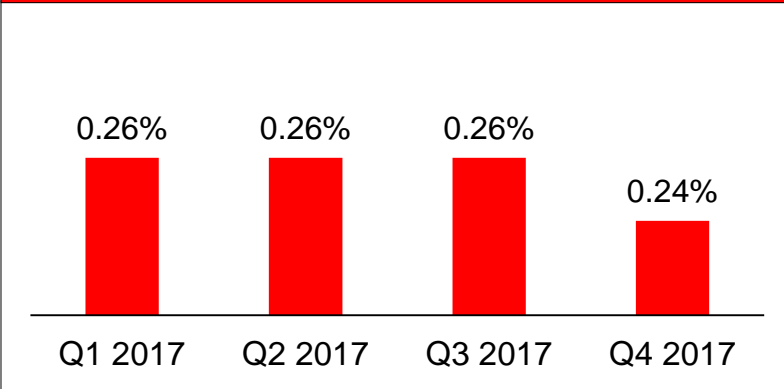
Wealth Management Center



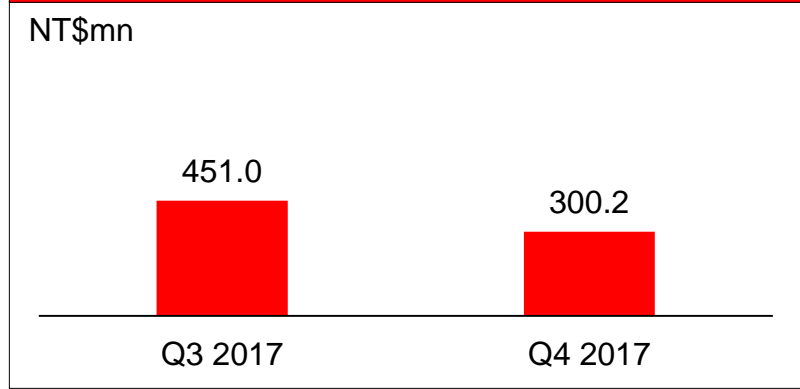
- Wealth management income for 2017 reached NT\$2.05, up 3.7% YoY. Sales in mutual fund and overseas securities remained strong, with fee incomes up 84.9% and 83.7% YoY, respectively,
- Sales of FX policies expected to grow in 2018, facilitating double-digit growth in wealth management income
- Continue to recruit experienced financial consultants to enhance service quality and average productivity

Asset Quality

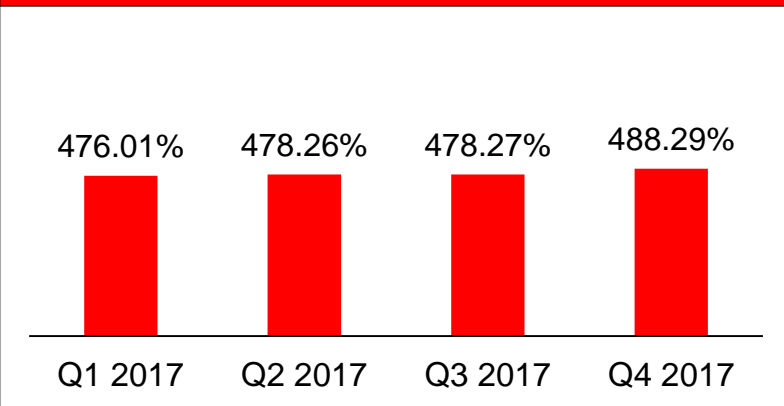
NPL Ratio



New NPL Generation



Coverage Ratio



- New NPL generated in Q4 2017 was NT\$300mn, 33.4% lower QoQ
- NPL and coverage ratios for Q4 2017 were 0.24% and 488.29%, respectively, similar to industry average

SKB – 2018 Outlook

- Accelerate loan growth by developing consumer and overseas syndicated loans and raise loan-to-deposit ratio.
- Achieve double-digit growth of wealth management fee income by promote preferential deposits for funding and driving sales of investment products and bancassurance.
- Expand overseas loans and improve stickiness of OBU clients to increase offshore earnings.
- For Hong Kong branch, stably develop corporate lending, as well as strengthen investment and wealth management business.
- Enhance digital finance and customer experience by upgrading credit card and mobile payment services to maintain double-digit growth of number of digital accounts and fee incomes related to mobile and internet banking.

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SP / RP Breakdown

NT\$bn

2017 FYP	Single Premium	Regular Premium	Flexible Payment	Total
Traditional	75.01	27.25		102.26
Investment-linked				
VUL / VA		0.13	2.52	2.65
Structured note	0.00			0.00
Interest sensitive				
Annuity / UL	0.00		0.39	0.39
PA, health and others ⁽¹⁾		5.67		5.67
Total	75.01	33.04	2.90	110.96
Share	67.6%	29.8%	2.6%	100.0%

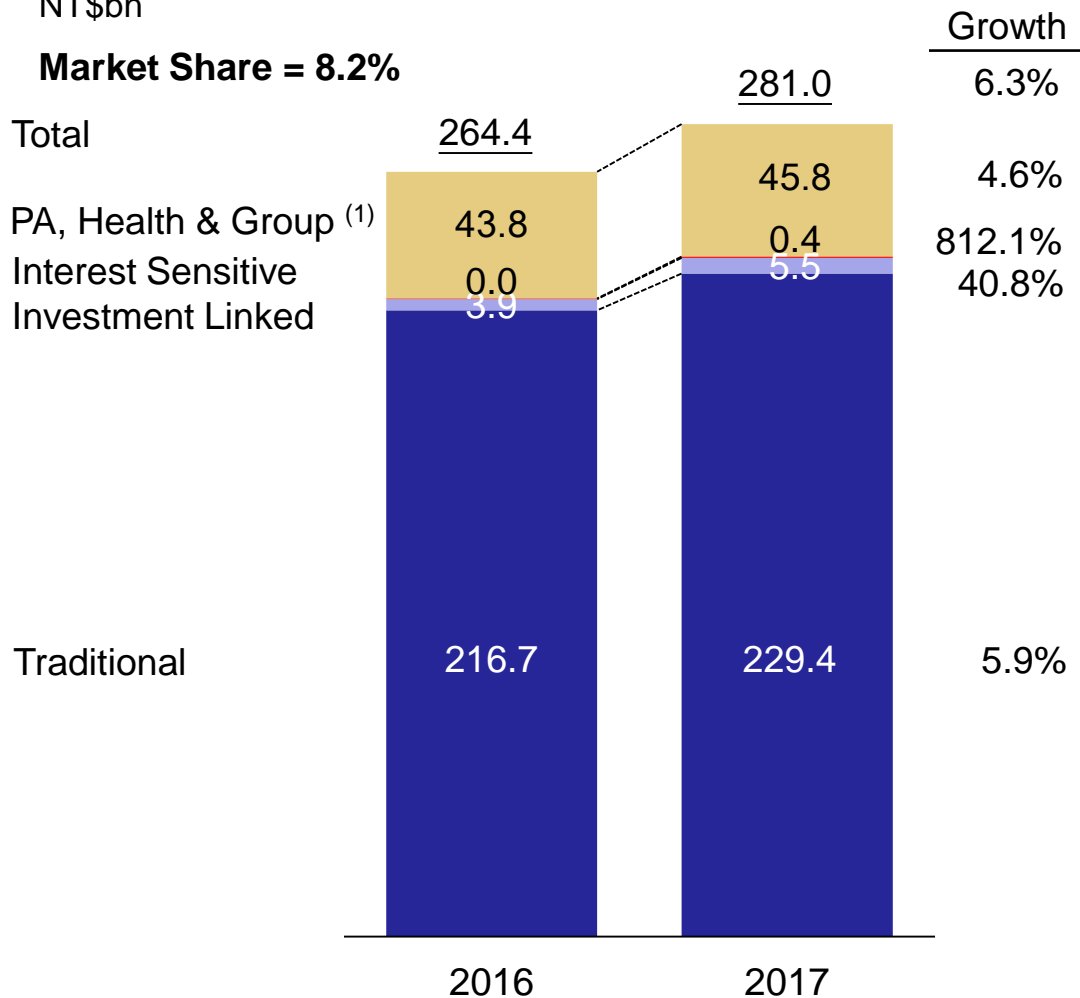
Note :

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

Total Premium – 2017

NT\$bn

Market Share = 8.2%



Comments

- Driven by renewal premium up 13.7% YoY, overall total premium increased 6.3% YoY
- Total premium of FX policies in 2017 reached NT\$81.46bn, up 43.4% YoY
- PA, Health & Group products grew steadily, 4.6% higher YoY

Note :

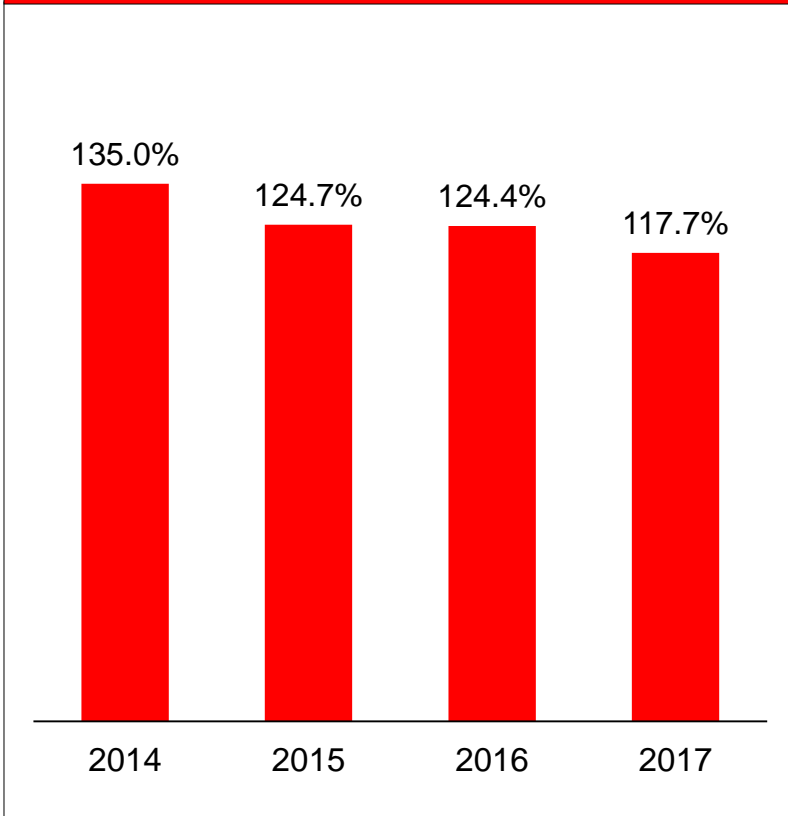
(1) Long-term disability Type A policies are classified as health insurance

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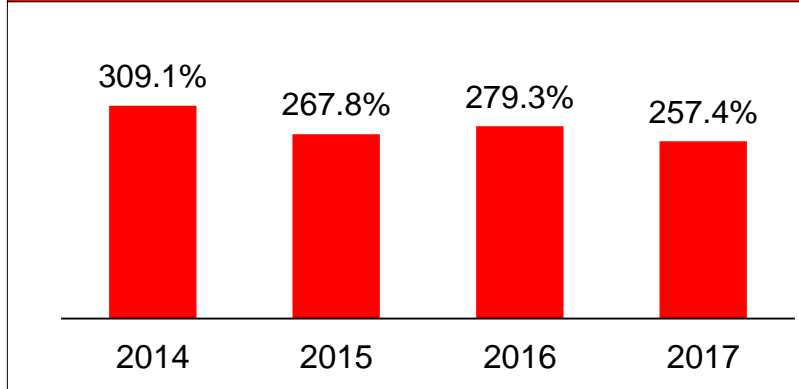
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Capital Adequacy

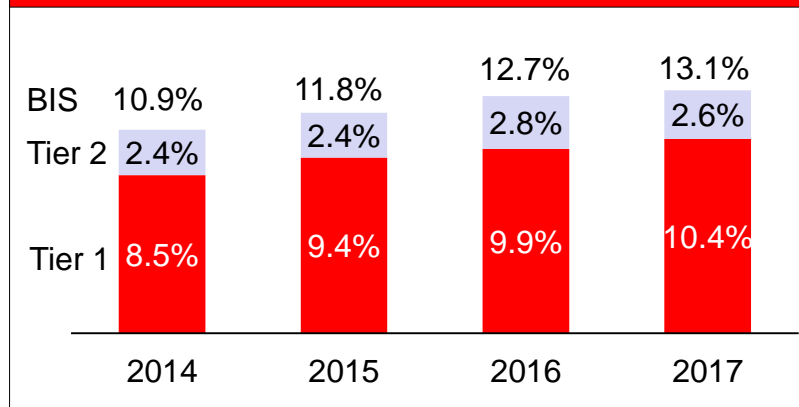
CAR of SKFH



RBC of SKL



BIS of SKB





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Shin Kong Financial Holding

Financial Summary

(NT\$m)

Income Statement Data	2017/2016			Q4 17/Q4 16		
	2016	2017	% change	Q4 2016	Q4 2017	% change
Net interest income	(196)	(191)	-2.8%	(48)	(50)	2.9%
Income from subsidiaries						
Shin Kong Life	126	6,918	5407.1%	2,136	(343)	-116.1%
Shin Kong Bank	4,630	4,059	-12.3%	1,269	960	-24.4%
MasterLink Securities	135	315	133.2%	(135)	78	-157.7%
Shin Kong Investment Trust	86	31	-64.4%	68	6	-91.8%
Shin Kong Venture Capital International	25	53	110.5%	11	5	-48.4%
Shin Kong Property Insurance Agency	53	56	5.5%	12	12	0.2%
Total income from subsidiaries	5,055	11,433	126.2%	3,362	718	-78.7%
Other income	53	247	362.6%	12	20	77.0%
Administrative and general expenses	(224)	(522)	132.4%	(55)	(322)	484.9%
Income tax benefit (expense)	122	(436)	-456.7%	42	(164)	-487.1%
Cumulative effect of changes in accounting principle	0	0		0	0	
Net income	4,810	10,531	118.9%	3,312	202	-93.9%
Other comprehensive income (loss), after tax	8,236	9,434	14.5%	295	2,469	736.5%
Total comprehensive income (loss)	13,046	19,965	53.0%	3,607	2,671	-26.0%

Balance Sheet Data	2017/2016			Q4 17/Q4 16		
	2016	2017	% change	Q4 2016	Q4 2017	% change
Long term investment	133,173	153,482	15.3%	133,173	153,482	15.3%
Total assets	3,157,673	3,384,388	7.2%	3,157,673	3,384,388	7.2%
Shareholders' equity (excl. minority)	121,397	141,310	16.4%	121,397	141,310	16.4%

Note:

(1) Numbers have been audited by the auditors.

Shin Kong Life
Financial Summary
(NT\$m)

Income Statement Data	2017/2016			Q4 17/Q4 16		
	2016	2017	% change	Q4 2016	Q4 2017	% change
Premium income	260,759	275,305	5.6%	65,380	68,788	5.2%
Investment income						
Interest income	70,225	77,226	10.0%	18,208	20,015	9.9%
Gains on investments in securities	17,032	31,232	83.4%	4,759	5,592	17.5%
Gains on real estate investments	3,811	3,849	1.0%	944	965	2.2%
FX	(14,850)	(22,959)	54.6%	(1,390)	(5,490)	295.0%
FX gain or loss	(28,598)	(87,152)	204.7%	27,075	(17,636)	-165.1%
Hedging	13,748	64,193	366.9%	(28,465)	12,146	-142.7%
FX Reserve	3,767	555	-85.3%	(513)	315	-161.4%
Impairment loss	(489)	(26)	-94.7%	0	(5)	
Total Investment income	79,496	89,877	13.1%	22,009	21,390	-2.8%
Other operating income	1,675	1,700	1.5%	331	348	5.0%
Provisions for reserves						
Provisions	(301,824)	(320,849)	6.3%	(77,604)	(83,276)	7.3%
Recoveries	97,467	120,263	23.4%	31,356	36,353	15.9%
Total provisions for reserves, net	(204,356)	(200,586)	-1.8%	(46,247)	(46,923)	1.5%
Insurance payments	(109,538)	(133,935)	22.3%	(33,083)	(38,053)	15.0%
Commission expenses	(13,247)	(11,480)	-13.3%	(3,167)	(2,787)	-12.0%
Separate account revenues	5,773	7,782	34.8%	585	2,106	260.0%
Separate account expenses	(5,773)	(7,782)	34.8%	(585)	(2,106)	260.0%
General and administrative expenses	(13,984)	(13,730)	-1.8%	(3,748)	(3,590)	-4.2%
Other operating costs and expenses	(1,508)	(2,214)	46.9%	(137)	(646)	370.1%
Operating income	(703)	4,937	-802.7%	1,337	(1,473)	-210.2%
Non-operating income and expenses	114	(404)	-453.8%	(0)	(199)	49517.2%
Income taxes	727	2,438	235.4%	805	1,353	68.2%
Cumulative effect of changes in accounting principles	0	0		0	0	
Net income	138	6,972	4939.1%	2,142	(319)	-114.9%
Other comprehensive income (loss)						
Exchange differences on translation of foreign operations financial statements	(2)	(5)	116.9%	(11)	(1)	-91.5%
Unrealized gains (losses) on available-for-sale financial assets	11,256	12,735	13.1%	2,297	4,645	102.2%
Gains (losses) on effective portion of cash flow hedges	0	0		0	0	
Actuarial gains (losses) on defined benefit plans	(620)	(1,314)	111.9%	(620)	(1,314)	111.9%
Share of other comprehensive income of associates and joint ventures accounted for using equity method	(12)	0	-100.0%	2	0	-100.0%
Income tax relating to components of other comprehensive income	(1,410)	(1,619)	14.8%	(361)	(516)	43.2%
Total comprehensive income (loss)	9,350	16,770	79.4%	3,449	2,495	-27.7%

Balance Sheet Data	2017/2016			Q4 17/Q4 16		
	2016	2017	% change	Q4 2016	Q4 2017	% change
Total assets	2,319,734	2,496,691	7.6%	2,319,734	2,496,691	7.6%
Total shareholders' equity	73,772	90,801	23.1%	73,772	90,801	23.1%

Note:

(1) Numbers have been audited by the auditors.

Shin Kong Bank
Financial Summary
(NT\$m)

Income Statement Data			2017/2016			Q4 17/Q4 16
	2016	2017	% change	Q4 2016	Q4 2017	% change
Interest income	15,279	15,516	1.6%	3,841	3,996	4.0%
Interest expense	(4,590)	(4,325)	-5.8%	(1,051)	(1,118)	6.4%
Net interest income	10,688	11,191	4.7%	2,790	2,877	3.1%
Fee income	4,258	4,247	-0.3%	1,038	1,115	7.4%
Fee expense	(1,026)	(1,044)	1.8%	(257)	(298)	16.1%
Net fee income	3,233	3,203	-0.9%	781	817	4.5%
Gains on bill & securities	638	938	47.1%	245	87	-64.4%
Gains on foreign exchange, net	96	(3)	-102.9%	54	64	18.9%
Other gains or losses, net	95	108	13.8%	(30)	4	-112.4%
Operating expense	(7,980)	(8,250)	3.4%	(1,902)	(2,069)	8.8%
Pre-provision income or loss	6,769	7,187	6.2%	1,939	1,780	-8.2%
Provision expense	(1,263)	(2,322)	83.8%	(415)	(632)	52.4%
Income tax (expense) benefit	(876)	(806)	-7.9%	(255)	(188)	-26.4%
Net income	4,630	4,059	-12.3%	1,269	960	-24.4%
Other comprehensive income (loss)						
Exchange differences on translation of foreign operations financial statements	(14)	(13)	-8.6%	14	(6)	-141.3%
Unrealized gains (losses) on available-for-sale financial assets	(539)	28	-105.2%	(790)	(10)	-98.8%
Actuarial gains and losses on defined benefit plans	(190)	(342)	79.6%	(190)	(342)	79.6%
Income tax relating to components of other comprehensive income	32	58	79.6%	32	58	79.6%
Other comprehensive income (loss), after tax	(712)	(269)	-62.2%	(934)	(299)	-68.0%
Total comprehensive income (loss)	3,919	3,790	-3.3%	335	661	97.0%

Balance Sheet Data			2017/2016			Q4 17/Q4 16
	2016	2017	% change	Q4 2016	Q4 2017	% change
Total assets	782,380	812,488	3.8%	782,380	812,488	3.8%
Total shareholders' equity	49,197	52,488	6.7%	49,197	52,488	6.7%
Total loans, net ⁽¹⁾	501,315	527,759	5.3%	501,315	527,759	5.3%
Total deposits	686,883	712,253	3.7%	686,883	712,253	3.7%

Operating Metrics				
	2016	2017	Q4 2016	Q4 2017
Fee income ratio	21.9%	20.7%	20.3%	21.2%
Cost income ratio	53.8%	53.2%	49.2%	53.4%
Loan/deposit ratio (excl. credit card)	73.0%	74.1%	73.0%	74.1%
Loan/deposit ratio (incl. credit card)	73.3%	74.3%	73.3%	74.3%
Net interest margin	1.50%	1.57%	1.55%	1.58%
Net interest spread	1.97%	1.96%	1.96%	1.96%
Pre-provision earnings/assets	0.86%	0.90%	0.25%	0.22%
Pre-provision earnings/equity	14.26%	14.14%	4.08%	3.50%

Note:

(1) Excludes credit cards but include overdue receivables.

(2) Numbers have been audited by the auditors.