
Transcript of the Q&A Session in 2021 Annual General Meeting of China Merchants Bank

(organized according to on-site recording)

Time: 29 June 2022 (a.m.)

Venue: Hong Kong and Conference Room, 5/F, China Merchants Bank Tower, Shenzhen

Participants of CMB: MIAO Jianmin, Chairman; WANG Liang, President & CEO; XIONG Liangjun, Chairman of the Board of Supervisors; other Directors and candidates for Directors, Supervisors and candidates for Supervisors; general managers of the Board Office, the General Office, the Assets and Liability Management Department, the Finance and Accounting Department, the Legal and Compliance Department and other relevant departments.

Live webcast: CMB App

Consolidation of record: Investor Relations Management Team of the Board Office of CMB

Moderator of Q&A session - Xia Yangfang, General Manager of the Board Office: Dear shareholders and shareholder representatives, the Q&A session is about to begin, which will last for about half an hour. We have collected questions from shareholders in advance through e-mail,

hotline and SSE E-interaction. As shareholders are watching the proceedings of the meeting via live webcast, the Board Office staff will ask questions of common concern on behalf of shareholders.

Q1: Recently, the State-owned Assets Supervision and Administration Commission (SASAC) of the State Council issued the Notice on Matters Concerning the Reform of State-owned Capital Investment Companies. After the comprehensive evaluation of the pilot reform of state-owned capital investment companies by the SASAC of the State Council, China Merchants Group has been officially converted into a state-owned capital investment company. Before that, on 30 January, the PBOC announced the opening for application for the third batch of financial holding companies, and China Merchants Finance Investment Holdings Co., Ltd., a subsidiary of China Merchants, became the fourth company that applied for the financial holding company license. What will the above two events affect CMB?

MIAO Jianmin, Chairman: State-owned capital investment companies are companies that conduct market-oriented operation of state-owned capital based on capital and property rights. The pilot program of state-owned capital investment companies has lasted for a certain period, and the SASAC considered that China Merchants Group has done well in

the pilot program, and officially recognized China Merchants Group as a state-owned capital investment company. State-owned capital investment companies shall perform the duties of state-owned capital contributors within the scope authorized by the state and manage the enterprises held by them in accordance with the standardized corporate governance structure, and shall not engage in specific production and business operation. China Merchants Group also manages its subsidiaries in accordance with the standardized corporate governance structure and does not participate in specific operation.

China Merchants Finance Investment Holdings Co., Ltd. is among the third batch of financial holding companies announced by the PBOC. Once approved by the PBOC, its financial subsidiaries will also be managed in accordance with the Interim Measures for the Supervision and Administration of Financial Holding Companies. We have pointed out for a couple of times that CMB is a joint-stock commercial bank with “no controlling shareholder or de facto controller”. In managing CMB, we will always adhere to the “three constants” principles, which refer to the President assuming full responsibility under the leadership of the Board of Directors, the market-oriented incentive and restraint mechanism, and the stability of the management team and talents, and we will also comply with the modern corporate governance standards. If China Merchants Finance Investment Holdings Co., Ltd. is approved as a financial holding company,

there will be no impact on the existing management and operation of CMB.

Q2: What are the major changes in the new session of the Board of CMB? What is the impact of the election on the corporate governance of CMB? I noticed that after the Board of CMB proposed candidates for the new session of the Board, Hexie Health Insurance Co., Ltd. also proposed an additional candidate for Director by way of interim proposal. What is the views of CMB in this regard?

MIAO Jianmin, Chairman: There is no major change in this session of the Board. The list of candidates for Directors proposed by the Board of CMB on 20 May is mainly based on the comprehensive consideration of the requirements of domestic and overseas laws and regulations, shareholder structure, historic development and our actual situation as well as the situation of the Board members, which is in compliance with the requirements of laws and regulations, and relatively reasonable after practical inspection.

If considered and approved at the annual general meeting, the members of the Board will remain stable after the re-election, and the majority of the Directors will remain unchanged after the re-election. Even if few individual Directors of the last session of the Board no longer serve as Directors due to changes in work or age, it is believed that the new session of the Board will play an active role for CMB by promoting

continuous improvement of corporate governance and maintaining efficient operation of the Bank.

Hexie Health Insurance Co., Ltd. stands for “Hexie Health Insurance Co., Ltd. –Traditional – Ordinary insurance products”. According to laws and regulations, they hold more than 3% equity interest in CMB and is entitled to nominate candidates for Directors. They proposed an interim proposal to add one candidate to the Board, which CMB directly submitted to the general meeting for consideration in a timely, accurate and complete manner in accordance with relevant regulations. CMB always treats all shareholders fairly and equally, fully respects the shareholders’ right to nominate Directors and the voting results of this general meeting. Proposal put forward by Hexie Health Insurance Co., Ltd. has been submitted to the General Shareholders Meeting, and we will fully respect the results of the AGM.

Q3: During the previous period, the Board of CMB appointed Mr. WANG Liang as the President and CEO. May I ask Chairman MIAO what the impact is on CMB in this regard? In addition, may I ask President WANG, how confident you are in the future development of CMB, and what new measures will be introduced to maintain the existing advantages of CMB?

MIAO Jianmin, Chairman: I will answer the first question and then

President WANG Liang will answer the second.

On 19 May, CMB held the 40th meeting of the 11th session of the Board, at which the appointment of Mr. WANG Liang as the President of CMB was considered and approved. On 15 June, the CBIRC approved his qualification. We engage Mr. WANG Liang as the President of CMB, which is of great positive significance to CMB.

Firstly, Mr. WANG Liang is a senior management board member who started his career in CMB as a grassroots employee. He is very familiar with CMB and professional with extensive management experience. Moreover, he knows the situation of various positions well and is good at overall coordination. He is the main operator and implementer of the strategies of the Board of CMB and is therefore a suitable candidate.

Secondly, Mr. WANG Liang has been working in CMB for a long time. His role as the President is conducive to maintaining the continuity and sustainability of CMB's strategies. Therefore, Mr. WANG Liang acting as the President should be highly recognized by the Bank internally and the market externally. I believe that the long-term sustainable development of CMB is of great significance to the firm implementation of the strategies formulated by the Board.

WANG Liang, President and CEO: I am very grateful for the trust of the Board to engage me as the new President of CMB. I would like to express my gratitude to the Chairman for his encouragement and

recognition, and also to investors for asking me this question.

Over the past two months, under the leadership of the Board and with the support and assistance of regulatory authorities, the senior management and I have led CMB to make active efforts without seeking refuge or evading responsibility to actively implement the requirements of the Board and the Chairman, that is to stabilize strategies, operations, mechanisms, teams and markets, maintaining the normal development of various operations and business operations of CMB.

An investor just asked me if I have confidence in the development of CMB. Indeed, we are confident and determined to further improve the operation and management of CMB.

First of all, CMB has very good corporate governance. As Chairman MIAO has just said, CMB shall adhere to the “three constants” principles which refer to the President assuming full responsibility under the leadership of the Board of Directors, the market-oriented incentive and restraint mechanism, and the stability of the management team and talents. At the same time, the Bank will continue to follow the “Five Adherence Principles”, that is to always uphold the “Two Consistent Principles”, the market-oriented professional path, the innovation-driven direction, the differentiated development strategy, and the prudent risk management philosophy. This is the key to success for CMB, and also our niche and strength. That is why we must consolidate and give full play to the

advantages of corporate governance.

Secondly, CMB has laid a solid foundation for development. CMB is celebrating its 35th anniversary of establishment this year. After 35 years of unremitting efforts and hard work of several generations of CMB staff, it has achieved excellent results and laid a solid foundation for development. The foundation is reflected in our sound management base, customer base, business base and employee base, which are the strength and confidence for our future development.

Thirdly, CMB still has huge development potential. China has become the second largest economy in the world and still maintains a relatively fast pace of development. China has a population of 1.4 billion, including 0.4 billion from the middle-income group and 0.3 billion from the new citizen group. In China, there is an extensive market and room for the development of retail banking business. There is no other country in the world that has such a large market for the development of retail banking business as China, which can be described as a massive treasure, providing huge room for the development of CMB.

In addition, I have been working in CMB for a long time and have a deep understanding of the strategies of CMB. I have a high degree of recognition of CMB culture and a strong sense of responsibility for the development of CMB. I also have strong passion for CMB. I will unite and lead the management team and all employees of the Bank to work hard,

live up to our mission, to the trust and expectation of shareholders, customers and employees, and strive to open up a better future for CMB.

Investors also asked how CMB will further maintain its development advantages in the next step? I would like to share that under the leadership of the Board and with the active efforts of the management, we will further strive to open up a new prospect in the following aspects:

Firstly, we will adhere to our strategic determination and strengthen the implementation of our strategies. Since 2004, CMB has put forward the development strategy of retail banking. In 2014, CMB proposed the “Light-Model Bank” development strategy. Last year, CMB formulated the “Five-Year Development Plan of CMB” based on the “14th Five-Year Plan” and proposed the 3.0 business model with a core focus on creating a cyclic extensive wealth management value chain. These not only keep pace with the times, but are also consistent with the fundamentals of the Bank, which are to strengthen and enhance the retail banking strategy of CMB. They are the strategic plans carefully devised by the Board, and are highly recognized by all employees of the Bank. After these years of efforts, we have achieved excellent results. We will continue to adhere to and be determined to implement our strategy.

Secondly, we will enhance the competitiveness of CMB by building “three capabilities”. Chairman MIAO suggested that CMB should build the three capabilities of “wealth management, fintech and risk management”.

The ability of wealth management determines how high we reach, the ability of fintech determines how fast we go, and the ability of risk management determines how far we get. In the next step, we will further improve the level of risk management, internal control and compliance, continuously increase fintech investment, and further facilitate the development of extensive wealth management business.

Thirdly, we will further enhance internal management by improving the scientific, standardized, refined and digital level of internal management. Management determines development. Only by constantly improving management level and capabilities can CMB achieve a healthier and more sustainable development in the long run.

Fourthly, we will further strengthen the talent team building by cultivating talent teams who can adapt to the future development trend of commercial banks. To compete in the financial industry is to compete for talents. This tests how we can attract more talents in the financial industry. It is necessary to give full play to the “Six-Can” mechanism of CMB, where employees can be promoted or demoted, employed or terminated and can have salary increment or reduction, through which the enthusiasm and vitality of management and staff will be continuously stimulated.

I would like to keep enhancing the strategic advantages, management advantages, talent advantages and technology advantages of CMB through these aspects, so as to consolidate the development advantages of CMB

and ensure a better development of CMB.

Together with the management and under the leadership of the Board, I will unite and lead the Bank's cadres and staff, and strive to create a new prospect for the future development of CMB. Thank you!

Q4: At present, in the face of the impact of the pandemic and the complex external environment, what changes have been observed in the operating results of CMB compared with the beginning of the year? Any changes made in terms of the Bank's operation?

WANG Liang, President and CEO: Thanks for the question. In the first half of this year, the operating environment of commercial banks has undergone tremendous changes. I am aware that risks have risen, difficulties have increased, and so have challenges.

From the international perspective, there are several major factors that have posed a very direct impact. Firstly, the continuous escalation of the Russia-Ukraine conflict; secondly, the rapid increase in commodity prices; thirdly, the increasingly tightening of the monetary policy of the United States. All these factors have negatively impacted the recovery of the global economy and increased volatility in financial markets.

From the perspective of domestic adverse factors, firstly, the impact of the pandemic has negatively affected the economic development; secondly, the default risk of real estate enterprises in the real estate industry

has increased, and the market has been shrinking; thirdly, the capital market experienced a volatile and downward trend in the first half of the year.

Both international factors and domestic factors have adversely affected the operation of the banking industry. In general, the banking industry of China has experienced three significant changes:

Firstly, the decline of LPR. The PBOC guided down the interest rate in order to support the development of the real economy. Fees have been reduced and concessions offered for entities, resulting in a rapid decline in interest rate in the first half of the year.

Secondly, due to the insufficient effective credit demand, banks have taken measures of growing loans by reducing the loan pricing, which further aggravated the downward trend of interest rate, resulting in an inversion of deposit and loan interest rates, along with certain irregularities such as arbitrage through bill discount business.

Thirdly, the growing momentum of non-performing loans. This was mainly due to the increase in risks caused by defaults of individual real estate enterprises, as well as some consumer financing business, especially credit card loans. Due to the impact of the pandemic, more consumers' repayment capability has decreased.

These are major issues in the banking industry in the first half of the year. For CMB, it is also encountering changes in the external environment and common problems faced by the banking industry. Overall, there were

joys and sorrows in the operation of CMB in the first half of the year, but the joys have outweighed the sorrows.

Firstly, deposits maintained a good growth momentum. In the first half of the year, the balance of daily average proprietary deposits of CMB reached approximately RMB 700 billion, mainly as core deposits, and the proportion of demand deposits remained at around 63%, which was mainly benefitted from the relatively loose monetary policy, providing a very good external environment for absorbing deposits, especially core deposits.

Secondly, AUM still maintained a rapid growth momentum. At the end of the first quarter of 2022, the daily average AUM balance of the Company's retail business was RMB 11.34 trillion, representing an annual increase of RMB 580.08 billion. In the second quarter, AUM continued to maintain a very good growth momentum, but the growth structure changed mainly due to the growth of wealth management products and savings deposits. The growth rate of equity-related assets slowed down due to the impact of capital market fluctuations, but the overall AUM showed a relatively good growth rate.

Thirdly, CMB actively adjusted its asset allocation tactic against the background of insufficient effective loan demand and asset shortage faced by the banking industry. In the face of insufficient loan demand for retail loans, especially the insufficient demand for mortgage and credit card loans, the Bank increased the input in corporate credit, bond investment, bill

business and interbank financing business to further improve the efficiency of asset allocation and the growth in net interest income.

Fourthly, the Bank continued to maintain stable asset quality by adhering to strict and prudent classification policies, making full provision and strictly controlling risks. Despite a slight increase in non-performing loan balance and non-performing loan ratio, we maintained our risks under control which did not affect our performance. Although our revenue growth slowed down as compared to last year, the growth in earnings was still in line with expectations.

In conclusion, despite the adverse factors in the first half of the year, CMB actively adopted flexible and diversified measures to maintain overall stability in its operation and results. Thank you.

Q5: What is CMB's NIM trend since the beginning of the year?

What is the outlook for full year's NIM?

WANG Liang, President and CEO: In the first quarter of this year, our net interest margin remained relatively stable and good. In the first quarter, the NIM of the Group was 2.51%, representing a year-on-year decrease of 1 BP and a quarter-on-quarter increase of 3 BPs, which still looked very optimistic. Since the beginning of the second quarter, the situation has changed to a certain extent, and the net interest margin has declined, mainly due to several factors of the asset side.

The first factor was the rapid decline of LPR. In January this year, the 1-year LPR was reduced by 10bps, and the over 5-year LPR by 5bps. Then on 20 May, the over 5-year LPR was further cut by 15bps, and the minimum mortgage interest rate for first-time home buyers was reduced to LPR-20bps. This would lead to a further decline in the pricing of bank loans under the policy guidance, the main reason of which is to reduce financing costs for entities.

The second factor is change of retail loan growth situation. In the past, mortgage loans and credit card loans have been the focus products of loan growth, and are high-priced and high-yield assets. This year, these two major categories of assets have been affected by the real estate market and the impact of pandemic prevention and control policy on consumption, resulting in a significantly smaller year-on-year increase. This situation had a negative impact on the Bank's overall loan pricing.

The third factor is we increase corporate loan growth in order to keep reasonable growth of loans, stabilize customers and maintain a good cooperative relationship with them, we grow more corporate loans to achieve the goal of asset allocation, and the loan pricing has also been affected and declined.

Therefore, the asset side was an important reason for the narrowing of net interest margin in the second quarter. With the successful pandemic prevention and control in Shanghai, consumption is gradually recovering,

and credit card loans are also recovering rapidly. It is expected that the net interest margin of the Bank in the second half of the year will improve marginally from the second quarter's level.

Q6: Have there been any significant changes in the asset quality of CMB since this year due to multiple impacts of the pandemic and increasing downward pressure on the economy? What are the risks in key areas such as real estate and credit cards?

WANG Liang, President and CEO: Thanks for the question. At the end of the first quarter, the Group's non-performing loans amounted to RMB54.1 billion, representing an increase of RMB3.3 billion as compared to the beginning of the year. The non-performing loan ratio was 0.94%, up by 0.03 percentage point as compared to the end of the previous year. Both non-performing loan balance and non-performing loan ratio increased in the first quarter of this year, which is the first time since 2017 when the Bank's non-performing loan balance and non-performing loan ratio both fell for five consecutive years. Although the increments and amounts are minor, we are highly concerned about whether this change is trend-based.

We also noted that at the end of the first quarter, our percentage of special-mentioned loans increased from 0.84% at the end of last year to 0.96%, and the percentage of overdue loans increased from 1.02% at the end of last year to 1.09%, up by 0.07 percentage point. We have adopted a

very strict and prudent risk policy to sort out and investigate our asset quality, so as to achieve early exposure, early resolution and early collection.

The sources of risk are mainly in two major categories: firstly, real estate loans; and secondly, credit card loans. Real estate loans are mainly affected by the credit defaults of individual real estate enterprises. We downgrade the classification in a promptly manner to facilitate timely measures to resolve such defaults.

Credit card loans are affected by two factors: firstly, due to the impact of the pandemic, individual customers experienced difficulties in repayment; and secondly, due to policy adjustments, all of our credit card loans overdue for more than 60 days are classified as non-performing loans, making the identification of non-performing loans more stringent, resulting in a corresponding increase in non-performing loans.

However, overall, although the non-performing loan amount and non-performing loan ratio of the Bank increased, the overall increase in the second quarter was minimal, and the overall asset quality was under control.

In addition, we have very strict classification of loans and did not incur any historic burden on asset quality. Moreover, we further increased provisions, solidified risk compensation capabilities, further strengthened collection and reduced the losses of non-performing assets. Thus, the asset quality did not have any negative impact on our overall operating results.

Thank you.

Q7: How has been the development and fee income of the extensive wealth management business of CMB since the beginning of the year? What kind of characteristics have been observed? How about the outlook for the year?

WANG Liang, President and CEO: As of the end of the first quarter of this year, the balance of retail AUM of the Bank reached RMB11.34 trillion, representing an increase of more than RMB580 billion from the beginning of the year; in the second quarter, the scale of retail AUM still maintained a rapid growth momentum. In the first quarter of this year, the income from extensive wealth management related businesses (note: the income from extensive wealth management business includes the fee and commission income from wealth management, asset management and custody business) amounted to RMB15.31 billion, representing a year-on-year negative growth of 0.59%, and the growth rate slowed down. The slowdown was mainly due to the impact of last year's high base. Last year, the growth rate of income from extensive wealth management business reached 33.91%. The significant income from agency business among the relevant income from extensive wealth management business this year was affected by the capital market, and the shrinking scale of sales of mutual funds led to a more significant decline in income from agency fund sales.

In the first quarter of this year, fee and commission income from wealth management business was only RMB10.429 billion, representing a year-on-year decrease of 11.11%, of which income from agency sales of mutual funds decreased significantly year-on-year. However, income from other sources, such as income from agency insurance and agency sales of wealth management products, showed a relatively rapid growth momentum.

In addition, our asset management fee and commission income maintained a relatively rapid growth. By the end of the first quarter of this year, the total scale of our asset management business reached RMB4.41 trillion, representing an increase of 2.32% as compared to the end of the previous year, and the fee and commission income from asset management increased by 47.55% year-on-year. Our custody business exceeded RMB20 trillion, with a year-on-year growth of 11.32% in custody fee income.

From the perspective of the first half of this year, the extensive wealth management business showed a rapid growth momentum in terms of retail AUM, asset management business scale and custody scale, but the income was uneven. The income from agency sales of insurance and wealth management products, asset management income and custody fee income showed rapid growth, while the income from agency sales of funds only recorded a slight year-on-year increase, which affected the growth momentum of extensive wealth management income.

With the recent rebound of the capital market, we believe that the

scale of extensive wealth management of CMB in the next stage will continue to maintain the momentum of rapid development. It is expected that the income from extensive wealth management in the second half of this year will be better than that in the first half. Thank you.

Q8: Will CMB increase the dividend payout ratio in the future?

MIAO Jianmin, Chairman: Investors also inquired about this issue at the last results presentation. The overall dividend payout ratio of CMB is relatively high, which has been maintained at around 33%, and is also in a relatively high position compared with our peers. In the future, under the premise of complying with laws, regulations and regulatory requirements and ensuring capital adequacy ratio meeting regulatory requirement, we will still maintain cash payout ratio of no less than 30% of net profit after tax in principle, and flexibly adjust the proportion of dividend distribution according to profit situation and capital planning, so that shareholders can enjoy greater cash returns.

Moderator of Q&A session - Xia Yangfang, General Manager of the Board Office: Thank you Chairman and all shareholders. Due to time constraint, today's Q&A session ends here. If you have further questions, please contact the Board Office of CMB after the meeting.