Q&A Transcript for 2022 Interim Results Conference of China Merchants Bank

(Compiled based on the recording)

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Participants of China Merchants Bank: Wang Liang, President, Wang Jianzhong, Executive Vice President, Li Delin, Executive Vice President, Zhu Jiangtao, Executive Vice President, Zhong Desheng, Executive Assistant President and heads of relevant departments of the Head Office

Moderator: Xia Yangfang, Securities Representative and Director of Board Office of China Merchants Bank

External participants: 3,654 participants, comprising domestic and international investors and analysts

Recorded by: Investor Relations Management Team, Board Office of China Merchants Bank

[Question 1]: Thank you very much for giving me the opportunity to ask questions first. In such a difficult year, CMB's double-digit profit growth looks great. Given the wide-spread pessimism around macroeconomic outlook, what's your view on the macroeconomic backdrop? Amid the industry-wide challenge of insufficient effective demand, the growth of retail loans at CMB was slow in the first half of the year. Will we see more weakness in the second half of the year? Will corporate banking account for an increasingly higher percentage at CMB?

[Wang Liang, President]: Thank you for your question. In the first half of the year, CMB, like other banks, faced a very complex and severe external business environment. The most direct impact and influence was from the pandemic, especially the outbreak of the pandemic in Shanghai in the second quarter, which had a relatively large impact on the bank and brought great difficulties and challenges to the development of various businesses. At the same time, monetary policy easing, which was implemented to hedge against the economic downturn, led to relatively loose liquidity and a lack of effective credit demand, and banks were faced with asset shortage and sharply lower lending rates. Coupled with rising real estate lending risks since the end of last year and weaker capital markets, multiple adverse impacts brought unprecedented difficulties, challenges and pressure to CMB's operations.

Under such circumstances, CMB achieved remarkable results thanks to its active implementation of the business development strategy laid out at the beginning of the year and the four stabilisation requirements of "stable strategy, stable operation, stable mechanism and stable team" as proposed by the Chairman. Although there were concerns about the bank's operation in the first half of the year, we achieved our business objectives as expected, reflecting the management policy of "pursuing improvement and progress while maintaining stability". To be specific, there are three basic features as follows:

Firstly, financial performance remained stable. Net profit increased by 13.52%, a double-digit growth. ROA and ROE remained high and increased from the end of the previous year. These reflect that CMB maintained a relatively good momentum in terms of profitability.

Secondly, the bank's operations remained very resilient. The first resilience is reflected in the rapid development of the retail business, including the size of customer base and AUM. Although retail credit, including credit cards and mortgage loans, was affected by the poor market conditions, CMB still maintained its leadership position among its peers. After nearly two decades of strategic transformation, retail banking has become a pillar business for CMB with weak cyclical profile amid economic downturn and unfavourable business environment. The second resilience is reflected in the fact that in the previous two years, we have continuously strengthened the strict classification of assets and increased the provisioning. We have maintained a very high provision coverage ratio and a very strong risk offsetting capacity. CMB's earnings were not significantly affected by this round of pandemic and economic downturn, which is due to the exceptionally excellent asset quality and adequate provisioning. This was due to the prudential provisioning policy CMB implemented in the past. Thirdly, we have been vigorously developing our retail business and non-interest income business over the past few years. In terms of non-interest income, which accounted for nearly 40% of our income, we rank among the top banks in China. The proportion and growth of non-interest income is a reflection of light capital. It is the growth strategy and higher proportion of non-interest income that has enabled us to maintain our ability to grow capital endogenously. If the impact of dividend payments at the end of June is excluded, we have still maintained endogenous capital growth and are confident of endogenous capital growth in the second half of the year. These aspects all reflect the resilience of our growth.

Thirdly, internal management was further strengthened. In the face of the unfavourable external situation in the first half of the year, CMB strengthened its internal management, including strategic management, risk management, team management and expense management, and we endeavoured to enhance three major capabilities through management improvement: wealth management capability, Fintech capability and risk management capability, so as to support the development of CMB in the longer term and enable CMB to meet the challenges brought by the unfavourable business situation in the current cycle. These are my supplementary explanation based on the operation in the first half of the year.

Regarding your question about the management' view on macroeconomic backdrop in the second half of the year, I believe that the macroeconomic situation will remain difficult in the second half of the year. The pandemic will be a significant factor for the economic development, and it is the biggest variable and brings great uncertainty to economic and social development. Despite the central government's proposal to co-ordinate the prevention and control of the pandemic and economic and social development, many local governments have prioritised the prevention and control of the pandemic over economic and social development. This has put great pressure on both operation of enterprises and on maintaining growth and stabilising employment. Although China has set a GDP growth target of 5.5% earlier this year, it will be very difficult to hit that target.

In the face of the pressure to stabilise the economy and growth, the country will maintain the same intensity of monetary and fiscal policies as that in the first half of the year, and in terms of monetary policy, an appropriate abundance of liquidity will be maintained. Financial institutions will also be required to further cut lending rates and reduce fees and interests to support the real economy. We might see more LPR cuts ahead. These will put further pressure on operations of commercial banks.

CMB has been carrying out transformation in retail business for nearly 20 years. We have been able to cope with changes in the external economic situation and environment by continuously improving our risk offsetting ability and strengthening our basic management, which has given us the confidence and strength to maintain the stability of our overall business operations.

You have just asked whether the Bank will become a bank where corporate loans are the main focus in the future, given the slow growth in retail loans in the first half of the year and the flexible allocation of corporate loans to make up for the shortfall in retail loans. We will still further adhere to our retail banking development strategy by not only developing our wealth management business, but also increasing the allocation of our retail credit business to maintain a high proportion of retail loans. In the past, we basically allocated approximately 60% of our new loan originations to retail credit assets. This year, due to the impact of the double contraction of credit cards and mortgage loans, the growth rate of retail loans in the first half of the year did not meet expectations. Although the total growth was approximately RMB100 billion, which was just a little over 30% of our budget, it will not change our strategy to further increase the allocation of retail credit and make more investments in retail business in the future.

[Question 2]: In the first half of this year, CMB's fee income from wealth management recorded a negative growth due to the market environment, what is

your view on the growth in the second half of the year and next year? What impact has the shrinking real estate assets imposed on CMB's wealth management business? How does CMB explore new products and markets?

[**Wang Jianzhong, Executive Vice President**]: Thank you for your question. Generally speaking, CMB's wealth management business is developing steadily on a set course, and has achieved a relatively good performance. As every bank now provides wealth management service, the essence and key for how to provide quality wealth management service lies in what is its original aspiration in serving customers, and is it customer-centric? Creating value for customers is the fundamental goal. Since last year, CMB has launched the "Original Aspiration Plan", which aims to maximise customer benefits in wealth management and other businesses, and constantly create value for our customers. To achieve this goal, we have taken the following measures: Firstly, the Company has adjusted and optimised the evaluation of our relationship managers at both Head Office and branches to better create value for our clients; Secondly, we have enhanced our ability to create value for our clients by focusing on building the delivery capabilities of middle office at both Head Office and branches to empower our front-line relationship managers to significantly improve their ability, efficiency and accuracy in serving our customers. Thirdly, we have deepened the integration of the retail business line and other business lines, especially the corporate business line represented by group financial services. We have upgraded our integrated operation from B2C to group financial services, serving the needs of clients at the B-end as well as the C-end clients of the B-end enterprises. We have also proposed a set of service solutions, making the service more efficient, accurate and personalised. Fourthly, we have built an integrated online and offline operation system. At present, CMB's ability to expand and manage wealth customers through the APP has improved significantly. For instance, we have launched a single product called "Zhao Zhao Bao(朝朝宝)", which has gained 20 million customers and the position amounts have reached nearly RMB200 billion yuan, a significant increase in efficiency. Overall, CMB has built systematic capabilities in wealth management, from value-based approaches to systematic capability building, which has achieved a good performance. From a product perspective, how is wealth management different from the past? Wealth management now has already evolved to NAV product offerings. Today, the products of the banks' wealth management subsidiaries are also based on NAV. In this context, the products offered to clients have changed significantly from a few years ago. The new asset allocation system now we have launched is to provide differentiated asset allocation advice to customers according to their needs, preferences, etc., based on effective customer investment education. Despite the fact that returns of wealth management products are now fluctuated, we are reducing volatilityy through our asset portfolio management. We make the bank's wealth management reflect our strengths to enhance the customer experience. This is what we emphasize how asset allocation should be.

In the first half of the year, CMB faced pressure in wealth management business, which was, to some extent, correlated to the movements in the capital markets. During this period, we strengthened our allocation strategy for our clients. In terms of equity products allocation, CMB developed several principles for product launch in the interests of our clients. Depending on the needs of different categories of clients, we focused on low volatility products for our clients including deposits, bank wealth management products, monetary funds and bond funds. Although these types of products have relatively low returns, one kind of product allocation, namely agency distribution of insurance policies business, reflects an improvement of the Bank's capability in wealth management. In the first half of the year, we recorded RMB37.057 billion in premiums from agency distribution of insurance policies, a slight decrease of 0.73% as compared with the corresponding period of the previous year; however, income from agency distribution of insurance policies amounted to RMB8.79 billion, representing an increase of 61.97% as compared with the corresponding period of the previous year, among which, regular premium allocation was significant improved. The significant improvement in regular premium business despite the impact of the pandemic represents our strong capacity on two fronts: Firstly, the ability to reach clients online significantly improved. Insurance products are not conventional products and it is not easy to sell them through online channels.

Our ability to communicate and explain well with clients online has been greatly improved during pandemic outbreaks. Secondly, the professional capability of the wealth management team in terms of insurance allocation has been greatly improved. We are pleased with the improvement in agency distribution of insurance policies business in the first half of the year. The improvement in the capability of the entire team plays a crucial part of building an extensive wealth management chain.

In the second half of this year, we have increased our efforts in allocating equity products in the market. We made the arrangement based on the principle of asset allocation and our assessment of macroeconomic situation, focusing on improving customer segmentation management. Recently, we have relatively stepped up allocating private equity funds and equity funds for our private banking customers, while launching mutual funds products. First of all, we need to know more about our customers and allocate products for them scientifically on the basis of accurate classification of customers. The next step of wealth management that China Merchants Bank will take is to allocate products on the customer-centric basis. It is exactly what we are doing now.

In the first half of the year, our wealth management revenue witnessed fluctuation. I hope it will not bother you. Whether China Merchants Bank can deliver good performance in wealth management depends on two aspects: First, whether the customer base can keep increasing. In the first half of the year, our customer base expanded despite difficulties. In particular, under the impact of the pandemic and the "Card Broken Action (断卡行动)", the retail customer base still maintained sound growth. In particular, the business of high-net-worth customers also saw great asset growth. For instance, the average balance per account of private banking customers is still growing. Secondly, whether China Merchants Bank can really put customers first, maximise customers' interests, enhance their experience, understand them and make relatively accurate allocations for them. By the end of June, we had 40,748,600 customers holding wealth management products, up 7.84% from the end of the previous year, and the number is still growing. When a certain threshold is met in terms of such customers, the moat of China Merchants Bank's wealth management will be more solid.

Regarding the relationship between wealth management and real estate, high-net-worth clients used to prefer REITs products. However, China Merchants Bank has already taken measures to deal with risks in this sector and significantly reduced such products. From the perspective of wealth management, our customers have generally adapted to the absence of REITs products. We now allocate a wide range of products for our private banking customers, covering deposits, bank wealth management, insurance and various funds based on their needs, which also include equity funds. We mainly allocate standard products instead of non-standard products which we used to allocate. As customers no longer rely on such products, it has little impact on us. As for the problems arising from the failure of some products to perform by trust companies, China Merchants Bank is also actively addressing such issues. But we rarely have such products. We have urged the party who launched the product to solve this problem and provide good solutions to customers. Generally, the impact of the real estate industry adjustment on China Merchants Bank's retail wealth management business is minimal.

[Question 3]: Thanks for giving me the opportunity to ask a question about asset quality. I notice that asset quality indicators of CMB such as overdue loan ratio, special-mentioned loan ratio, non-performing loan ratio and formation rate of non-performing loans have risen across the board as disclosed in the interim report, especially the rise in the ratio of overdue retail loans and special-mentioned retail loans. Could the management analyse the reasons for such rise? What is the prospect of the overall asset quality trend of CMB?

[Zhu Jiangtao, Executive Vice President]: Thank you for your question. On the issue of asset quality of CMB, we see that risks did rise in the first half of this year, which is mainly attributable to several factors.

Firstly, the overall risk is on an upward trend as a result of economic downturn coupled with the impact of the pandemic.

Secondly, based on our own management needs, we have further strengthened our control over asset quality by applying more strict criteria for classification of assets. This year, for example, we fully implemented the criteria under which loans that are overdue for more than 60 days are recognised as non-performing loans and we properly adjusted the point of time at which the credit cards are recognised as overdue in accordance with the regulatory requirements. We further tightened and adjusted the criteria for the classification of loans at all levels in the retail segment.

Thirdly, CMB was affected by the rising risks in two major areas, namely real estate and credit cards.

The overall rise in formation rate of non-performing loans, specially-mentioned loan ratio and overdue loan ratio in the first half of the year was mainly attributable to the above three factors.

Regarding the asset quality of loans in the retail segment, the formation rate of non-performing retail loans (excluding credit cards) was 0.33%, the specially-mentioned loan ratio was 0.54% and the overdue loan ratio was 0.55% as at the end of June, which was still at a relatively low level overall. The overall risk of credit card loans was controllable. We also noticed that CMB still performed well in terms of the collection amount and collection proportion, which are leading indicators reflecting loan risks in the retail segment. We are confident that CMB's asset quality will remain stable throughout the year. The Company believe that the trend of risk changes occurring in the first half of the year will continue in the second half of the year. Thank you.

[Question 4]: Good morning! Thank you for giving me the opportunity to ask questions. I have a question on interest margin. I noted that CMB's net interest margin was 2.37% in the second quarter of this year, which is already the lowest level in a single quarter over nearly 13 years, and I also noted that many market interest rates have also reached a relatively low level, especially bill rates. Under such circumstances, it seems that there is not much room for further decline in interest margin in the future. Please share with us your judgement of the interest margin in the future.

[Wang Liang, President]: Thank you for your question. In the second quarter, our net interest margin fell by 14 BPs to 2.37%, which is a relatively low level of interest margin for our bank for many years, and it is in line with the trend of national bank lending rates. According to data disclosed by the People's Bank of China, the current lending rate in the banking sector has been cut down to the lowest since statistics were available, mainly to stabilise the economy, reduce the financing costs of enterprises and support the real economy amid external changes. On May 20th, the central bank lowered the LPR rate for loans with a term over 5 years by 15 BPs, and the lower limit for mortgage rates by a further 20 BPs on top of the LPR. This morning, the central bank announced a further cut in LPR rates, with a 5 BP cut in the 1-year LPR and a 15 BPs cut in the 5-year+ LPR. The decline in lending rates was indeed relatively large due to the multiple rate cuts, the easing of monetary policy, and the vicious competition among peers in quality assets. There are also price distortions in the market, with loan interest rates for high quality companies being lower than deposit rates and some illegal arbitrage in bill rates. I believe this distorted pricing will not last long and may be short-term, as interest rate adjustments would lead to short-term business behaviour.

In response to adverse external environmental changes, CMB is inevitably affected by changes in interest rate policy and external environment, and we have also seen a trend of declining interest rates on both corporate and personal loans.

The second important factor causing the decline in CMB's return on assets is the change in asset mix. Housing mortgage loans, which used to be priced at a higher level, only grew by RMB13.8 billion in the first half of this year, a year-on-year decrease of over RMB40 billion; and credit card loans also grew by only RMB14.2 billion in the first half of the year, a year-on-year decrease of over RMB30 billion. These two types of higher-priced loan products have both grown at reduced rate in the first half of this year. We are using corporate loans, bills business and non-deposit inter-bank client assets to make up for the shortfall in these two areas, and the returns of these corporate assets and bills assets are relatively low, resulting in an overall decline in loan pricing levels.

The third factor is the increased cost of deposits. The cost of interest-bearing liabilities rose by 1 BP year-on-year, but the cost of deposits rose by 6 BPs in the second quarter compared with the first quarter. Why did the cost of deposits increase despite overall monetary easing and good growth in core deposits? Our average daily deposits grew by over RMB700 billion in the first half of the year, and at the last day of the reporting period, over 80% of deposits were low-cost core deposits. Why did deposit costs rise? This is related to a change in the structure of liabilities in the first half of the year. Firstly, the capital markets were particularly bad in the first half of the year, with clients cutting their investments in stocks and funds. Secondly, the volatility of wealth management products has increased following the transition to net asset value and clients' desire to buy bank wealth management products has weakened. Many clients prefer to placing time deposits with banks with three-year time deposits being the most popular and client demand for deposits being strong. According to the People's Bank of China, savings deposits grew by nearly RMB10 trillion in the first half of the year, a significant increase of more than RMB2 trillion year-on-year. All these reflect the changing market trends in consumption, investment, wealth management and home purchase, and most of people deposit their money in banks. Faced with this situation, how can we meet client demand? We moderately launched some large-denomination time deposit products such as those products with the terms of one year, two years and three years in order to meet clients' needs, thus driving up the cost of our deposits. The combination of the three factors above led to a more significant narrowing of our interest margin in the second quarter.

Regarding the trend of net interest margin in the second half of the year, on the one hand, it depends on the changes in interest rate policy. If the LPR rate is further reduced as it is today, the downward pressure on asset-side interest rates will further increase. If a reasonable abundance of liquidity is maintained according to the monetary policy, it would also put further pressure on the asset business, and assets will remain in shortage; on the other hand, it will also depend on the growth of investment. At present, infrastructure investment is growing rapidly, manufacturing investment has increased but real estate investment has fallen sharply. If investment grows and credit demand increases, it will contribute to stabilisation of loan pricing levels.

In the face of this external environment, what actions does CMB need to take to change the trend of sharp decline in interest margin? Firstly, we continue to maintain the good momentum in higher-growth segments. For example, credit card loans have shown a recovery in growth and are expected to achieve the target set at the beginning of the year, thus becoming a better growth segment. Secondly, we took the initiative to control the cost of deposits. The overall growth trend of deposits in the first half of the year was very good, laying a good foundation for the realisation of the annual target of liabilities growth. It can be said that the annual target was completed ahead of schedule. In the second half of the year, we need to control the cost of deposits, maintain the quality of deposits, reduce the cost of liabilities and keep the margin at a reasonable level.

Overall, net interest margin of CMB will narrow marginally in the second half of the year, and will not fall off a cliff like it did in the second quarter. This is our basic judgement and the direction for our work in the second half of the year.

[Question 5]: Regarding corporate loans, the interim report mentioned that CMB will increase corporate loans to industries such as new growth engines, green economy, high-quality manufacturing industries, regional advantageous and characteristic industries, and self-controllable industries. What preparations have the Company made to foster new capabilities in granting these corporate loans? For example, are there corresponding preparations for the organisational structure, human resources, and incentive mechanisms, etc.? Thank you.

[Zhong Desheng, Executive Assistant President]: Let me introduce the corporate client assets origination and the adjustment of our client structure. The operation of a bank is closely related to the client structure. In other words, a bank's client mix may determine the growth potential and quality of its future business development. To a certain extent, the client structure is the cornerstone and underlying logic of the way a bank operates. Over the years, CMB has, on the one hand, implemented the country's new development concept and, on the other hand, closely studied and followed the trend and direction of industrial structure upgrading. We have conducted industry-based professional operation and exploration in several important fields, and accumulated experience in risk management and industry specialisation in these industries. On this basis, we have proposed five major directions of client structure transformation as an important source for the origination of corporate client assets, namely new growth engines, green economy, high-quality manufacturing industries, regional advantageous and characteristic industries, SRDI and domestic innovative industries.

On the one hand, these five major directions represent the trend of China's industrial upgrading logic, and they are the five major directions with the best growth potential. On the other hand, after years of operation and exploration, CMB has formed its own characteristics and industry-based professional operation, so we have taken them as the five major directions of client structure transformation as well as the main source of our asset origination.

After accumulation and specific promotion over a period of time, the budding results of our operation in these directions have emerged and are in a relatively good state. From the perspective of client base growth, based on industry specialisation research and in-depth research on the industry chain topology for clients in the five major directions, a list of quality clients has been made in these industries. By the end of the first half of this year, the target client account opening rate had exceeded 50%. From another perspective, the five major directions are also favoured by market-oriented capital and capital markets. Over 62% of IPO accounts have been opened with CMB in the first half of this year, which means that more than 62% of new IPO companies choose CMB as their major banking partner. The increase in liabilities of clients in the five directions was close to 20% and the increase in assets was over 14%. Asset quality remained sound, with the non-performing asset rate being a little over 0.1%.

In terms of capacity building, do we have competence in serving well clients in these five major directions? This is the area that CMB has been working hard on over the years. Specifically, we have been improving capabilities in two areas: the first area is the business capabilities of industry specialisation. With focus on the five major directions, our industry knowledge, innovation of products and services adapted to these industries, risk policy, industry credit policy and the ability to deliver integrated industry solutions are the key aspects for enhancement. The five major directions are no longer simply a matter of the direction of asset origination, but rather the direction of CMB's synergized ability of front, middle and back office to serve its core corporate clients. The second direction is the organisational structure of operations and team building. CMB has been actively reinforcing its capability in this aspect over the years. Since 2014, we have set up eight specialised operation departments of strategic customers in the head office. According to the characteristics of industry-based specialised operation, we have managed the leading enterprises, top customers and customers in the industrial chain in our selected major industries through specialised operation departments of strategic customers. Such practice has been in place for nearly ten years, and we have accumulated extensive operation experience and trained a batch of professional talents. In each regional market, we have also set up industry-specific strategic customer management teams in approximate 390 branches, which are related to the local advantageous industries and our five major direction, and have also formed strategic customer management teams and corresponding capabilities to manage industry specialisation through function upgrade at both head office and branch level.

On business level, we are also actively exploring the integrated service capacity of

ICPTR. Due to the specificity of the products and service solutions in the five major directions and the customized needs of our clients, we have integrated the flywheel across China Merchants Bank Group to form the ability in integrating resources and an efficient service organisation model, all of which are what we offer to key industries in terms of industry specialisation.

I would also like to make a special note that the five major directions are our key client adjustment directions. It does not mean that CMB excludes other directions. It is a relative concept and a dynamic direction, and the future trend towards which we intend to strengthen. We also feel that even after the upgrade and supply-side structural reform of traditional industries, many good enterprises have become our service targets. We believe that through continuous efforts, CMB will form a sound, future-oriented client mix, which will support the continuous high-quality development of our business.

[Question 6]: Just now, the Senior Management introduced the outlook on interest margin. Here I have a specific question. In terms of loan placement, the current market competition is relatively fierce, and the policy is to guide banks to keep increasing loans in support of the real economy. Meanwhile, we noted that the pricing of loans has declined significantly. How should we balance these two aspects? Is it possible that banks may slow down asset growth and take the initiative to boost rates amid declining interest rates, just like what other economies did? For example, setting a wider spread over LPR to reflect market risks. I wonder what strategic considerations CMB has, and what is the outlook for the second half of the year?

[Wang Liang, President]: At present, the real economy is relatively difficult. The People's Bank of China has been lowering loan interest rates to reduce corporate financing costs and support the development of the real economy. Many enterprises have relatively high debt-to-assets ratio and high liability, and are under greater pressure to repay the principal and interest. The reduction of loan interest rates can ease the pressure of repayment of enterprises and reduce the market risk.

In the past, the Central Financial Work Conference emphasized that a strong economy leads to a strong finance, and a stable financial system in turn stabilizes the economy, and the relationship between the economy and finance is inseparable. Faced with the current unfavourable economic situation and the difficulties for enterprises, from the perspective of the banking industry, banks are entitled to support the development of the real economy by reducing fees and cutting loan pricing. Sound corporate performance is the premise of an assured asset quality for banks. As the saying goes: If the skin does not exist, how can the hair be attached. This reflects the interdependence between banks and corporate development.

But in the meantime, what we have to balance properly is the relationship between the bank's commercial sustainability and actions in reducing fees and lowering loan pricing. CMB has been working hard to balance the relationship in its business practice. The real economy this year is very difficult. Many enterprises, especially SMEs have closed down and suspended business due to the impact of the pandemic, which has caused great employment pressure. The recently announced unemployment rate for youth aged 16-24 is close to 20%. From a national level, the pressure to stabilize employment and market entities is even greater. Under such situation, CMB is bound to undertake certain social responsibilities. For example, we expanded our campus recruitment plan this year by 3,000 people to help fresh graduates solve the employment problems. In terms of credit business, we actively implemented the guidance of the PBoC and the CBIRC, lowered interest rate for loans to support the real economy and weather through the difficulties together.

I believe that the current difficult situation is temporary, and the Chinese economy will continue to maintain a relatively steady and high-quality development. This is the most difficult period now, and we need to get through it together. Under the current situation, CMB is doing its best to assume its social responsibilities and reduce financing costs. How do we balance this in business principles? Firstly, the Company must ensure asset quality. Rate cuts help in maintaining good customer relationships. As the saying goes, if you keep the green mountains, you won't be afraid of no firewood. If the customer relationship is severed, there is no way to expand the business in the future. But the prerequisite of ensuring asset quality could not be compromised. Secondly, the Company made certain concessions in interest rate pricing. We hope to have a good relationship with customers, and improve comprehensive returns in other ways. Therefore, what we value most is not the level of loan pricing, but to serve and manage customers well, to get long-term support from customers, and then obtain certain benefits and returns from long-term customer service and cooperation. This may be a smart move in the current situation.

Thirdly, the Company will strengthen cost control and management. Loan pricing should cover various costs, such as funding cost, risk cost, tax cost, operating cost, capital cost, etc. The Company focuses on the ways to further reduce cost and maintain reasonable profit. Under the current situation, reducing costs is conducive to improving the internal management of CMB and maintaining a reasonable interest margin. Those are our proactive measures under the current situation, so as to implement the government's call, maintain business sustainability, and achieve the goal of the value creation chain from volume growth to income growth, efficiency gains, and eventually to value-added growth.

[Question 7]: I would like to know more about the Company's retail strategy. We have just talked about the development of retail business. From our perspective, retail business development will become increasingly difficult amid economic headwind. International banks are using retail business as ballast for revenue and profit growth. I also want to ask more specifically about the concrete direction of your retail business during the economic downturn in China, for example, how to navigate your credit card business, and how to

stabilize your non-interest income from wealth management and agency sales business amid economic downturn and the weakening of residents' balance sheets? Thank you!

[Wang Jianzhong, Executive Vice President]: Thank you for your question. President Wang Liang has already said that the strategic positioning of China Merchants Bank has not changed, and we still adhere to "One Body with Two Wings".

In terms of retail business development, firstly, retail assets are ballast of China Merchants Bank at the asset end, mainly including credit card loans and retail credit. At present, the development of credit card business adheres to a stable and low volatility strategy. For the last two years, CMB has been optimising its customer structure and consolidating its customer base in credit card business. Up to date, CMB's credit card transaction volume is leading in the market and the quality of credit card assets is still relatively good. In the second half of the year, while adhering to the stable and low volatility strategy, credit card assets is expected to record satisfactory growth.

Regarding our retail credit business, we adhered to the principle of putting quality before quantity. In terms of mortgage loans, CMB has a relatively large loan book while the growth in the first half of this year didn't live up to expectations, which is highly correlated with the market. We will increase the number of orders from secondary property markets on top of primary markets to achieve stable growth in housing loans. In terms of micro-finance loans, we achieved sound growth in the first half of the year, and will continue to deepen our financial services for SMEs in accordance with regulatory requirements. In terms of consumer finance, we also achieved good growth in the first half of the year, and the quality of assets is now relatively good. In the second half of the year, we will expand the business while ensuring quality. We are confident that we will keep the asset quality within the expected range while expanding the business. Generally, the retail asset business in the second half of the year is promising.

In terms of wealth management, we will firstly scale up the customer base. By the end of June, China Merchants Bank had 178 million retail customers, of which 40,748,600 customers held wealth products. We will make efforts to turn more retail customers into wealth management customers, and the key to achieve that goal is improving the online efficiency. We have been working hard to continuously connect and integrate the online and offline process, constantly improve efficiency and reduce costs, and have achieved good progress in this regard. In addition, we will provide more tailored services to our customers. For each retail customer, we provide differentiated asset allocation services based on their preferences and risk tolerance. This is how our customers can achieve asset preservation and appreciation through wealth management. In this regard, we have highlighted two major tasks: Firstly, in order to enhance the asset allocation capability from the Head Office to branches; we launched the "The TREE Asset Allocation System of CMB" and the corresponding operation system. This move was proved to be fruitful. Secondly, we continued to optimize and improve our middle-office capability building, operational processes, evaluation methods and other aspects, thereby enhancing effectiveness. Thirdly, in terms of products, China Merchants Bank built an open product platform at a relatively early time. For example, CMB took the lead in introducing products from wealth management subsidiaries of other banks. We've been able to choose the best products in the market for our customers, which also testify strong market competitiveness. In the face of increased volatility in the capital markets, we have adjusted the structure of the products offerings to our customers accordingly, with an overall strategy being stable with low volatility. We differentiate our product allocation according to the different profiles and needs of our customers. For some high-net-worth customers who are more active, willing to invest and have higher risk appetite, we offer a more diversified range of investment products. Thank you.

[Question 8]：I noticed that many banks relying on changes in fair value and interest rate derivatives to offset some of the downward pressure on interest income and achieve better revenue. According to CMB's interim report, its assets expansion was slower than the industry average. However, CMB has sufficient liability, so why not consider increasing trading financial assets to gain benefits from bond price fluctuation? After all, with very abundant liquidity, price changes are still a good hedge against the risk of falling interest rates. CMB has not made much disclosure on interest rate derivatives in particular. What is CMB's progress in hedging against interest rate risk through interest rate derivatives?

[Wang Liang, President]： First, to your first question: why not increase the allocation of financial assets at fair value through profit or loss. In the first half of this year, our bond investment increased by approximately RMB330 billion compared with that at the beginning of the year. We increased our bond investment in view of the pressure of this year's asset allocation at the beginning of the year. In particular, considering the shortage of assets and insufficient demand for retail credit, we increased the allocation of bonds. In terms of bond allocation, we have three types of accounts:

First, the account measured at amortized cost. The investment in this type of account increased by more than RMB160 billion from the beginning of the year, with underlying assets mostly being government bonds and interest rate bonds. This is because these types of bonds are of low-risk, tax-free, and do not consume capital. It has a combined return level of more than four percent, which is higher than loan pricing levels, and it will not cause short-term fluctuations in profits.

Secondly, the account measured at fair value through other comprehensive income. The investment in this type of account increased by more than RMB90 billion from the beginning of the year. The size is quite large for potential future adjustments.

Thirdly, the account measured at fair value through profit. The investment in this type of account increased by more than RMB70 billion from the beginning of the year. The increase is not as much as the other two accounts, mainly because these investments are measured at fair value, and fluctuations in the interest rates will bring a great disturbance to current profit and loss. Amid the current downturn in interest rates, the increase in fair value will lead to an increase in current profits, but if interest rates rise, the effect is the opposite.

Therefore, in terms of the allocation of these three types of accounts, we have made a comprehensive judgment, hoping to reduce the impact of fluctuations on profit growth. The types of bonds allocated to these three different types of accounts are also different so as to improve the comprehensive returns of these accounts. At present, the balance of financial investment measured at fair value through profit or loss is approximately RMB420 billion, an increase of more than RMB70 billion from the beginning of the year, with a growth rate of over 20%. Although the total amount is the smallest among these three types of account, its growth is the fastest, reflecting our comprehensive judgment.

We will also increase the allocation of such assets based on changes of market conditions, the overall funding situation, and the demand for asset allocation. The stability, safety and profitability of bond investments, especially those of interest rate bonds, should be taken into account here.

As for your second question, we attach great importance to interest rate derivatives. The LPR-based pricing since the market-oriented reform of interest rate gives more room for volatility in interest rate for loans in the future. It is important to hedge against interest rates to avoid negative disruptions to our gains amid interest rate fluctuations. Our capital operation centre and asset and liability management department cooperate with each other to minimize the impact of interest rate policy changes to overall returns by managing exchange rate risk and interest rate risk as well as using swap hedging strategy. In addition, we adjust our pricing methods based on our prediction on the trend of interest rate changes. Previously, we maintained a relatively fixed interest rate for loan pricing. Accordingly, we have more loans with fixed interest rate pricing, which can mitigate re-pricing risks from interest rate changes.

Therefore, interest rate risk management has been the most important part in current market risk management. And it may be an important factor for banks to prevent risks along with the advance of interest rate liberalisation. Derivatives hedge is the most important management tools, and we also take measures to prevent interest rate risk.

[Question 9]: I would like to ask how CMB's non-performing loan (NPL) formation ratio in the real estate sector has changed, and when the ratio will peak. After the local and central government introduced the policy of "guaranteeing the delivery of housing (保交楼)", has CMB adjusted its corporate credit policy for the real estate industry? Has CMB participated in the bailout of local projects facing mortgage boycott? How about the allowance for on-balance sheet and off-balance sheet real estate exposure of CMB? In addition, CMB has some housing-related businesses that do not assume credit risk, which have been shrinking for a period of time in the past, but some investors are still worried that if there is credit risk in this part of the business. Although CMB does not bear the risk from the legal perspective, how does the Company deal with it in practice? And what is the actual impact?

[Zhu Jiangtao, Executive Vice President]: In terms of NPL formation in the real estate, in the first half of this year, the formation amount of NPLs in the corporate real estate were RMB7.4 billion, including RMB4.7 billion in the first quarter and RMB2.7 billion in the second quarter. We can find that the quarterly formation trend of NPLs has slowed down. And based on current conditions, this trend will continue in the third quarter.

In terms of the real estate strategy, there are several changes in general:

1. At the customer level, the Company implements the name list policy focusing on the strategic customers of the Head Office and branches. At present, these customers account for about 65% in the corporate business.

2. The Company focuses on the regional strategy, and the projects in the first- and second-tier cities account for about 85% of the total.

3. The Company further optimises the business structure. In terms of real estate loans, the proportion of non-project based, pure credit business is 1.57%. And the structure is continuous optimising.

4. Regarding the allowance, the allowance ratio of real estate loans is nearly twice that of the overall allowance ratio of corporate loans, and the allowance coverage ratio is also maintained at a relatively high level, which is basically the same as the allowance level of the whole bank. The overall risk compensation ability is relatively strong.

5. To further strengthen management, the percentage of real estate projects with value covering more than 1.5 times of the financing exceeds 70%. At the same time, we also further strengthen the supervision on funds and the requirements for closed management of project loans.

These are five strategy adjustments.

Looking forward to the risk of real estate over the whole year, I personally consider that the highest point formed in a quarter of this year has reached, and the subsequent risk of the entire industry will level out.

Finally, regarding the real estate business that CMB does not assume credit risk, we mainly focus on the following three aspects:

Firstly, for risk projects, we take the initiative to strengthen the communication with issuers and urge them to fulfil the responsibilities of active management.

Secondly, we actively cooperate with issuers, strengthen communication with project asset parties, and strive for the best risk resolution plan for investors.

Thirdly, we provide justice and rights protection from the perspective of investors, so as to protect the rights and interests of investors to the greatest extent.

[Question 10]: By comparing with international banks, it is found that CMB's investment banking business is still relatively small. How does CMB consider the role of the investment banking business and the room for future growth?

[Wang Liang, President]: In the business model of extensive wealth management, our investment banking sector is indeed a weak spot. Compared with that of international banking groups such as J.P. Morgan, their business sectors are more comprehensive, including asset management, private banking, investment banking, and commercial banking, and their influence is also huge. However, we are restricted by domestic supervision under separated management of the financial industry, and it is not realistic to develop investment banking business at present. Under the circumstance that the external regulatory environment cannot be changed, how CMB can make the extensive wealth management business stronger under the current conditions is also what we need to actively study and promote.

In our extensive wealth management, the four business sectors of wealth management, asset management, investment banking and asset custody are mutually reinforcing. So, we propose to realise the integrated operation of ICPTR and promote the development of investment banking business by giving full play to the advantages of CMB as a commercial bank. Among our investment banking businesses, bond underwriting business and M&A business are more mature and competitive at present. Based on the customer base and the service advantages of commercial banks, we can serve customers through bond underwriting, commercial loans, and investment integration.

In addition, private banking and investment banking can also promote each other. In terms of investment management and equity investment, on the one hand, the Company can raise funds from high-net-worth customers. On the other hand, the investment banking sector can take its advantage of finding good projects, coordinate and cooperate with the private banking sector to provide financing support for investment banking business projects and investable projects for high-net-worth private banking clients. These are unique advantages for commercial banks to develop the investment banking business when competing with other mere investment banks. Under the current policy environment, if the investment banking sector and the commercial banking sector, including technology and research departments, can join hands, there is still huge room for development.

[Question 11]: CMB has significant competitive advantages in retail wealth management market. You have proposed to enhance the capability of asset management and asset allocation in the past two years, and we also have seen the introduction of TREE series products, which we believe will help greatly enhance CMB's competitive advantages and improve customer experience. Could you please share with us your considerations related to it, the current progress in capability construction and the vision for the future?

[Wang Jianzhong, Executive Vice President]: Last year, we launched the "TREE Asset Allocation System of CMB" and one of the key points we considered was how to strengthen our core competitiveness in wealth management products.

Firstly, as for wealth management business of CMB, the keyword is companionship. Based on what we understand about our clients, we continuously help them to perform asset review during the process of client's investor education and product allocation, providing them with all-process companionship service, so as to help them to ensure the preservation and appreciation of assets. Last year, we launched the "Original Aspiration Plan" and adopted the concept of "being customer-centric and creating values for customers". We have made good achievements by the arrangements and promotion under new asset allocation system. Secondly, in addition to improved all-process companionship service, CMB continues to boost operation efficiency and enhance customer experience. In this regard, improving online operation capability acts as a crucial role. CMB attaches great importance to this work. Relying on powerful online App platform, we have enhanced online operation and further advance the integration of online and offline services. This operation strategy of online and offline integration is a great competitive advantage for us, which has made a substantial improvement in achievements, operation efficiency and customer experience. Thirdly, we have opened up the whole channel from retail to corporate finance, investment finance, and asset management, enhancing the overall operation efficiency.

[Question 12]: I would like to ask the management to look at the long-term trend again. We have seen that the real estate industry is an important segment in CMB's asset allocation and has contributed many high-quality assets to corporate business, retail business and off-balance sheet business. In the long run, the real estate industry will gradually decline, and the funds previously allocated to the real estate industry by CMB will be in surplus. How will you allocate such funds in the future? The senior management have come up with the direction including new economy and new growth engine industries, but these new areas are filled with fierce competition and the starting point of each bank is about the same. Furthermore, as CMB established your real estate business based on decades of customer base, how will you invest in new businesses? How will you achieve similar results to those achieved in the real estate industry? How is the capacity development for the new directions? Will the pricing of assets in new areas be lower in the initial stage? Will this lower pricing lead to pressure on the asset side in the long run?

[Wang Liang, President]: Thank you for your question. In the past, real estate business was an important segment for bank financing, enjoying high loan pricing and low risk weight for residential mortgages (50%). And it was a seller's market for banks, as credit lines were insufficient and the applicants had to queue for getting lending approval. But this was the environment in the past.

After this round of risks in real estate companies, there is a turnaround point in the real estate industry, which will affect the asset allocation of banks. As you have analysed, real estate assets used to be a significant part of bank allocations. CMB made heavy investments in mortgage loans, property development loans and related assets of other types. Now there is a turnaround point in the real estate industry, leading to great changes. We have to face this change of trend.

In addition, living through the impact of the pandemic this year, the banking industry is still facing two other important changes in its operations, which are also two important features. First, direct financing has stepped up development and is replacing traditional financing. If the bank loan is still stuck in the traditional lending approach and loan customers, it may be replaced to a great extent. The accelerated development of direct financing has disrupted traditional indirect financing. We have been discussing the financial disintermediation and the rapid development of direct financing. The impact of the pandemic this year rendered a more drastic change. It has brought general difficulties to the growth of banks' asset business, which is a trending change. Second, facing interest rate marketization, asset origination determines the increase of liabilities. We used to emphasize deposit-taking philosophy, and the use of funds depends on the source of funds. Given the loose liquidity this year, it is relatively easier for the liability organisation than asset origination. And asset origination and the use of funds determine growth of liabilities, which may also be a trending change.

So, it's not just an issue of real estate, these remarkable features that have emerged since this year may require commercial banks, including China Merchants Bank, to think carefully and respond actively. We need to recognise which changes are trending, which changes take place periodically, which changes happen in stages, and which changes are caused by policies.

As direct financing is developing at a faster pace, I believe that the financial disintermediation, and direct financing replacing indirect financing, are trending changes and have been developing in an accelerated pace. It is also the inevitable result of the development of interest rate marketization. Developed economies, like Europe and the United States, are dominated by direct financing, where the growth rate of indirect financing is quite slow. When facing this trending change, commercial banks are necessary to consider how to accelerate the development of direct financing, rather than simply adapt to the trending change. We need to improve the "ICPT", including investment banking, commercial banking, private banking, wealth management and other comprehensive capabilities to adapt to the financial disintermediation.

How do we deal with the turnaround point in the real estate market? Changes in the real estate industry are both trending and cyclical. In Europe and the United States, the real estate industry is cyclical. A real estate bubble emerges after a round of price increases, which leads to a round of financial crisis. And finally, the bubble will be digested by financial crisis to bring a new round of price increase in real estate.

The outbreak of the United States subprime mortgage crisis in 2008 is most typical, but now the price of real estate market in the United States is arising again and showing strong growth. The real estate industry in China has also gone through several cycles in the past decades. The first round was the real estate bubble in Hainan, Beihai, Shenzhen and other southern cities after 1992.

The second round is the United States subprime mortgage crisis in 2008 caused a certain price decline in China's real estate. For more than ten years after 2008, the price of real estate has been soaring and forming bubbles. Besides, real estate enterprises operated with high leverage, resulting in an unhealthy development of the industry. This round of real estate industry has been adjusted. After adjustment, it is impossible to continue the past development pattern, but will enter into a stable, healthy, new development cycle. There may still be cyclical opportunities: firstly, the real estate companies have become differentiated. For good real estate enterprises, "the winner is the king" and the strong are always strong, while the enterprises with highly leveraged operation may fall down.

Secondly, the region has also become differentiated. The Yangtze River Delta and the Pearl River Delta with net population inflow, and the regions with strong economic vitality still have a large market and space for development. For those cities with net population outflow where supply exceeds demand are facing the problem of digestion. The real estate market will become more complex in the future as cities and regions are in differentiated situation. How should banks find its own position and space for development? In my opinion, China's real estate industry will show a healthy and steady development after this round of adjustment. CMB should seize the chances of customer, region and housing development to win a certain share in asset allocation.

Given the characteristic that asset origination determines the source of funds, banks need enhance their asset origination capability, which is mainly backed by the risk management capability. Banks must be aware of that risk management capability has become their core competitive capability. One can't make bricks without straw. Without an asset origination, banks cannot be able to manage assets, serve clients well to support the real economy and achieve a stable interest spread.

In terms of above three major characteristic changes, in my opinion, China Merchants Bank should firstly enhance its risk management capability to promote its asset origination and asset management capability and better support future growth and the development of extensive wealth management. Secondly, China Merchants Bank should improve its asset allocation capability. Asset allocation requires enhanced refined management in the future. It is unlikely that one product of certain segment (such as, mortgage loans, credit cards) will be able to predict a clear future, as it was in the past. In the future, there is a greater need to determine our asset allocation based on multiple factors such as region, industry, customer, pricing, maturity and risk to enable more refined management. We need to maximise value through asset allocation based on the principle of value return and regulatory guidance. In a word, the improvement of these two major capabilities will be crucial in the future.

In response to the current problem of asset shortage, China Merchants Bank has proposed to give priority to meeting the “basic living needs” by taking measures including expansion of lending customer base, increment of loans, price stabilization and quality assurance. Specifically, we need to expand our lending customer base. In the past, our loan customers, especially corporate customers, were mainly strategic customers from Head Office and branches. As a result, the number of customers was limited and susceptible to the risk of financial disintermediation. For the next step, first of all, what we need do now is to control the risk and stabilise the number of customers. Secondly, we need to guarantee the increment of loans. Thirdly, we need to stabilise the pricing. Although loan pricing may fall, we should stabilise the comprehensive returns to our customers (or the RAROC), which is an important indicator for our business. Fourthly, we must ensure asset quality and consider it as our premise. These are the answers to how we solve problems in asset business. We will focus our efforts to improve capabilities at present and for the time to come.

These are my thoughts on the questions you have asked. Thank you.

[Moderator]: I know many investors and analysts would like to ask questions, while we have to leave the opportunity for another time, or for the regular exchange with the Investor Relations Management Team. We will conclude today’s sessions. For more details, please refer to the interim report we’ve released on our official website, or you may contact the CMB Investor Relations Management Team of the Board Office. I’d like to express my gratitude again for your participation out of your busy schedule. And thank you for the long-term interest and support to CMB. CMB will continue to step up its efforts on all aspects to bring sustainable long-term returns to all investors! Thank you all!