Q & A Transcript for Q3 2022 Results Announcement of China Merchants Bank

(Compiled based on the recording)

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

Chairperson: Xia Yangfang, Securities Representative of CMB and Director of the Board Office

External participants: 3,289 participants, being domestic and overseas investors, and analysts

Recorded by: Investor Relations Management Team, Board Office of CMB

[**President Wang Liang**]:

Dear investors, analysts, and friends:

Good morning!

Last Friday evening, China Merchants Bank ("CMB" or the "Bank") released its third quarterly report for 2022, and today I led the senior management of the Head Office to meet with investors and analysts. First of all, I would like to take this opportunity to appreciate your long-standing attention and support for the Bank. My colleagues and I are also pleased to have this profound and frank exchange with everyone attending today's conference. First, I would like to take ten minutes or more to present an overview of the third quarterly report, and then answer your questions. Please note that I will mention certain financial data, and they were determined under the International Financial Reporting Standards, namely standards for H-share announcements.

Amid the complex business environment at home and abroad over the first three quarters of 2022, CMB accelerated its efforts to improve the 3.0 business model toward the established strategic direction and objectives under the concept of dynamic and balanced development among “quality, efficiency and scale”. The Bank strove to enhance its capabilities in wealth management, risk management and Fintech, continuously improving the level of operation and management. Thanks to those, the Bank recorded a steady growth of its operating results and further consolidated the advantages of its "fortress-like" balance sheet. Operation of the Bank over the first three quarters is characterised by the following six features:

Firstly, profitability maintained stable, leading to high ROAA and ROAE levels. In the first three quarters, the Bank realised net operating income of RMB264.84 billion, representing a year-on-year increase of 5.31%; net profit attributable to shareholders of the Bank of RMB106.92 billion, representing a year-on-year increase of 14.21%; net interest income of RMB162.13 billion, representing a year-on-year increase of 7.63%; and net non-interest income of RMB102.71 billion, representing a year-on-year increase of 1.85%. The annualised return on average asset (ROAA) attributable to shareholders of the Bank and annualised return on average equity (ROAE) attributable to ordinary shareholders of the Bank was 1.50% and 18.22%, respectively, up by a respective year-on-year percentage point of 0.06 and 0.11. The core Tier 1 capital adequacy ratio under the Advanced Measurement Approach and the Weighted Approach continued to increase to 12.85% and 11.18% respectively.

Secondly, extensive wealth management business grew steadily, bringing about steady high-base increase in net non-interest income. As of the end of September, the Bank registered a retail AUM of RMB11.96 trillion, an increase of RMB1.2 trillion or 11.16% from the end of the previous year; asset management of RMB4.72 trillion, an increase of 9.26% from the beginning of the year; and the balance of assets under custody of RMB20.77 trillion, an increase of 6.72% from the end of the previous year. Amidst sharp fall in the capital market, CMB posted positive growth of its extensive wealth management business, showcasing its strong resilience. In the first three quarters, the Group recorded a net non-interest income of RMB102.71 billion, representing a further year-on-year increase of 1.85% on top of the increase of 21.87% achieved for the corresponding period last year, and accounting for 38.78% of net operating income. From the perspective of major items: fee income from wealth management amounted to RMB25.590 billion, representing a year-on-year decrease of 13.10%; fee and commission income from asset management amounted to RMB9.44 billion, representing a year-on-year increase of 22.32%, fee income from custody business amounted to RMB4.43 billion, representing a year-on-year increase of 6.59%, income from bank card fees amounted to RMB15.92 billion, representing a year-on-year increase of 6.54%; and income from settlement and clearing fees amounted to RMB11.50 billion, representing a year-on-year increase of 8.87%.

Thirdly, loan size rose prudently with fast recovery in consumer and credit card loans. Against the backdrop of insufficient effective credit demand and asset shortage faced by banks this year, CMB actively promoted a steady growth in the scale of loans. Total loans and advances to customers amounted to RMB5.99 trillion, representing an increase of RMB424.34 billion or 7.62% from the end of the previous year; and the total loans and advances to customers accounted for 61.75% of the total assets, up 1.53 percentage points from the end of the previous year. Corporate loans under the Bank's calibre increased by RMB125.04 billion or 6.64% from the end of the previous year. Such increase is attributable to the increase in green loans, manufacturing loans and retail loans. The green loans increased by RMB56.60 billion or 21.45% from the end of the previous year, manufacturing loans increased by RMB67.60 billion or 21.12% from the end of the previous year; and as compared with the end of the previous year, the balance of retail loans increased by RMB175.87 billion or 5.89% to RMB3.16 trillion. When it comes to retail loans, the Bank recorded lesser year-on-year growth of housing mortgage and greater year-on-year growth of micro-finance. We actively seized the opportunity of the gradual recovery in consumption after the pandemic in the second quarter, and those newly-granted loans in the third quarter mainly went to retail business. Consumer loans and credit card loans with relatively high yields experienced a fast recovery as they aggregately increased by nearly RMB50 billion from the end of the half-year, accounting for 80% of the loans granted in the third quarter, which somewhat offset the pressure from the swift decline in loan yields.

Fourthly, customer base recorded stable growth with greater size and high quality of deposits. As of the end of September, CMB had 2,470,400 corporate customers and 182 million retail customers, representing an increase of 153,300 corporate customers and 5.20% respectively from the end of the previous year. The growth in the size of the customer base contributed strongly to the high-quality growth in customer deposits. Our customer deposits amounted to RMB7.09 trillion in total, crossing the RMB7-trillion threshold and representing an increase of 11.71% as compared with the end of the previous year. The balance of deposits from corporate customers was RMB4.39 trillion, representing an increase of 8.11% from the end of the previous year; and the balance of deposits from retail customers was RMB2.70 trillion, representing an increase of 18.08% from the end of the previous year. The Bank continued to adhere to its strategy of focusing on core deposits. We doubled our efforts to attract and accumulated low-cost settlement funds from our customers and also improved management of high-cost deposits in terms of quantity and price. The average daily balance of demand deposits remained at a high level as it accounted for 61.83% of the average daily balance of customer deposits. In the first three quarters, cost ratio of customer deposits was 1.51%, an increase of 11 basis points on a year-on-year basis. The cost ratio of customer deposits was 1.54% in the third quarter, 2 basis points up from the second quarter, and the increase was significantly narrower than that of the previous quarter.

Fifthly, the dynamic asset and liability structure adjustment resulted in a significant narrowing of the quarter-on-quarter decrease of the net interest margin. Net interest margin calculated under the Group's calibre was 2.41% for the first three quarters, representing a decrease by 7 basis points on a year-on-year basis, which was mainly due to the impacts of repeated LPR cuts, weak financing demand in the real economy and the residents' conversion of their investments into fixed deposits to cope with the disturbances in the capital market. In order to maintain a relatively stable net interest margin, the Bank further improved the management of its asset and liability portfolio in the third quarter. In terms of assets, the Bank, in accordance with the overall requirement of "expanding the coverage, increasing the quantity and maintaining the quality", persistently granted loans to the appropriate sectors while enhancing its bond allocations and reducing relatively low-yielding interbank assets, which resulted in a year-on-year increase of 7.63% in net interest income. In terms of liability, the Bank focused on promoting the growth of low-cost core deposits and strengthening the control of high-cost liabilities. In the third quarter, the yield of interest-earning assets was 3.86% and the cost ratio of interest-bearing liabilities was 1.61%, both of which remained unchanged from the second quarter. The net interest margin was 2.36% in the third quarter, down by 1 basis point from the second quarter, a drop significantly narrower than that of the previous quarter.

Sixthly, strict asset classification standards and intensified risk prevention and mitigation resulted in an overall manageable risk. As a result of the rising risk of real estate customers and the impact of the regional outbreak of COVID-19 pandemic on retail loan business, the Group recorded increase in balance and proportion of non-performing loans, special-mentioned loans and overdue loans as compared with the end of the previous year. As of the end of September, the Bank registered a non-performing loan balance of RMB57,088 million, an increase of RMB6,226 million from the end of the previous year. The non-performing loan ratio was 0.95%, an increase of 0.04 percentage points from the end of the previous year. The special-mentioned loan ratio was 1.14%, an increase of 0.30 percentage points from the end of the previous year; and the overdue loan ratio was 1.21%, an increase of 0.19 percentage points from the end of the previous year. For CMB, the ratio of non-performing loans to loans over 60 days past due was 1.21. The annualised formation ratio of non-performing loans of the Company was 1.13%, an increase of 0.18 percentage point on a year-on-year basis, which was mainly due to the increase in new formation of non-performing real estate loans and the adjustment to the recognising timing of overdue loans in credit card loan assets, downgrading loans overdue for more than 60 days to non-performing loans, and the impacts of the pandemic. In response to the business environment with further rising risks, the Group continued to adhere to a stable and prudent allowance policy. The allowance coverage ratio was 455.67%, a decrease of 28.20 percentage points from the end of the previous year. The allowance-to-loan ratio was 4.34%, a decrease of 0.08 percentage points from the end of the previous year. Therefore, the Bank still maintains a high level of risk offsetting capacity. Annualised credit cost ratio of the Company was 0.81%, representing an increase of 0.32 percentage points on a year-on-year basis, which is mainly because the Company had made additional forward-looking and prudent provisions for the loans and advances to customers.

Looking ahead to the fourth quarter, the Bank's operations will continue to be under pressure due to multiple factors such as rising global economic, financial and geopolitical risks, recurring pandemic, real estate industry adjustments, declining interest rates and capital market fluctuations in China. The Bank will hold on to its strategic positioning and maintain the "three constants" principles of 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. The Bank will continue to adhere to the core values of "Being customer-centric and creating value for customers ". We will continue to strengthen our wealth management, Fintech and risk management capabilities. Focusing on the value creation chain of "increment-increasing revenue-increasing efficiency-increasing value", we will improve the management to prevent and mitigate risks. We will build new business advantages to create a new "Malik Curve" to enhance the long-term investment value of CMB. Thank you!

[**Chairperson**]: Thank you, Mr. Wang, and let's move on to the Q&A session. Please follow the operator's instructions and introduce your name and the name of the institution you represent before raising your question.

[Question 1]: Looking into the future under the background of the new era, will CMB management have any new thoughts and considerations on the level of business strategy? Thank you!

[President Wang Liang]: This year, the entire banking industry has encountered an extremely complex business environment. As I introduced earlier, CMB has achieved relatively stable business performance by coping with a highly complicated environment, featured in six aspects as mentioned.

CMB's ability to achieve stable operating performance lies in its persistence in adhering to its retail banking strategy over the years. Thus, the retail banking business has become the backbone and stabiliser of CMB. Under the new business environment at present, the issue closely followed by the market and the direction in which the leadership is striving to move is the way to realise further development, preserve the characteristics and advantages of CMB, remain stable in its performance, and provide stable returns to investors.

CMB's success originates from our clear strategic positioning set as early as around 20 years ago, namely, to focus on strengthening the retail banking business. What Mr. Ma Weihua said 20 years ago is still impressive to me. As the then President of CMB, he stated: "Wholesale business earns bread for us at present, but we won't make a living in the future if we leave the retail banking business behind." The "future" he mentioned is exactly the same situation we are facing now. My experience taught me that the retail banking business shall be the source of our earnings at present and in the future. Based on this understanding, the Board of Directors of CMB further clarified in the "14th Five-Year" plan last year that CMB should build a strategic vision of "building the best value creation bank with innovation-driven development, leading model and distinguished features". This is not only in line with the existing business advantages of CMB, but also corresponds to the current development requirements of the times. China has become the second largest economy in the world with a middle-class income population of 400 million. Responding to the country's goal of achieving common prosperity, our business model fully meets the current demands of the country, economy, society and customer development. After more than 20 years of accumulation, CMB has formed the advantage of a systematised retail business, covering various aspects such as products, services, management, and service system. Therefore, we should unswervingly follow the strategic direction set by the Board of Directors to persistently cultivate and construct our new development advantages.

Miao Jianmin, Chairman of the Board of Directors, put forward a clear request last year to build capabilities in wealth management, Fintech and risk management as these can determine the height we can reach, the speed we can proceed, and the distance we can march. Over the past year, we have further improved our capabilities in future development in accordance with the "three capabilities" construction requirements proposed by Chairman Miao. I firmly believe that as long as we persistently adhere to the strategic direction, strategic goals, and the original strategic aspiration, CMB will be able to create value for shareholders, as well as for customers, employees and society under the current situation. In this way, we will undoubtedly achieve our development vision! Thank you for your question!

[Question 2]: This is a short question. Considering the recent sharp drop in the share price of CMB, the market has certain concerns of the possible changes occurred to the market-oriented mechanism of CMB. President Wang, could you share your views on the market's concerns? Thank you!

[President Wang Liang]: Thank you for the question. As you said, the share price of CMB has dropped since October, falling below our book value for the first time in recent years. This has received a lot of attention from investors and has also been covered by many news reports. We, as the management, pay close attention to your concerns. Note with the information released by many investors, analysts and the media, I have come up with some thoughts and summaries. There are three main concerns during this time: Firstly, can CMB hold on to the market-oriented mechanism? Secondly, considering the current economic downturn and difficulties faced by the real economy, the national policy advocates the financial industry and the banking industry to support the development of the real economy. Will this situation have an adverse impact on the banking industry, especially the strategic positioning of CMB? How can we balance between serving the real economy while maintaining CMB's strategy and characteristic development? Thirdly, investors have certain concerns over CMB's future business development, especially possible changes occurred to its asset management business and extensive wealth management business.

Based on your question, I would like to share my views and understanding on behalf of the management. I think CMB's market-oriented mechanism will remain unchanged. Since its foundation in 1987, CMB has accumulated a net asset of more than RMB900 billion by starting with a capital of RMB100 million. It ranked 11th among 1,000 global major banks according to Tier 1 capital ranking. Started from Shekou, CMB has gone beyond the country and is heading for the larger world. CMB owes its achievements made today mainly to its market-oriented mechanism. This mechanism is more than just a simple slogan because it bears internal logic as follows:

Firstly, the marketisation of CMB was reflected in its positioning of "realizing independence in operation, risk bearing and self-sustaining " at the beginning of its establishment. It may sound easy now, but it was rather challenging to start a bank meeting above requirements at that time. It truly required great courage and determination, with the fortitude to fight to the end. What we should do now is to adhere to this business mechanism as always.

Secondly, CMB's market-oriented genes are reflected in the "six capabilities" mechanism, namely, management staff can be promoted or demoted, remuneration can be increased or decreased, and qualified excellent talents are always welcomed and those unqualified will be phased out. As the essential gene of CMB, this mechanism reflects the Bank's appreciation of one's performance, particularly, to assess a talent's value based on his or her achievements. Our management members are appointed by the Board of Directors under a three-year term responsibility. When the term is up, only leaders fulfilling expectations will stay and those failing to achieve required performance will not be able to stay in their position. Our management staff at different management levels need to compete for positions and employment, which is an important manifestation of the market-oriented mechanism.

People joining CMB, from the first group of entrepreneurs starting this business from zero, choose to to say goodbye to a lifelong secure job or a lifetime tenure office. Furthermore, there's no place for bureaucratic culture in CMB, only professionals with market-oriented mindset and special skills are recognized and welcomed.

Thirdly, we have formed a well operated mechanism for corporate governance. At the beginning of its foundation, CMB instituted a mechanism in which the president assumes the full responsibility under the leadership of the Board of Directors. Advocating "governing the bank by experts" and "strengthening the bank by talents", we enhance the development of CMB by innovating and recruiting a wide range of outstanding talents. All these are actually guaranteed by market-oriented mechanism.

CMB introduced numerous talents from other advanced financial institutions overseas to set up its credit card and private banking business. Among them, some are still serving CMB. It was the attractiveness and cohesion generated by the market-oriented mechanism that gathered all these talents here. An efficient corporate governance mechanism well established is vital to ensure the market-oriented operation of CMB.

After CMB was dual-listed in the A-share and H-share market, our corporate governance has become further integrated, with a more effectively guaranteed market-oriented mechanism. I have gained a profound understanding that essential parts of our corporate governance should involve communications between our senior management and the investors, as well as the opinions and suggestions proposed by the investors and analysts regarding. CMB's strategy, operation, and management. All suggestions are valuable and have played an important role in safeguarding CMB's strategy and mechanism. These characteristics that we have been adhering to in the past have turned into the genes of CMB, which should be firmly followed continuously.

As repeatedly emphasised by Chairman Miao Jianmin and the Board of Directors of CMB, we should hold on to the "three constants" principles, namely the President assuming full responsibility under the leadership of the Board of Directors, the market-oriented mechanism, and the stability of the management team and talents. These principles led to the success of CMB in the past, and we shall adhere to the "three constants" as anticipated by the Chairman.

Market economy is also a law-based economy. Marketization co-exists with the rule of law on the other side. Therefore, we shall adhere to law-abiding and compliant operation while insisting on implementing marketization, which shall abide by the spirit of contract to fulfil what we've been entrusted by our customer. Only in this way can we truly carry out the marketization plan. The market-oriented mechanism means more than high incentives. Another aspect of marketization is strict constraints, meaning it has both sides of incentives and constraints. Specifically, we must obey market-oriented constraints while accepting the advantages generated by the market-oriented mechanism. Just like the "six capabilities" I mentioned earlier, management staff could be promoted or demoted, and remuneration can be increased or decreased. Only in this way can we truly understand market-oriented mechanism in a comprehensive way and implement it in a better way. We shall adhere to the market-oriented mechanism firmly and better utilise it to maintain the advantages of CMB.

Everyone is concerned about whether CMB's strategy will be affected. In my opinion, serving the real economy is not contradictory with CMB's strategy, but complementary and consistent. The banking industry bears the natural duty of serving the real economy. The financial industry thrives only with a strong economy. China's banking industry has risen to the top of the world in the past few decades, especially after the outbreak of the financial crisis in 2008. What is the reason behind China's banking industry's success? A key reason is that since the reform and opening up, China has become the second largest economy in the world, which has enabled the rise and development of China's financial and banking industries. CMB has benefited from the rapid economic growth brought about by China's reform and opening up. As a member of the banking industry, we must support and serve the development of the real economy. Only in the process of economic growth can our banking industry develop better. There is no doubt about this. As a market-oriented bank, and a bank with its distinctive characteristics and positioning, CMB shall adhere to the differentiated development path while serving the real economy. Furthermore, CMB shall also hold on to the principle of commercial development and risk pricing for asset origination. Only by complying with these basic principles can we develop ourselves properly and soundly, so as to better serve the national strategy, the real economy, and green finance. Therefore, in the past one or two years, CMB has also actively engaged in taking its ESG responsibilities and actively developed green credit and green bonds, which are not only in line with the national strategic direction, but also correspond to the transformation and future development requirements of commercial banks.

We vigorously develop wealth management, which facilitates the growth of residents' wealth and helps achieve inclusive prosperity. These complement and serve the national strategy. Thus, I believe it is necessary to grasp and handle the relationship between serving the national strategy, the real economy and bank operations comprehensively and dialectically. It is duty-bound for a bank to make developments to fulfil its social responsibilities while benefiting society and making it a better place in the meantime.

Recently, Tian Huiyu was suspected of violating discipline and law and was transferred to the judicial department by the Central Commission for Discipline Inspection and the National Supervisory Commission. This was covered by media reports and triggered concerns that it would affect CMB’s asset management, wealth management, and other businesses. I would like to make it clear that Tian Huiyu's case is only a personal incident and has no direct relationship with CMB. We must distinguish Tian Huiyu's personal violations of discipline and law from CMB. In accordance with the requirements of the Board of Directors and Chairman Miao Jianmin, the management of CMB has always been adhering to the principles of maintaining "steady growth strategy, mechanism, operation, and staff force". By following these principles, we have maintained the stability of overall operations and performance, all businesses in the bank are moving ahead in a steady manner. As mentioned earlier, as of the end of September this year, the total scale of our asset management business reached RMB4.72 trillion, and the fee and commission income from asset management was RMB9.443 billion, representing a year-on-year increase of 22.32%, reflecting steady growth. As for our wealth management business, although the fee and commission income from wealth management has experienced negative growth due to the poor capital market this year and the year-on-year decrease in agency sales funds, other businesses have developed steadily. None of these businesses were affected by the case.

[Question 3]: The balance of CMB's real estate business at the end of September dropped quarter-on quarter from the end of June. What changes has the Bank made to the development strategy of the real estate business? The non-performing ratio of corporate real estate loans in the third quarterly report exceeded 3%. To what level is this indicator expected to rise by the end of this year and next year? What will be the outlook for the trend of non-performing real estate loan generation, provisions level, and disposal pace of CMB? What is the risk profile of retail key areas such as residential mortgages and credit cards?

[Executive Vice President Zhu Jiangtao]: Everyone pays much attention to the risks in the real estate sector. CMB's current strategy for the real estate industry has generally maintained a consistent continuity, with no major changes compared with the beginning of the year. As for the indicator of the non-performing real estate ratio you just mentioned, we must pay attention not only to the "NPL ratio" but also to the new NPL formation amount. "NPL Ratio" is affected by multiple factors, such as scale, collection, etc.; and the new non-performing formation amount can better reflect the trend of industry risk changes. Since the beginning of this year, the formation of non-performing loans of real estate business at the Bank was accumulated to RMB4.7 billion in the first quarter, RMB2.6 billion in the second quarter, and RMB2.5 billion in the third quarter. In general, the quarterly new non-performing loan formation amount has been narrowing down. I believe that this trend will continue in the fourth quarter of this year and even next year. This is the risk profile of our Bank's corporate real estate loans.

Regarding the risk profile of credit risk business involving the real estate industry not taken by the Bank, by the end of September, the balance of the underlying assets of wealth management products involving real estate was about RMB145.1 billion, of which the balance of non-standardised credit assets was RMB66.4 billion, mainly concentrated in state-owned enterprise customers, and the overall risk was relatively controllable. The balance of distributed trust products involving real estate was RMB38.4 billion, of which the balance of corporate agency sales is about RMB4 billion, which are all defaulting products; the balance of trust products distributed to private banking clients was about RMB34.4 billion, accounting for 10% of the peak value; the balance of current defaulting products reached RMB7.9 billion, which is concentrated in a small number of customers, and corresponds to assets with relevantly sufficient value as mortgage. In the future, we will further strengthen the management of product duration, actively contact the managers to urge them to actively perform management duties, and protect the rights and interests of investors to the greatest extent. This is the risk situation of off-balance sheet wealth management and trust products of real estate business that everyone is very concerned about.

Regarding the disposal arrangement of the overall real estate industry, we will further increase the disposal efforts and take multiple measures in the meantime. In addition to the traditional disposal methods such as collection, we will introduce more concepts and ideas provided by investment banks, such as introducing asset management companies or adopting agency construction and other methods and focusing on the disposal of risky projects. The disposal of risky assets cannot be done in one step but should go through a certain process. Based on my personal judgement, it will take a rather long time to digest the risk.

Finally, regarding the provisions of the overall real estate industry, the current real estate allowance-to-loan ratio is close to twice of the provisioning level for our on-balance sheet corporate loan, and the overall risk compensation ability remains relatively strong. This is the general situation.

As for the impact of the “mortgage suspension” of real estate that everyone is concerned about, as of the end of September, the balance of overdue mortgage loan related to housing projects with Internet rumour of suspended repayment was RMB369 million, accounting for 0.027% of the total personal housing mortgage loans. The risk remains relatively low.

[Question 4]: Thank you for the opportunity to raise my question. Regarding the asset allocation in major categories, in the context of the continued asset shortage in the banking industry, what is CMB’s asset allocation strategy in the fourth quarter of this year and next year? In terms of the growth rate of assets and loans, what is the expected growth rate of total assets and loans this year and next year? Are newly added loans still dominated by retail sales? Thank you!

[President Wang Liang]: Regarding this year's loan growth plan, CMB’s annual loan growth budget is usually based on the growth scale of deposits, capital consumption, and market share, that is, to determine the budget according to the expected loan growth announced by the People's Bank of China and our planned proportion, as well as our asset allocation structure and other factors.

As for this year's loan growth plan, we have made great adjustments due to changes in the market. A key reason for the change is the lack of effective credit demand. By the end of September, our proprietary loans increased by RMB407.12 billion compared with the beginning of the year, of which general loans increased by RMB2,965.02 compared with the beginning of the year, corporate loans increased by RMB125.05 billion compared with the beginning of the year, retail credit increased by RMB171.46 billion compared with the beginning of the year; bill assets increased by RMB110.62 billion compared with the beginning of the year, and there are some loans granting to non-bank financial institutions. We made up for the shortage of retail loan granting by increasing corporate loans by more than RMB60 billion year-on-year, and utilised the growth of bills discounting business and non-bank loans to compensate the shortage of general loans. Under the circumstance that the effective credit demand was insufficient and the loan granting did not meet expectations, we increased the bond investment. This year, RMB bond investment increased by RMB279.3 billion, with an increase of 16% compared with the beginning of the year, mainly including local government bonds, policy financial bonds, and other low-risk bond investments. Through the flexible allocation of assets, stable interest income will be maintained this year.

Looking forward to the fourth quarter of this year, we will follow the overall loan growth plan hammered out at the beginning of the year and strive to reach the goal of loan growth throughout the year. We will appropriately reduce loans extended to bills discounting business and interbank assets, and increase the granting of general loans. The good signals here are: firstly, credit card loans achieved a recovery growth in the third quarter, with an increase of nearly RMB40 billion compared with the second quarter. We expect that in the fourth quarter, when the pandemic situation is stabilised and consumption has rebounded, credit card loans will maintain a relatively positive growth momentum to compensate for the shortage of other retail products. Secondly, we will actively promote the granting of micro-finance loans and consumer financing, to strengthen the allocation of assets in this area. The loan growth in these two sectors have already met our budget target at the beginning of the year, and we hope to further increase the amount of the loan in this part in the fourth quarter, and increase the proportion of high-yield assets. In terms of corporate loans, it has increased by more than RMB120 billion. We plan to further increase the granting of corporate loans in the fourth quarter, including manufacturing loans, equipment renewal loans and M&A financing granting. You may have noticed recently that the People's Bank of China has issued a series of policies to encourage more loans for equipment renewal and manufacturing, and offer commercial banks certain level of interest subsidy. We are also strengthening the investment of assets in this area, while striving to accomplish the budget target for this year, which is the overall planning and arrangement for this year.

Regarding the loan plan for next year, we will not only ensure to finish our set targets in the fourth quarter, but also make appropriate budgeting for next year. We will determine the scale and structure of asset investment for the next year in light of the changing situation. We expect that the total amount of loan to be granted in the next year will grow at a moderate speed as that of previous years. Maintaining endogenous growth of capital is the premise of our decision on how to grow and allocate risk weighted assets. We will determine how much of the limited risk-weighted assets will be used for granting of credit asset. This is our constraint. In the meantime, we will maintain the growth of operating income and interest income, and to do this, we have to determine the amount of loans required to be granted to fulfil the task of revenue growth, which is also a crucial reference factor for us. Of course, we will also consider our risk management capability so as to rely on our risk management capability to determine an arrangement under which loans are to be granted at a proper pace, including products, structures, and regions. In addition, we will also pay attention to the overall scale and speed of loan growth across the country when we determine our budget for next year.

We expect that the total amount of loans to be granted next year will grow at a double-digit rate, a relatively balanced level compared with previous years. Structurally, we will continue to allocate more resources to retail credit business following the previous strategy, including grant of credit card loans, micro-finance loans, and consumer financing, as well as residential mortgage. However, the growth of residential mortgage is subject to flexible adjustment on the basis of the trend of market changes next year. By the end of September, residential mortgage had only increased by RMB18.85 billion compared with the beginning of the year, which was far lower than the budget at the beginning of the year, which was mainly because the insufficient loans were granted as a result of poor sales. Next year, it will be necessary to closely follow the changes in the market and create more innovative cooperation methods, and will increase loans to be granted for second-hand houses to make up for the insufficiency of growth of retail loans. In terms of corporate loan granting, we will properly allocate loans to serve the real economy, medium- and small-sized enterprises, green credits, manufacturing, infrastructure, and new infrastructure business, etc., while taking into account industries, regions, and maturity. Thank you!

[Question 5]: Good morning to all the management, I would like to ask a question about assets quality. According to the Third Quarterly Report of CMB, the non-performing loan ratio of CMB remains relatively low, which is below 1%, while the overdue rate and the special-mentioned rate continue to rise. Looking ahead to the fourth quarter and the forthcoming year, what will be the overall performance of CMB in terms of assets quality?

[Executive Vice President Zhu Jiangtao]: Looking ahead to the fourth quarter and the forthcoming year, CMB expects to maintain steady assets quality as a whole with the non-performing loan ratio maintained at a relatively low level. In particular, the formation of new non-performing corporate loans for the first three quarters of 2022 mainly relates to the real estate industry, accounting for over 70%. As described earlier, risks of the real estate industry are narrowing quarter by quarter, while those of other industries maintain steady in general. Risks of retail loans increased slightly as compared with the beginning of the year, which was mainly attributable to the comprehensive influence of the three factors, namely the increasing risks of real estate industry, impact from the pandemic, and our narrowed standards for risk classification. As at the end of September 2022, the non-performing rate of retail loans (excluding credit cards) is 0.49%, and 0.29% for housing mortgage. I believed, this indicate that the relevant business are with relatively low risk.

With respect to risks of credit card loans, the early risk indicators reflecting risks of credit card loans for the third quarter are superior than those of the second quarter, also the first quarter. We will continue to adhere to our strategy of "maintaining stable, low volatility" operation and continue to optimise our customer mix to keep the overall risk of credit card loans under effective control. Thank you!

[Question 6]: Thanks for this opportunity provided by the management to raise my question about the net interest margin. How about the trend of net interest margin of CMB for the second half of this year and the next year? In the breakdown of the drivers for net interest margin, what is the impact of the rhythm of loans repricing on measurement of net interest income and net interest margin? What would the Company do to deal with pressure on net interest margin? Besides, from the side of the cost of liability, we also found that the People's Bank of China had issued guidance to adjust the listed rate of deposits downward. Do you think this downward adjustment would be continued from your points of view? And how does it influence your cost of deposits?

[President Wang Liang]: For the first three quarters of this year, our net interest margin on the Group's basis has decreased by 7 basis points as compared to the corresponding period of last year, and the net interest margin for the third quarter of this year has decreased by 1 basis point as compared with the second quarter, representing a great narrow in decrease as compared with the second quarter. The net interest margin of the second quarter decreased by 14 basis points as compared with the first quarter, which was a substantial decrease by then, and it turns to be much better in the third quarter.

As to determination of the decreasing trend of net interest margin in future, I think the trend for decrease remains obvious for the current stage, which still means significant pressure on our net interest margin management. The major reason for this trend is that there are insufficient effective loan demands at the assets side. The banking industry is of fierce competition for quality loan business, with most of the market players managing to increase loan business through low-rate bidding, which led to price distortion for numbers of loan projects, that is, pricing of loans is much lower than the interest rate of deposits of the same terms, all of which is caused by irrational competition. As for us, we still have to treat the market and the financial institutions rationally and adhere to the principle of pricing shall cover the risk. Therefore, we have to give up loan business when the pricing is too low, resulting in our loans business not growing as expected sometimes, so the asset side still shows downward pressure on pricing. As for the liability side, the cost of deposits of our customers increased by 2 basis points in the third quarter compared with the previous quarter. The rise of deposits pricing trends to slow down despite that such rise continues. Since the performance of the capital market is not satisfying this year, lots of customers prefer those deposit products with large-denomination certificates of deposit and fixed terms. In order to meet our customers' needs, we have to release certain facility to satisfy customers' needs for deposits, which results in increase of cost of deposits to certain extent.

The good news is that state-owned banks and joint-stock banks took the initiative to reduce the level of listed interest rate of deposits of various maturities in September this year, which is important for CMB and even the whole banking industry in reducing the cost of the liability side and maintaining a reasonable level of interest spread. This is the first time that domestic commercial banks have taken the initiative to lower their listed interest rates of deposit in the absence of an adjustment to the benchmark deposit rate issued by the People's Bank of China, which can be understood not only as a reflection of the development of interest rate liberalization, but also a rational choice of banks in response to changes in interest rates at the current market condition. The implementation of the new listed deposit rates in September has already initially affected us in terms of deposit cost management, which would be beneficial for us to effectively manage deposits cost for the fourth quarter of this year, even the next year. However, the net interest margin still shows a trend of pressure in general.

Another material challenge for the next year is the repricing, especially for housing mortgage loans. With cumulative decline of 35 basis points recorded this year for LPR of over 5 years, and the fact that 20 basis points could be further reduced on the basis of LPR pricing for housing mortgage loans, it is expected that all banks will experience further narrowing of interest spread in the first quarter next year.

I have noticed that certain banks are already showing negative revenue growth after the release of their third quarterly reports this year. In my opinion, if no better and effective measures are taken in asset allocation, liability cost management and non-interest income growth, the pressure on revenue growth in the banking industry will further increase next year than this year. For CMB, we should judge and analyse the current situation on a rational and calm basis, and deliver a satisfying performance for the end of this year and the start of next year. In particular, our management has taken active measures against the current conditions, which include, among others, studying how to maintain stable operations smoothly, and reducing the objective impact of net interest spread due to changes in interest rates, so as to enable us to continue reasonable revenue growth, steady profit and profit-making ability. These measures have been implementing for a while to minimise the impact of changes in interest rates to the largest extent. Thank you.

[Question 7]: Both non-interest income and fee and commission income of CMB dropped more sharply in the third quarter than in the second quarter, what are the reasons behind? How do you see the growth of non-interest income and fee and commission income for the full year and next year?

[President Wang Liang]: For the first three quarters of this year, the CMB Group realised non-interest net income of RMB102.71 billion, representing a year-on-year increase of 1.85%. Though not a significant increase, it is still not easy to achieve since the year-on-year increase of last year exceeds 20%. It's not an easy thing to maintain the positive increase of 1.85% on such a high base of last year..

Besides, another very important factor is that we recorded a significant year-on-year decline in fee income from agency distribution of funds this year, with a year-on-year decline of over 40% for the first three quarters of this year. Relevant fee income decreased substantially year on year due to the capital market fluctuations this year. Challenged by this unfavourable situation, we took multiple approaches to explore other sectors and expand sources of revenue to achieve stable growth of fee income. In particular, we recorded rapid growth of fee income for insurance agency distribution and wealth management products agency distribution business, stable growth for asset management business, asset custody business, bank cards fees and settlement and clearing fee, and a relatively good growth for various wholesale business, thus making up for the shortfall in fee income caused by the volatility of the capital market. This is the overall situation.

Fee income for the third quarter slowed down compared with the second quarter this year. For the third quarter, the CMB Group realised a net non-interest income of RMB31.33 billion, down by 7.45 percentage points from the previous quarter. In particular, the fee income of the third quarter also declined as compared to the previous quarter, which was mainly attributable to (i) the further reduction of fund sales income arising from the increased volatility of the capital market; and (ii)the growth of insurance business fee income also slowed down in the third quarter, while such growth was significant in the first half of the year, which contributed to the shortfall to certain extent.

For the next phase and next year, we will also take various measures to maintain the stability of net non-interest income and fee income.

First, we need to achieve multiple breakthroughs, which means we cannot rely the growth of fee income on any particular type of products, resulting in over-reliance and over-concentration, since this may bring us into an unfavourable and passive situation once the market changes.

Second, we shall continue to expand our customer base and the AUM. For instance, CMB realised a growth of RMB1.2 trillion for its AUM despite depressed market performance, merely because the scale of our AUM is keeping expanding and amounts to nearly RMB12 trillion in total. As long as our AUM is large enough, we will always find our way to make profit along with the changes in market situation since income from different products will make up for each other and which in turn enhances our ability of maintaining steady net non-interest income.

Third, we shall adhere to the development direction of extensive wealth management. With respect to the extensive wealth management, we shall continuously improve our competitiveness, especially in the sectors including, but not limited to, wealth management, asset management and asset custody, to further enhance the scale thereof and the ability to achieve growth in fee income, so that we can promote the development of extensive wealth management while further optimising the revenue structure.

We'll make our best efforts to maintain the stable growth of net non-interest income and fee income through the above-mentioned measures and actions. Thank you.

[Question 8]: I would like to ask a question about wealth management. This year, the economic growth is expected to be weaker, the wealth effect of real estate is declining, and there is also a trend of fixed-term deposits. How does the management view and look at the future wealth management clientele, including the AUM data? This is the second year that CMB has proposed to build an extensive wealth management business, but due to the sluggish performance of the capital market, some revenue performance has been affected. Could the management please present the core business figures for this year, including the business highlights? Please also give us an outlook on whether CMB will be the fastest growing and better than its competitors if the capital market reverses.

[Executive Vice President Wang Jianzhong]: Thank you for your question. As President Wang said earlier, our bank is facing some pressure on fee income from wealth management fee this year. You are asking a particularly good question. The core of the question is what is the core competitiveness of CMB's retail business, especially wealth management? Based on your question, I will elaborate on a number of aspects, such as clientele, AUM and long-term capacity building.

First, a good retail business requires a large clientele. Last year, our retail clientele maintained high growth. And this year, the growth is still good, with the total number of retail customers currently at 182 million, up 5.2% by the end of the third quarter. In terms of clientele growth, there are four features: first, our clientele with potential to grow is becoming younger. This year, the gold card customer has grown very well and at a relatively fast pace with a growing proportion of young customers. This means that CMB's market share among young customers, especially university students, is increasing. Second, we enjoy faster development in key regions such as the Yangtze River Delta, the Pearl River Delta, Beijing, Tianjin and Hebei, and the new customers acquisition rate in the above areas have increased among the whole bank. Third, we can see a very obvious trend of online wealth management. The number of customers holding positions in wealth products in CMB APP exceeded 42 million, achieving a relatively rapid growth. Fourth, from the structure of CMB's retail clientele, the pyramid-type structure from ordinary card, gold card, golden sunflower to private and diamond customers is relatively reasonable, which is relatively excellent.

This year, the total number of customers acquired may not be as good as last year due to external factors such as the pandemic, but the overall quality of customer management is better than last year. Since this year, we have been promoting group finance, and we are now seeing its initial success. Group finance involves an overall change from the B end to C end, allowing for significant improvement in our refined operation of both basic customer and gold card customer. From perspective of internal integration, the effectiveness has been enhanced thanks to our successful internall integration, including the integration between the corporate segment and retail segment, as well as the integration within retail segment. The customer management efficiency will be further enhanced in the future.

As for AUM, the Bank also saw a growth of AUM this year as introduced by President Wang earlier. The AUM increased by RMB1.2 trillion from the beginning of the year. However, changes in the external situation have led to change in the structure of AUM. In the structure of incremental AUM this year, deposit recorded the largest increment, which is followed by bank wealth management products. When there is a relatively large pullback in the capital market, investors or our clients would adopt hedging strategy, and therefore there would be a stronger demand for deposits and wealth management, in which case CMB, as a wealth management institution, would also make certain strategic arrangements for our customers. The change in the structure of incremental AUM will also be reflected in the fee and commission income. Taking the agency distribution of fund as an example, we are under great pressure in this regard this year.

In the long run, what are the long-term capabilities that CMB is building on wealth management? The first capability is to have the right business philosophy and value. We have clearly established our values of "Being customer-centric and creating value for customers", which is reflected in our all-round efforts to improve staff performance measurement, systems and methods of asset allocation for customers. Those efforts are yielding a gradual success. They are key component of our values and represent our commitment to keep the customer at the centre.

The second capability is our TREE asset allocation system, which will be fully implemented in the second half of this year. In the TREE allocation system, key points are the classification of customers into segments to better understand their needs and preferences, and shaping of the discipline of investment allocation. There is a rational method of assessing how many equity assets should be allocated to a customer depending on the type of such customer, which reflects our customer-centric philosophy. The system is very advanced in China and we are gradually promoting the system across the country. With the implementation of the system, CMB will be able to better protect the interests of our customers in times of high volatility in the capital market, and the system will also enable us to improve our competitiveness in the market.

The third capability is how we develop the insurance business, for which CMB recorded a relatively good growth this year, not only in terms of figures, but also in terms of overall strategy and our ability. As described by President Wang Liang, by the end of 3Q, the growth rate of insurance fee income has reached 47.81%. Regular premium accounts for the major contributors for the growth structure of insurance business this year. CMB is able to deliver satisfactory regular premium insurance notwithstanding regular premium is a product of high complexity, representing the overall improvement of our abilities of team-building, systematic competency and product selection, which are also the abilities that CMB has been building continuously in the field of wealth management now and future, and our competitive strength in this respect is continuously growing.

The fourth one is our online capability. Whether CMB is capable of operate online wealth management business is reflected in its capability of reaching more users, improving efficiency and reducing cost. By the end of September, more than 42 million customers held the wealth products launched by the CMB App, with a rapid growth. In particular, the repurchase rate of wealth management trading customers has increased by 3 percentage points even though the comparison base is relatively high, a very considerable increase indeed. In terms of online fund sales, the number of online non-monetary fund customers of CMB in the first three quarters of this year maintained a double-digit growth despite the relatively difficult situation of mutual fund sales, indicating that our online wealth management capability has been rapidly improved. This will be one of our core competitiveness.

In addition, I would like to touch upon some other topics which you might concern about. The first is the fee income of agency sales of trust products, which fell sharply this year. The era of trust product based on non-standardized credit assets is over. As introduced by President Zhu earlier, we have downsized this kind of trust products sharply and now the balance is very small. The overall risk is under control. The decline in trust product scale will definitely result in decline in related fee income, which now only accounts for a very small proportion of our overall WM fee income. The second question I would like to talk about is equity funds. Under the volatile market environment, it’s natural to see a declining sales volume of equity funds. On the one hand, our Bank strengthened investor education this year to guide customers to make counter-cyclical asset allocation, and on the other hand we expanded the wealth management customer base, both of which have achieved great effects this year. CMB enjoys a relatively leading position in the market in terms of overall asset allocation capability. With the gradual recovery of the capital market, CMB will bring customers better experience in equity product allocation. We do believe that, it is rather important to reach out to customers who fit equity products when the capital market is receding. We shall stay calm in the upsurging market, and seize the great opportunity of allocating assets for customers when the market encounters a downturn. This is what we have been doing and we are pretty good at this part.

In general, the fundamental development of CMB's wealth management business is getting better and more solid. We hold strong confidence for the future, thank you.

[Question 9]: I have two questions for the management: the first question is that CMB's net profit in the first three quarters increased by 14.21%, which was faster than Interim report, but the revenue growth slowed down. President Wang also mentioned that in the face of the economic downturn and declining effective loan demand, CMB's net interest margin is under pressure but the decline is slowing down, the asset quality is stable, and credit costs are falling. We estimate that these factors will continue in the fourth quarter, with relatively stable revenue and net profit throughout the year. Please elaborate your view and outlook for full-year operating results in light of the current operating conditions. The second question is, looking into the coming two to three years, under the circumstances of a stable economy and steady capital adequacy ratio, what is the net profit growth rate expected by CMB, and what would be the ROE target? Is CMB able to reach these goals?

[President Wang Liang]: In the first nine months of this year, the year-on-year growth rate of our net profit reached 14.21%, which met our growth expectations. However, the unfavourable situation is that the growth of revenue was only 5.31%, tending to slow down, our revenue growth is higher than the average level compared with the peers, but it’s trending down. The main reasons are as follows: firstly, the narrowing of NIM, which resulted in slower growth of interest income; and secondly, non-interest income only achieved a positive growth of 1.85% this year. These have led to a slowdown in overall revenue growth of the Bank.

We think, under the currently monetary environment, insufficient availability of assets and declining pricing will constitute to be the main adverse factors effects. In this context, the pressure on CMB's net interest margin management continues to increase, and the trend of slowing revenue growth still exists.

As for profit growth, we shall strive to maintain a relatively stable profitability level, and the key factor is asset quality. In the case of slowing revenue growth, only good asset quality can guarantee that income will not be eroded by risk, rather can transfer to real profit. If growth of both revenue and profit slows down, the operating indicators will fall short of our expectations.

In previous years, CMB has experienced single-digit growth of revenue, but our net profits still maintained a relatively positive momentum, achieving double-digit growth. The key was the sound management of asset quality. Now that we are facing a similar situation again, we shall strive to generate revenue from more sources, and maintain the stability of revenue. More importantly, we should manage and control risks by holding on to the bottom line. We should maintain stable asset quality and reduce credit cost to ultimately achieve steady net profit growth. At this stage, we should transform the value creation chain from "increasing income" to "increasing profits" and should strengthen the management in this aspect.

As for the profit expectations for the next two to three years, on the one hand, it depends on the changes in the macroeconomic environment and the impact of factors such as monetary policy and the financial markets. On the other hand, it is related to the banking industry’s ability to manage liabilities cost and loan pricing. Besides, it can also be influenced by non-interest income. Therefore, the future profitability of commercial banks is subject to multiple factors.

Based on my judgement, CMB will maintain a relatively high ROE level, which is our goal too. By maintaining a relatively high level of ROE, there will be investment returns to our shareholders and make CMB is a worthwhile investment target for investors. To reach this goal, we should achieve balance in multiple factors such as profit growth, ROE level, and capital constraints, and should make structural adjustments, grant credits properly, serve the real economy, and control the risks each year.

How does CMB remain stable in its operation facing the economic downturn? My conclusion will be the "efforts in five aspects". These five aspects are like our five fingers, and we should rely on them to maintain our operational stability. Firstly, we should continue to transform the commercial bank model in which we have been operating in the past to the modern bank operation model of digitised operation led by extensive wealth management. Secondly, we should put more efforts in innovation. Only innovation can bring vitality and competitiveness. It is necessary to strengthen innovation in products, services, and models. Only this way can we better share the benefits of innovation. CMB relied on innovation to survive till now and we shall hold on to boosting innovation in the future. Thirdly, we should effectively manage risks in order to safeguard the bottom line of risks. In this regard, we should maintain high quality of assets, and seek to prevent risks. Fourthly, we should enhance the competency of our team, and especially, we should improve competency of our management staff to create a team of management that can adapt to the development trend of commercial banks in the future. It would be impossible for us to stand out from our peers if we have no a high-quality team. Fifthly, we should improve our management. To do this, we should make improvements in risk management, cost management, strategy management, and other management areas. I would like to describe these five aspects as a fist. Only by grasping tightly, firmly, and securely with all five fingers can one form a strong fist. Likewise, only by improving these aspects can CMB ensure a reinforced capability and strong stability in profitability in the future. Thank you!

[Chairperson]: Thank you. In order to protect the rights of investors, this meeting is held via live webcast, therefore it is also well attended by small and medium-sized investors. In addition to the questions raised in the venue, we also collected investors' concerns via email, most of which are basically covered by the questions asked by the investors just now. We also read out a more representative question to the management.

[Question 10]: In the credit impairment loss structure described in the third quarterly report, why did the allowance-to-loan ratio increased rapidly on a quarter-on-quarter basis, but the non-loan allowances decreased dramatically? How are the allowance coverage ratio and credit cost trends expected to change by the end of this year and next year, and when will credit costs peak?

[Executive Vice President Zhu Jiangtao]: There're mainly two reasons behind the rising allowance-to-loan ratio: firstly, the rising risk in the real estate industry; and secondly, the impact of the regional outbreak of the covid pandemic. These two factors have some impact on our loan book, resulting in a higher quarter-on-quarter allowance-to-loan ratio. The sequential decline of allowance to non-loan assets ratio was also attributable to the following two factors: firstly, the cumulative scale of business under resale agreement fell by nearly 90% compared with the beginning of the year; and secondly, provision for off-balance sheet contingent and credit commitment assets had been more fully provided for in the previous period, especially last year, therefore provision in this area for this year decreased.

Regarding the outlook for the provision coverage ratio as a whole this year, we judge that the overall provision coverage ratio will be lower by the end of this year than that at the beginning of the year, but will still remain at a relatively high level.

Regarding credit costs, credit costs of the Company was 0.81% as at the end of September. We expect that by the end of this year, credit costs will be lower than that at the end of the third quarter, but will be higher than the credit cost at the beginning of this year. Thank you.

[Question 11]: To respond to the declining loan rate this year, the banking industry has generally adopted a strategy of granting more loans by way of interest rate concession. However, the pressure on capital replenishment across the industry has still increased. Recently, certain banks have launched refinancing plans. Does CMB have any demand or plan for ordinary share financing in the next few years?

[President Wang Liang]: Since 2013, CMB has not conducted common share refinancing through the capital market for nearly a decade. It is our self-discipline requirement to maintain the endogenous growth of the capital, and currently CMB has no intention of common share refinancing.

As the management of the Bank, we are still striving to maintain a reasonable level of profitability and achieve endogenous growth of capital through the accumulation of our own profits, which is one of our business strategies. Thank you!

[Chairperson]: For sake of time, we are going to end the conference. If you would like to know more details, you may either check our published third quarterly report online or contact the investor relations management team of the Board of Directors for further communication. Once again, thank you all for attending this conference and for your continued care and support for CMB. We will continue to work hard in all aspects to bring better returns to our investors.