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

(Compiled based on the recording)

Conference Time: 27 March 2023, 9:30-11:35 (BJT)

Conference Mode: On-site + Live audio streaming

Participants from CMB:

Seated on the rostrum: Miao Jianmin (Chairman), Wang Liang (President, Chief Executive Officer and Secretary of the Board of Directors), Zhu Jiangtao (Executive Vice President and Chief Risk Officer), Peng Jiawen (Executive Assistant President and Chief Financial Officer)

On-site and online attendees: Zhou Song (Director), Hong Xiaoyuan (Director), Zhang Jian (Director), Li Menggang (Independent Director), General Managers of relevant departments of CMB

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

External Participants: 4,043 participants, including domestic and overseas investors, analysts, and reporters

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

[Q1: Hans Fan, CLSA analyst]: Good morning. Thank you very much for allowing me to ask questions first. First of all, I would like to congratulate you on your solid and steady performance as always. My question goes to Chairman Miao. It is about the strategic direction of CMB. We know that CMB has always been a good example of light-model bank. In the Chairman’s Statement in the annual report, you mentioned “speed up model transformation, strengthen capital-heavy business, and expand capital-light business” while highlighting that “capital-heavy business is the foundation of capital-light business”. This philosophy originates from the "Tao Te Ching". Could you please elaborate on this in the context of CMB? Thank you.

[Chairman Miao Jianmin]: Thank you for your question. You wrote a research note in January after we released the 2022 Preliminary Results. I read it carefully and it left a deep impression on me. You wrote that CMB is "Steady and solid, as always". It was well written and now you are raising a good question.

Businesses of commercial banks fall into two categories: 1) on-balance sheet businesses that consume capital and bear credit risk or market risk, mainly including loans and proprietary financial investments; and 2) businesses that do not consume capital and bear no credit risk or market risk, mainly including off-balance sheet wealth management. Of course, there are other fee-based businesses. Capital-heavy on-balance sheet businesses bring in net interest income and capital gains, while capital-light off-balance sheet businesses generate income from management fees, service charges and commissions. Traditional commercial banks basically engage in capital-heavy businesses. I classify the on-balance sheet businesses as capital-heavy businesses because they consume capital. Traditional commercial banks rely on capital-heavy businesses, including loans and proprietary financial investments. They also have capital-light businesses, but the proportion is low.

History shows that financial crises and systemic risks tend to occur in traditional capital-heavy businesses. The recent collapse of Silicon Valley Bank (SVB) also proves this. As we can see, bond investments, which have led to SVB's collapse, accounted for 62% of its balance sheet. Besides, SVB has a small capital-light business portfolio, with net non-interest income accounting for just 26% of its total revenue. In terms of banking operations, systemic problems usually occur in capital-heavy businesses. Capital-light businesses seldom bear systemic risks even if the performance is unsatisfactory. Therefore, I have stressed the importance of strengthening capital-heavy business and expanding capital-light business. "Strengthening" is to improve quality, while "Expanding" is to increase quantity. For capital-heavy business, we focus on low non-performing loan ratios when conducting business reviews. This demonstrates the essence of strengthening. Then how to understand the expanding part? That refers to quantity. For capital-light business, AUM matters the most. So we emphasise AUM, as quality is irrelevant for this type of business. Capital-light business bears no credit risk or market risk. It generates revenue from management fees and services charges, without taking any credit or market risks or consuming any capital. Thus, I have emphasised the need to "strengthen the capital-heavy business and expand the capital-light business". This is also a key characteristic for CMB. Our capital-heavy business is strong as reflected in our non-performing loan ratio of just 0.96%

for 2022. Indeed, there is always room for further strength. In addition, CMB has a large capital-light business portfolio that includes wealth management and other fee-based services. Last year, our net non-interest income accounted for 36.70% of total revenue, higher than SVB's proportion of around 26%. Although relatively large, CMB's capital-light business still has room for further growth. As such, we should continue to expand our wealth management and other fee-based businesses.

Capital-heavy business is the foundation of capital-light business. Capital-light business can hardly survive when the capital-heavy business is in trouble. Therefore, the capital-heavy business functions as the foundation which must be strengthened. In the case of SVB, the bank could hardly survive when loans and proprietary financial investments on the balance sheet were in trouble. No matter how strong its wealth management business was, it couldn't save the bank. Credit Suisse had the same problem. That's why we need to ensure we have a solid capital-heavy business in place before we can move to expand our capital-light business because the former is the foundation of the latter.

The strategic vision of CMB's "14th Five-Year Plan" is "building the best value creation bank with innovation-driven development, leading model and distinguished features". What is leading model? In what aspect does our model lead others? We used to describe "the digital operation model, the extensive wealth management business model, as well as the open and integrated organisational model". Today, all players are engaged in digitalisation and wealth management, and the open and integrated organisational model serves as our corporate culture. Based on the above understanding, I have refined and simplified two aspects where our model leads other: first, the structure of capital-heavy business and capital-light business is more rational. The current proportion of capital-light business remains low and it should be increased considering its crucial role; and second, the net interest income and non-interest income are more balanced. Although the proportion of non-interest income has reached 36.70%, there is still room for growth, which can contribute to offset the impact of narrowing net interest margin and enhance the ability to transcend economic cycles.

As the banking industry and interest rates enter a downward cycle with narrowing net interest margin, how can the bank enhance its competitiveness? In my opinion, we must first expand the capital-light business since it has nothing to do with the interest rate spread. It generates income from management fees and service charges and is not affected by interest rates. However, for capital-heavy business, the net interest income is directly impacted by market interest rates and the capital quality can be affected after the downturn of interest rates. Therefore, on the one hand, it is necessary to improve the quality of capital-heavy business, and on the other hand, it is crucial to expand capital-light business for higher proportion of management fees and service charges, enhancing the ability to transcend economic cycles. We should have a leading model if we manage to do this. When others were still concentrating on capital-heavy business, we have strengthened our capital-heavy business and expanded capital-light business. Thus, our business and revenue structure turned lighter as compared with others' heavy structure. Amid the interest rate downturn, others might find it hard to deal with while we can stay calm. This demonstrates our leading model.

The digital operation model and extensive wealth management business model still make sense, but with many limitations. So, this time we are upgrading the model rather than reversing the course.

[Q2: Yan Jiahui, CICC analyst]: My question is related to operating tactics and strategy. The 2022 Annual Report of CMB mentioned some new tactics. For example, growing into a "value creation bank" was put in a more important position. Could you please explain what is a "value creation bank"? Given rapid changes we saw in the banking industry in terms of its dynamics and competitive landscape, and new tactics discussed in the 2022 Annual Report, such as integrated sub-branches pilot and sci-tech finance, will CMB continue to launch such new approaches and strategies to adapt to the changing environment? Can you talk us through the key points? Thank you.

[Chairman Miao Jianmin]: CMB's strategy has evolved from "retail bank" and "light-model bank" to this year's "value creation bank". It's a coherent and upgrading path of development. Just like the leading model mentioned earlier, retail banking put greater emphasis on customers. The capital-heavy business contains corporate and retail banking. We focus more on retail banking as we have been doing well in this area. Our outperformance in retail banking business has won us the title of "The King of Retail". After that, the "light-model banking" strategy was proposed. Light-model banking focused on the development of capital-light business by enhancing wealth management and generating more management fees and service charges. From the perspective of banking operations, this is not the whole picture.

The "value creation bank" strategy focuses on the entire bank operations. Thus, it has evolved from retail banking and light-model banking and is also an upgrade based on them. The "value creation bank" was proposed from the aspect of ecology, balance sheet, and shareholders. The retail business has relatively high interest rate margin within the capital-heavy business. CMB was honoured the King of Retail due to its outstanding performance in retail business. We have been a light-model bank as we achieve great performance in capital-light business. And as CMB achieves excellent results in both capital-heavy and capital-light businesses, we will then become a value creation bank. In this sense, the value creation bank is not a denial to CMB's earlier strategies of retail banking and light-model banking. Instead, it inherited and upgraded the philosophy of its predecessors. A value creation bank can only exist when both retail banking and capital-light banking businesses perform well. It integrates the achievements of the two predecessors.

The strategy of "value creation bank" does not overemphasise shareholder value. By creating value for our customers, employees, partners and society, we will ultimately create value for our shareholders. For shareholders' value, CMB's ROAE reached 17.06% last year. How did we achieve this high ROAE? Behind this result, we have created value and better experience for customers; we have created value for partners and society, receiving high scores in ESG international rating; we have created value for employees so that they can realise their dreams in the work at CMB. Thus, the "value creation bank" is the upgraded version of retail banking and light-model banking. It is also a true heir of their achievements at a higher level.

Commercial banks are facing new challenges. Over the past years, the banking industry has benefited from the rapid economic growth, prosperous real estate market development and high interest rate spread. However, the economy has entered a quality development stage following the high-speed development; real-estate market has been struggling; and the interest rate spread continues to narrow. All these pose great challenges to commercial banks. To deal with the above challenges, CMB proposes to build the best value creation bank with innovation-driven development, leading model and distinguished features. Only by adhering to innovation-driven development can we better focus on quality and seek new business growth points. The sales of real estate market have slumped from the peak of RMB17 trillion to RMB13.33 trillion last year, a decrease of nearly RMB4 trillion. The reason why we put forward building branches with comprehensive services and accelerating the development of green finance, sci-tech finance and inclusive finance is to look for new growth points and to deal with risks and challenges of property market downturn. As mentioned above, leading business model refers to a business model with reasonable business mix and balanced income structure. The distinguished feature of CMB has always been focusing on clients. CMB's golden sunflower logo means that client is the sun and CMB is the sunflower to follow client's footsteps and meet their needs. The shift to retail banking and light-model banking reflected CMB's customer-centric approach and its adaptation to changing environments.

CMB's new approaches are developed on the basis of our traditional philosophy we've been adhering to from the very beginning. Such philosophy is traditional in five aspects. Firstly, we continue to manage CMB in accordance with modern corporate governance rules, which serve to be our traditional path, and develop new as well as scientific approaches and implement appropriate strategies according to current circumstances. The appropriate strategies developed by the Board of Directors may not make any progresses if we do not adhere to and carry them out. Therefore we should manage the bank in accordance with modern governance rules. Our second traditional path is to continue to adhere to a market-oriented and professional business model, which is the prerequisite to implement appropriate strategies. Professionals are needed to implement strategies under the guidance of principles, and incentive and constraint mechanisms are also required for professionals when they implement those strategies. These two complement with each other. Therefore, we shall keep adhering to a market-oriented and professional development model. Thirdly, we continue to adhere to innovation as only innovation enables implementation of scientific strategies. The changing market calls for innovation to implement strategies with direction and under the guidance of principles. Fourthly, we continue to pursue a differentiated path of development. We always distinguish ourselves as pioneers instead of following other's path and we always take a lead in new areas instead of competing with others in the overheated market. This is how we differentiate with others. Fifthly, we continue to develop the three capabilities, namely wealth management, fintech and risk management.

As I have mentioned before, fintech capability decides how fast we can develop. We offer exceptional client experience with leading fintech strength in the industry. Wealth management (capability) decides how high we can attain as there leaves little room for improvement for traditional capital-heavy businesses. Our non-performing loan ratio reached 0.96% last year, which was already a very low figure.

As mentioned earlier, wealth management capability decides how high we can attain. Wealth management market is huge and the total assets of China's financial institutions amounted to RMB419.6 trillion by the end of last year. CMB's achievement hinges on the performance of our wealth management business.

Risk management capability decides how far we can reach. The 167-year-old Credit Suisse was recently acquired by UBS due to its failure in risk management, operating strategy and internal controls. Internal control failures are due to incapable risk management. Despite the long track record, Credit Suisse ended up with being acquired.

Therefore, we propose to build "Three Capabilities" to accelerate CMB's growth, enable it to develop faster, higher and further to make greater achievements. We come up with new ideas and develop new approaches while still adhering to traditional guiding principles.

[Q3: Xiao Feifei, Citic Securities analyst]: I have a question on asset quality. Why both the proportion of special-mentioned loans and the non-performing loan ratio of retail loans rose in 2022? Could this suggest that CMB is set to face greater asset pressure this year? Thank you.

[Executive Vice President & CRO Zhu Jiangtao]: Thank you for your question. Special-mentioned loans rose to 1.15% of CMB's loan book by the end of 2022, representing certain level of increase compared with the beginning of the year, which was mainly due to China's economic downturn, rising risks in the real estate industry and our proactive management to tighten loan classification rules.

In general, CMB's special-mentioned loan indicators are at a relatively low level and the risks are under control.

As for retail loan risk, the non-performing loan ratio of retail loans (excluding credit card loans) was 0.56% (under the Bank's calibre, same below) by the end of last year. Below are some takeaways:

First, the non-performing loan ratio of residential mortgage loans was 0.35%. Among all special-mentioned loans, there were over 70% of non-overdue loans and the weighted-average loan-to-value ratio of mortgage loans reached 32.59% by the end of last year.

Second, the non-performing loan ratio of micro-finance loans was 0.64%, of which mortgage loans accounting for 81%. The weighted-average loan-to-value ratio of micro-finance loans was 39.61% by the end of last year.

Third, the non-performing loan ratio of consumer loans was 1.08% by the end of last year. Consumer loans that were not overdue loans take up nearly 50% of all special-mentioned loans.

Although the non-performing loan ratio of all the above three types of loans increased compared to that of year beginning, they are still at relatively low level.

The non-performing loan ratio of credit card loans by the end of last year was 1.77%. The proportion of credit card loans entering in to the collection procedure, an early risk indicator, was 6.87%, lower than that of 2019. Affected by decreasing repayment willingness and ability as well as the collection policy, the formation ratio of non-performing loans could remain high, but might fall modestly in 2023.

Looking into 2023, we are confident that the overall asset quality of CMB will remain stable. Thank you.

[Q4: May Yan, UBS analyst]: I have two questions. My first question is that the market expected a strong Chinese economic recovery, but the rebound seems weaker than expected up until now. What is worth noting is that the demand for consumer loans and real estate credit does not recover as expected. President Wang, could you please give a brief introduction of the overall business plan for this year? My second question is also a focus of many people. Executive Vice President Peng, would you like to share some information about net interest margin with us? CMB's net interest margin performed well in Q4 last year, up by 1bp quarter-on-quarter. LPR repricing and competition for quality assets among banks are of great focus in Q1, and banks extended more long-term loans with lower interest rate at the beginning of the year. What is the estimated net interest margin for Q1? Will it decrease by 10bps quarter-on-quarter? Could things gradually improve in the following quarters? Will net interest margin bottom in Q1? Thank you very much.

[President & CEO Wang Liang]: Thank for your questions. I would like to express my gratitude to all the investors, analysts and reporters for your interest, trust and support for CMB over the past year before answering the questions. Under the leadership of Board of Directors, CMB's management has overcome a lot of difficulties in the unusual 2022 to achieve the stable and satisfactory earnings results. I communicated online with investors and analysts several times last year. We conducted three virtual roadshows when releasing Q1 results in April, interim results in August and Q3 results in October. In addition, we also communicated with investor via one-on-one group meetings to answer questions with great attentions. We have won the trust and support from investors and analysts through honest, deep and thorough communications.

Over the past year, under the leadership of the Board of Directors, CMB management implemented stability-oriented strategy, operating model and mechanism to achieve stable earnings results. When I communicated with investors last year, most of them cared about if CMB could maintain a stable system and mechanism and adhere to the development strategy formulated in the past, whether CMB can maintain a stable talent team, whether or not CMB would adjust business strategies and window-dress the financial statements. After a year's time, the earnings results and data release in the annual reports serve as strong evidence of CMB's advantages in strategy, culture, systems and mechanism as well as its strong earnings and financial position. CMB has won the trust and support from investors and analysts. We have also won the recognition from the market after releasing the 2022 preliminary results on 13 January. CMB's share price rallied and the market capitalisation once registered RMB one trillion around the Spring Festival. I would like take this opportunity to extend my heartfelt thanks to all of you.

Chairman Miao has answered the questions regarding strategy, value creation bank and the relationship between capital-heavy and capital-light businesses. We proactively implemented the strategy in accordance with his thoughts and requirements last year. As just mentioned by Chairman Miao, when looking back on the development of CMB, we put forward the retail bank strategy in 2004 by taking business development into account. We chose retail banking business instead of corporate business as our mainstay because we have foreseen the future development trend of retail business, and it proves that we have made the right choice.

In 2014, CMB came up with the light-model banking strategy given our capital-heavy development model with loans and deposits as major business and interest rate spread as main revenue source. The light-model strategy aims to save more capital for the bank.

With a decade's consistent efforts, we have achieved capital endogenous growth by adjusting business mix, customer structure and revenue structure. At current new development stage, we propose the new strategic direction of building value creation bank, which is developed based on the retail bank and light-model bank strategies. It will help CMB grasp its development direction, boost the morale and confidence of all management staff and employees across the bank to build CMB into a world-class bank. To build a value creation bank, we should take multiple value creation factors into consideration. We should create value for shareholders as well as clients, employees, partners and society. We should also follow the business logic of commercial banks and systematic management philosophy when building our value creation bank. The goal can only be achieved when we conduct whole-process system management covering volume growth, revenue growth, profit growth and value growth.

Another point to adhere to is that CMB has been advocating the dynamic and balanced development of quality, efficiency, scale and structure. Quality comes first. First of all, we must uphold a moderate and prudent risk culture and preference. Benefit shall also be prioritized. Enterprises must generate profits to be sustainable. The scale should be moderate rather than being greedy for speed and scale, so as to achieve progress while maintaining stability and achieve long-term goals. The structure should be reasonable, and we should not be single minded. Banking operations should strike a balance between capital-light business and capital-heavy business. Therefore, we propose the coordinated development of four major sectors: retail banking, corporate banking, investment banking and financial markets, wealth management and asset management. Coordinated development is not an average development, and we should lay particular emphasis on certain aspects. It is necessary for all aspects to promote each other to form positive empowerment, and ultimately to establish business segments and revenue structure that is comprehensive enough to generate profits even with poor performance recorded in certain segments, so as to continuously create long-term value for shareholders. If we can grasp these aspects well, we can achieve the goal of value creation bank. This is my understanding of value creation bank.

Regarding the business plan of CMB for this year, I believe that the growth momentum for China's banking industry this year is better than that of the past few years.

First, in terms of GDP growth, the two sessions have set a growth target of around 5%. Last year, China's GDP growth rate was 3%, and this year's growth target is very stable compared with last year, which is a restorative growth. Macroeconomic growth provides a very good environment for the development of the banking industry.

Second, in terms of fiscal and monetary policies, they also provide very good opportunities for the development of the banking industry. This year, we will maintain a prudent and precise monetary policy, with M2 growth being expected to be around 10% and loan growth not lower than last year. I estimate that new loans would remain at RMB25 trillion this year. CMB's annual deposit growth budget is two percentage points higher based on the M2 growth rate, which not only keeps pace with social monetary growth, but also helps us maintain the leading position in the market, so that we can develop better compared to peers. This is the plan for deposit business.

In terms of loans, we ensure intensive extention of risk assets every year to avoid the unintended consequences of blind expansion. Therefore, we basically maintain a growth of around 10% in weighted risk assets, so that our loan growth is basically consistent with the overall growth of credit in the entire society and it can be maintained at around 10%. This is how we grasp the annual growth rhythm. According to this rhythm, the growth scale of deposits and loans has basically been determined.

In terms of non-interest income growth, CMB’s net non-interest income under the Group’s calibre decreased by 0.77% on a year-on-year basis last year, maintaining a relatively stable trend. This year, we will strive to achieve relatively stable growth and reverse the negative growth. By maintaining a good growth in deposits and loans, we have achieved stable revenue and relatively normal overall operating results. This will also dispel some investors and analysts' concerns about the possible negative impact of the poor economic situation on bank operations. Honestly, the most unfavourable factor this year is the repricing of loans, which may narrow the net interest margin of banks substantially. Therefore, the gap caused by the narrowed interest rate margin should be filled through incremental business volume.

The main challenge for banks last year was the challenge of risk, while this year's challenge is the challenge of revenue. The revenue challenge is mainly due to the narrowing of interest rate margin caused by repricing, resulting in a gap in net interest income growth. To fill this gap, first, we need to rely on business growth this year, and second, we need to rely on non-interest business revenue. If these two aspects can be resolved, our revenue growth this year will remain stable; if revenue remains at a stable level, as long as we can maintain a stable asset quality, there will be no significant provision, and profit growth will meet our expectations. This is my brief response to the overall business situation of CMB this year. Thank you.

[Peng Jiawen, Executive Assistant President & CFO]: Allow me to answer your second question. At the beginning of last year, when communicating with investors and other relevant parties, we made a judgment: “the entire banking industry is under considerable pressure from narrowing net interest margin”. From what we know so far, it should be consistent with this judgment. Although many banks have not yet released their annual reports, what we learnt should be consistent with the overall narrowing trend. From the perspective of CMB, our net interest margin last year was 2.40%, down 8bps on a year-on-year basis, and this was better than expected.

However, our overall management and control of last year's net interest margin was still under considerable pressure: first, the pressure mainly came from loans. Just now, President Wang mentioned that LPR cuts last year had led to repricing pressure. We may have another greater hidden pressure. As a result of the pressure on asset allocation caused by the entire asset shortage, the pricing of all loans and the pricing of newly issued loans declined. This was not actually a decline in the benchmark interest rate, but a decline in prices caused by changes in market supply and demand, which had a greater impact. Therefore, the combination of these two factors had a significant impact on the pricing of the overall asset yield. Last year, the average yield on our loans and advances was 4.54%, representing a year-on-year decrease of 13 bps, which was still relatively notable.

The second was the pressure from deposits. When market interest rates were declining, the cost of deposits did not go down with it, mainly because of two trends in the market: 1) deposit competition was relatively fierce, which would inevitably lead to resilient deposit costs; and 2) the risk appetite of customers had broadly lowered, and the share of term deposits has been growing. These two factors contribute to the resilience of banks' liabilities costs.

Last year, the deposit cost ratio of CMB was 1.52%, representing an increase of 11 bps compared to the same period last year. The combination of these two factors has narrowed the interest rate margin by 24 bps. If we consider only from the perspective of deposits and loans, assuming a direct pass-through to the net interest margin, it should be around 20 bps, but in the end, our net interest margin only narrowed by 8bps. This was the result of optimisation brought about by a large amount of asset liability allocation and structural adjustment. This is the overall pressure on the net interest margin last year.

However, we feel that from the perspective of CMB, the net interest margin has shown resilience over the past few years, struggling but still maintaining the comparative advantage in the net interest margin. The main manifestations are as follows: first, you mentioned just now that the net interest margin in the fourth quarter of last year was 2.37%, which increased by 1bp compared with the previous quarter. This was not easy to achieve; second, the extent to which our net interest margin narrowed was far lower than the extent to which the interest rate spreads narrowed, and also the extent to which LPR declined, which was also a manifestation of resilience; and third, in terms of the performance of net interest margin, although the annual reports of various banks have not been fully published, we understand that CMB should be superior to and ahead of its peers. I think it shows that CMB had relatively strong resilience in its net interest margin over the past few years.

Just now, you were also interested about the situation in the first quarter of this year. Today is 27 March. The operating results of the first quarter have basically been finalised, and the results have not yet been disclosed, so I am not allowed to reveal any numbers here. However, I can share some trends with you.

First of all, we feel that the overall loan extension should be better than the same period of last year, mainly for corporate loans, micro-finance loans and consumer loans (including credit card loans). This is closely related to changes in the external economic environment and the recovery of consumption. This can support the level of our revenue and net interest margin in the first quarter, which is a positive factor.

The second factor is that in the fourth quarter of last year, we made some forward-looking arrangements. With careful analysis by investors and analysts, we believe that you've already noticed that in the fourth quarter of last year, we extended a lot of loan assets and investment assets, and they were not only for last year, but also for this year. From the overall planning, it should be said that the first quarter will also reflect our arrangements.

However, in the first quarter, we also felt pressure in two aspects: first, there was no significant recovery in residential mortgage loans; and second, the overall deposit cost has not significantly decreased, and it should be said that it remained basically resilient. Therefore, your question of whether the net interest margin has decreased by 10 bps could hardly be addressed directly, but we expect the result would be better than that. However it's too early for us to get optimistic. Why? Perhaps all of you are paying attention to the first quarter of this year only. In fact, if we look at the first quarter, the second quarter, the third quarter and the fourth quarter, we believe that the downward pressure on the net interest margin will continue. This may be a fact that everyone does not want to see, but everyone must face. In this regard, you may notice only about the impact of residential mortgage loans and repricing in the first quarter of this year, as quite a proportion of loan repricing is arranged on 1 January, but there is actually another very important factor. Although the pricing of corporate loans, as I mentioned earlier, has remained stable, the downward trend beginning from last year still exists. Last year had already showed a downward trend. For this year, even though we maintain a stable repricing, it will still be a decrease in both the average and the median compared with that of last year..I think this is also a significant impact.

Throughout the year, we will keep on strengthening the management and control of net interest margin and optimising the allocation of assets and liabilities. It should be said that everyone should be prepared for the downward trend in net interest margin, but we still have the confidence to remain superior to our peers and ahead of the market. Thank you.

[Q5: Gary Lam, HSBC analyst]: I would like to raise a question about wealth management operations. I have noticed a slight decline in the AUM of CMB Wealth Management during November to December last year. What is the trend for year-to-date 2023? Against this backdrop, what will you do to attract more term deposits with relatively high interest costs to wealth management products? Thank you.

[President & CEO Wang Liang]: Thank you for your question. As you said, many financial products launched by wealth management subsidiaries of Chinese banks fell below their net NAVs in 2022 on the back of interest rate fluctuations and valuation de-rating, leading to substantial customer redemptions. CMB Wealth Management and its peers have all been hit by this industry-wide problem. As of the end of last year, CMB Wealth Management led its peers with RMB2.67 trillion in AUM, though this represented a modest decrease from the beginning of the year. We have reviewed the issues of customer redemptions and liquidity management pressure caused by NAV changes. Bank-affiliated wealth management subsidiaries haven't been created until more than three years ago, so this business is quite new for China's financial industry. Next, I am going to talk about our business strategy. First, at CMB Wealth Management, we aim to have a stable AUM and we don't want to overemphasise the importance of AUM scale. Second, we need to optimise our product mix. CMB Wealth Management used to focus on fixed income and cash management products, with a higher proportion of the former.. As such, any bond market volatility would lead to significant NAV drawdown of our wealth management products. Many investors have not yet developed sufficient understanding over wealth management products issued by banks, as they believed these products were principal-protected with guaranteed returns. In fact, like mutual funds, these wealth management products are also subject to fluctuations in NAVs. That's why we have seen substantial redemptions. In light of this, we will do our best to make sure we have stable AUM, optimised structure, broader product coverage and increased allocation to equity assets, rather than aggressive growth in scale and speed of development. Third, we need to improve our capabilities in investment and research, risk management, product innovation and IT system support. While the market is going through an adjustment period, we are making these efforts to support our longer-term growth. That said, CMB Wealth Management maintained solid growth momentum with 2022 net profit of RMB3.593 billion.

Year to date, CMB Wealth Management's AUM has been rather stable as massive redemptions of wealth management products are now behind us due to largely stable bond yields. We have set a clear growth path for CMB Wealth Management this year—please refer to those requirements I mentioned earlier. With an appropriate overall budget, CMB Wealth Management should focus on internal strength and capability building this year.

Let's move on to your second question: how can we channel more customer deposits into wealth management products? Indeed, saving deposits at Chinese banks increased significantly last year, with a cumulative increase of RMB17.84 trillion, up RMB7.94 trillion from a year earlier. In the first two months this year, many people choose to save their money at banks, and saving deposits still maintained a significant year-on-year growth, largely due to: 1) weakened consumer confidence; 2) outbreak of risks in the real estate market; and 3) capital markets trending down in a choppy path. CMB's savings deposits recorded the fastest growth last year, with an increase of over RMB700 billion, mostly low-cost deposits for settlement purpose.

Regarding retail AUM, we need to know if the value is created through deposits, wealth management products, insurances or mutual funds? We must keep two things in mind when determining which products would benefit our customers most. First, we should help our customers obtain higher returns while taking lower risks. Only by creating value for customers and bringing returns to them can we bring in more AUMs. Second, with reasonable asset allocation approach, we could enhance the return on assets of customers while minimising the impact from losses occurred in fluctuation of certain type of products. Against this backdrop, we launched the upgraded version of "CMB TREE Asset Allocation Service System" last year to support scientific and efficient asset allocation across deposits, wealth management products and funds. With the support of this upgraded system, our customers can have better risk control and management, and more efficient asset allocation, which would ultimately lead to safe and higher level of return. Thank you.

[Q6: Ma Kunpeng, China Securities analyst]: Just now, the senior management team have talked a lot about maintaining CMB's system and mechanisms, strategies, business characteristics, market leadership and other practices. I would also like to ask Chairman Miao that, from the perspective of the Board of Directors and the top design of the Board of Directors, how can you ensure that these points you just mentioned be finally implemented in an effective way? Thank you.

[Chairman Miao Jianmin]: From the perspective of the Board of Directors, to ensure that what we just mentioned be implemented, the most fundamental thing is to strictly implement modern corporate governance. Because the shareholder structure of CMB determines that our corporate governance is different from that of a company controlled by a single substantial shareholder. Although China Merchants Group is the largest shareholder of CMB, it does not have absolute control. Its shareholding in CMB is 29.97%, less than 30%. Therefore, CMB is a listed bank without absolute controlling shareholder. Its equity is diversified and dispersed, and the composition of the Board of Directors is the same, which can ensure that modern corporate governance is well implemented. The implementation and execution of modern corporate governance determines whether our strategy can be implemented and executed, so this is fundamental. As long as there are no changes in the shareholder structure and corporate governance of CMB, the implementation of our strategy and culture will be guaranteed. Otherwise, if there is a fundamental change in corporate governance, the implementation of our strategies and culture will be affected.

[Q7: Richard Xu, Morgan Stanley analyst]: Thank you very much for giving me the opportunity to ask questions. I would like to ask more about the recovery of consumer credit, which is also of great attention to us. As you mentioned earlier that the demand has recovered, can you compare the growth rate of credit cards, especially consumer loans, with that of previous years? What is your estimate of the recovery in the second half of this year? At the same time, from the perspective of the overall credit asset allocation, corporate loans are still relatively strong. Looking ahead, what is CMB's asset allocation strategy for this year?

[Peng Jiawen, Executive Assistant President & CFO]: When answering the question of net interest margin (NIM), I also mentioned the trend of adapting to consumption recovery in asset allocation. Based on the situation in 2023, especially before the Spring Festival, we obviously feel that the consumption recovery is reflected in our business, being mainly demonstrated in the growth of credit card business. During the Spring Festival, the transaction volume of CMB's credit cards picked up on a year-on-year basis, and the growth was relatively fast, mainly reflected in the catering and tourism sectors. As we all know, after the pandemic-related restrictions were lifted, catering and tourism were indeed prosperous. In the previous two months, our credit card loans increased by about RMB10 billion year on year, which should be a good sign. However, since March, the growth of the credit card business has slowed down compared with that in January and February. Therefore, from the perspective of credit card business, I believe the overall judgment of consumption recovery should be called "slow recovery".

Credit card business is just one aspect of the bigger picture. From the perspective of all CMB businesses related to consumption, online consumption may be a growth point for us. There are two parts of consumer loans in CMB. In addition to credit card loans, the other is mainly retail credit, which is mainly online consumer loans. You may notice that last year, our consumer loans increased by 29.64% year on year. Under such a difficult economic situation, the growth rate of consumer loans still reached more than 20%, which should be an excellent growth. In the first few months of this year, online consumption has maintained a strong growth.

Therefore, credit cards and consumer loans can basically reflect the signs of overall consumption recovery offline and online. Relatively speaking, this slow recovery is more reflected offline. I believe online consumption still maintains a strong growth.

In addition, I believe there will be a new growth point in the credit card sector. One of the long-term advantages of our credit card business is cross-border transactions and overseas transactions. Our market share has always reached more than 25%, ranking first among all banks in China. In terms of overseas consumption, the commission rate is higher than that of domestic consumption. Therefore, with the relaxation of restrictions on cross-border and overseas travels, overseas travel and consumption will become more prosperous. This is a new growth point that we can anticipate for our credit card business next. Thank you.

[Q8: Shen Juan, Huatai Securities analyst]: I would like to ask President Wang a question. The Chairman mentioned earlier that CMB will focus on the asset-light business in the future. By the end of last year, the retail AUM of CMB had achieved a solid year-on-year growth, but at the same time, the month-on-month growth slowed down. What measures will you take to drive

continued growth of the retail AUM in the future? Given wealth management revenue has fluctuated for the whole industry in recent years, I have a question for CMB management: what are the important growth directions for wealth management revenue in the future? Thank you.

[President & CEO Wang Liang]: Thank you for your question. The Chairman mentioned that we should build "three capabilities", one of which is wealth management capability. In recent years, CMB has established certain advantages in wealth management capability. Last year, due to the impact of special environment, the fluctuation of capital market caused the scale and income of agency sales of funds to decline by more than 40%, which weighed on the growth of our net non-interest income and wealth management income. Last year, we focused on the agency sales of insurance business, the income from agency insurance amounted to RMB12.426 billion, representing a year-on-year increase of 51.26%, making it a new growth point last year. In addition, the scale of entrusted wealth management business amounted to RMB3.21 trillion last year, bringing income of RMB6.645 billion from agency sales of wealth management products. The size of entrusted wealth management business has declined due to the impact of bond market fluctuations since November last year.

Through these increases and decreases, we become aware that:

First, products should be more diversified. We need to allocate more diversified wealth management products to meet the needs of different customers in different cycles and stages, ensuring the stability of our wealth management income. We are now building a more diversified portfolio across agency sales of funds, insurance, trust, wealth management, private equity, and other products to meet the needs of customers and maintain stable performance.

Second, we need to choose great partners from different types of wealth management products. Nowadays, we are open to various types of financial institutions, and take the initiative to visit and pitch our services, and establish close relationships with these leading financial institutions in different segments. These institutions also attach great importance to the cooperation with CMB. We are now actively communicating with these institutions face to face because there are limited excellent partner resources. These partnerships have put us in a better position to serve our customers.

Third, we need to expand our customer base holding wealth management products. Only when such customer base grows larger, we can allocate more effective assets to them, enhance their ability to maintain and increase the value of assets, and bring considerable income to CMB. By the end of last year, the number of customers holding CMB wealth management products was only 43.1293 million, accounting for a relatively small proportion of our 184 million retail customers; and even among the 43,129,300 customers holding wealth management products, many of them are purchasing cash management products with relatively small amounts. From this perspective, there is still huge growth potential and vast market for our wealth management business.

Fourth, we should attach importance to the integration of online and offline services. The online sales of Zhao Zhao Bao (朝朝寶), a cash management product, has exceeded RMB200 billion. By selling these standardized products online, we can serve more public customers, and we can also give full play to the offline advantages of CMB. We have thousands of wealth management relationship managers offline and more than 1,900 branches offline, which can provide customers with a variety of accompanying, personalized and complex products and services. Moreover, we mostly serve "double gold" (Gold Card level customers and Golden Sunflower level customers) and high-net-worth customers, who purchase our products with high amount, have higher demand on asset allocation and more diversified needs on bank's wealth management products, bringing in more income sources to CMB. Therefore, we actively give full play to the dual advantages of offline and online to reach more customers, expand wealth management customers and improve our service efficiency.

In the past two years, we have noticed that the family office and family trust business in private banking business have shown rapid growth. We have made inroads into these areas, and the current AUM growth has shown strong momentum.

I believe we should make joint efforts in the above aspects, so that our wealth management customer base can achieve rapid growth in quantity and quality, with continuously growing AUM. At the end of last year, our retail AUM amounted to RMB12.12 trillion, but last year, due to some unfavourable factors I just mentioned, the growth slowed down and only increased by RMB1.36 trillion. If our retail AUM keeps growing at a rate of more than 10% every year, our wealth management customer base can also maintain a similar annual growth rate. If our service capability and product allocation capability can be kept up, and the wealth management products and wealth management service capability provided by CMB can match the needs of our wealth management customers, we will grow together with our customers. However, if we focus excessively on AUM growth without building sufficient capabilities, it may sometimes go against our expectations, resulting in varying quality of these products, causing losses and complaints from customers, and eventually hurting our customers, which may also fail to meet our goals. Therefore, we should not only seek the growth of AUM, but also improve our service level and capabilities. Thank you.

[Chairman Miao Jianmin]: I also want to add that AUM fluctuates with capital markets in the short term, because the risk appetite of customers fluctuates with capital markets. When the market is rising, customers have strong demand for high-risk products; and when the market is falling, their demand for high-risk products is weak. Therefore, customers' risk appetite fluctuates with capital market trends. The two are positively correlated.

For CMB, our strength in wealth management business lies in sales, and this remains unchanged. Our sales capabilities do not fluctuate with market performance and remain strong. Hence we've developed strength in product sales, which is strong as always, while our weakness lies in asset management, which needs to be strengthened in the next stage. Why are wealth management products seen as uncompetitive in the face of market upheaval? Bank wealth management product is dominated by the culture of commercial banks, which are used to measuring at amortized cost. After the comprehensive transition of wealth management products into NAV model last year, everyone was not used to it. To solve this problem in the future, the core is to improve the capability of asset management, product design and management, and this takes time.

Overall, we have strong sales capability and we are not capable enough in asset management. In terms of asset management, we perform well in funds but not that satisfactory in wealth management. Why do we have a strong capability in funds? Mutual funds have been measured at fair value for more than 20 years. China Merchants Fund is generally among the top mutual fund market players and its scale of non-monetary fund products has ranked among the top five last year. Although our wealth management ranks first in terms of AUM, our management capability indeed cannot rank first. It takes time to transform from commercial banking culture to asset management culture. This is an industry-wide issue, not just confined to CMB Wealth Management.

I believe it will take years to transform from the culture of commercial banks (amortised cost measurement) to that of asset managers (fair value measurement). This is a process that involves the reconstructing of culture, philosophy, and team.

[Q9: A question raised by an individual investor during the online solicitation]: Based on calculations, the core Tier 1 capital adequacy ratio of CMB would be raised by two percentage

points if the floor for the parallel run period is removed in the new measures for capital management of commercial banks to be launched by the government. Further, such an adequate core Tier 1 capital adequacy ratio is indeed a waste. May I ask whether CMB will speed up asset expansion in the future or will it increase the dividend payout ratio?

[Peng Jiawen, Executive Assistant President & CFO]：Before answering this question, please let me briefly introduce the new capital regulations (the "New Regulations"). The new regulations have been published as a draft for comments and it has not yet been finalised. Nevertheless, the content of the draft has basically set a general trend and direction. The new regulations will come into effect on 1 January next year, and I know you all pay special attention to its impact on commercial banks. I would like to describe the overall impact that the overall impact will not be significant. To be specific, neither should you think it will bring material impact to banks, nor should you expect too much that it will bring notable benefits to banks. I believe that from a regulatory perspective, the regulators also hope that the introduction of the new regulations would not hinder the smooth operation of commercial banks, and I think this is also the background for the introduction of the new regulations.

Specifically, we strongly support and agree with the general direction reflected in the new regulation. Overall, the interest rate risk sensitivity will be further classified in the new regulations, which will facilitate the prevention of overall systemic risk. If a bank could internalise the regulatory requirements in its own internal capital management, it will also facilitate the bank to restructure itself and optimise its asset structure, which will in turn improve sound operation of the bank. This is our understanding of the new regulations.

It could be said that the new regulations will be upsides and short-term downsides for CMB. I will share with you our preliminary analysis. The upsides include the following:

Firstly, as you know, CMB is a bank that implements both the advanced measurement approach and the weighted approach, therefore it has been subject to the capital floor of 80%, and the floor would be reduced to 72.5% if the new regulations come into effect. This is one of the upsides the new regulations will bring to banks implementing the advanced measurement approach.

Secondly, for the measurement of operational risk, the risk will be measured on the basis of actual loss recorded under the new regulations. Previously, the operational risk was measured at a certain percentage of revenue. As the losses of operational risk in CMB is relatively small, less risk assets will be measured in relation to loss of operational risk.

Thirdly, to see from the perspective of retail business, for residential mortgage business with quality collateral and high loan-to-value ratio, the corresponding risk weighting can be adjusted downwards to 40%.

Fourthly, the new regulations will be also advantageous for credit card loans. If the bill is spread over 12 instalments and paid off normally, the corresponding risk weight can be also reduced from the original 75% to 45%.

Fifthly, the risk weight for corporate business, such as SMEs, will also be further reduced. Risk weight for investments in local government debt may also be reduced from the original 20% to 10%. Overall, all of these are all favourable factors.

We also see that preliminary calculations have revealed several aspects needing our attention. For example, under the new regulations, retail revolving lines of credit, which was previously not measured as risk asset, will become subject to risk asset measurement; more capital will be measured for real estate loans that fail to satisfy requirements of the new regulations. For instance, real estate loans which project capital fails to reach the required threshold will be subject to measurement of higher risk capital. Further, in the past, financial institution customers were basically assigned the same risk weight, regardless of the types of banks. The new regulations provide for differentiated classification of risk weights for different financial institution customers and the longer the maturity, the higher the risk weight is required. Finally, look-through approach will be required for certain asset management products in which the banks invest, and more risk assets would be measured if look-through is not practicable. This is also an unfavourable factor.

Overall, if you consider the upside and downside together, we believe that the overall impact of the new regulations on the banking sector will be neutral. Our basic judgment is that the new regulations may be a little more optimistic for banks implementing the advanced measurement approach as a whole.

As I said earlier, if commercial banks could truly internalise the regulatory guidance into their capital management, then they could properly accommodate these short-term downsides through their own adjustments, which, in my opinion, will turn into good and positive factors. I think this is also to look into the issue from a dialectical perspective.

As to whether CMB's core Tier 1 capital adequacy ratio will eventually increase by two percentage points, I cannot answer this question for the time being as the data is also confidential. Nevertheless, it will not change by such a large margin.

I would also like to share my personal views on how high the capital adequacy ratio of CMB should be in the future and whether we will increase dividend payout in the future. Overall, we are certain that CMB should maintain a continuous endogenous growth of capital. In other words, we need to maintain an annual increase in capital adequacy ratio. However, objectively speaking, it doesn’t mean that the higher our capital adequacy ratio is, the better it will be. Infinitely high ratio is not acceptable because it will not only inevitably bring more operational and shareholder-level pressure, but also dilute the bank's ROE. Therefore, the capital adequacy ratio should be maintained at a desirable target. What is the desirable target? This may be something we need to explore. I think there is a great uncertainty for Chinese commercial banks, and in the case of CMB, I don't think we are at a very high level of capital adequacy ratio now. Why? Because even if we keep growing our capital endogenously, our capital adequacy ratio would not be higher than that of top-tiered banks in the world. Even across China, our capital adequacy ratio under the advanced measurement approach is not the highest among all banks. Of course, our capital adequacy ratio under weighted approach is one of the highest among comparable peers and our capital adequacy ratio under the advanced measurement approach is on the high side, but it is not the highest. The other thing is that there is huge uncertainty going forward. For example, I believe that we will eventually be among the globally systemically important banks, in which case there will be higher regulatory requirements for us in terms of capital. And there are also future uncertainties will, whether or not, lead to an increase in our capital and our risk assets. Overall, I think the certainty is that we maintain continued endogenous growth in capital, and the uncertainty is exactly what target we should maintain in the face of these future influences, but we will certainly have a capital target that is higher than what is required by the capital planning.

Turning to dividends, we have made a calculation: according to our proposed dividend distribution ratio announced this year, the dividend yield should be able to approach the level of 5%, in which case we should be one of the domestic listed banks with the highest dividend payout ratio. It is also clearly stated in our Articles of Association that we will pay cash dividends at a rate of not less than 30% of the net profit attributable to ordinary shareholders of the Bank on a consolidated basis. I think you should be satisfied with my answer. More importantly, dividends are here and, they're all yours, whether they are paid or not. Thank you.

[Chairman Miao Jianmin]: I will briefly add a few words on dividends. As a listed company, we should maintain a certain percentage of dividends to be paid to our shareholders every year. Why? Because the two purposes of investors investing in listed companies are to earn capital gains and earn profit from spread; and another purpose is to get dividends. Capital gains are very uncertain, and dividends are certain, so only by maintaining a certain percentage of dividends can investors' returns remain relatively stable, which is a very important starting point for investors to invest in listed companies. With cash dividends, rate of return on investment can maintain stable. Another more important aspect is that investors certainly want to earn capital gains and hope that the price of invested shares of listed companies could rise every year, which is a stronger motivation than dividends. Therefore, listed companies cannot be stingy with dividends, which is detrimental to the stability of investors' returns.

Generally, the dividend payout ratio of CMB has been relatively good in the past two years, not less than 30%. Now our capital adequacy ratio is relatively high and the momentum of endogenous capital growth is relatively strong. However, this does not mean that if we immediately increase the dividend payout ratio, it would be beneficial for our investors. Overall, banks are now in a downward cycle of business, and there are many uncertainties, instabilities and unpredictable factors. Therefore, we need to strengthen our counter-cyclical management, and our capital adequacy ratio should remain higher amid the downturn, so that we can have stronger ability to cope with the uncertainties and instabilities in the downward process of business operation. Dividend payout ratios that are relatively high and too high are often the result of two situations: firstly, the substantial shareholder asks for funds; and secondly, the return on retaining cash in the company is not high. As we retain the cash in the company, the ROAE of the Bank reached 17.06% last year. Therefore, return on investments in other areas may not reach the same level and it might as well retain cashes in CMB. Based on those, even if we have to consider raising the proportion of dividend to be paid when the capital adequacy ratio is further increased, that can only be considered when the banking industry enters the upward cycle. This matter cannot be considered if bank's business is in the downward cycle, while counter-cyclical management should be implemented, so as to enhance the ability of CMB to deal with uncertainty and instability.

[Q10: Ma Chuanmao, Securities Times reporter]: My question is about the corporate business sector. Last year, the number of corporate clients of CMB, both in terms of incremental volume and growth rate, hit a new high in recent years, but the performance of the market environment and market players last year was not optimistic. Therefore, I would like to ask the management to introduce CMB's thinking on acquisition of corporate customers, the milestones and whether there are any general characteristics of new corporate customers acquired last year. Also, I would like to ask the management to introduce the focus of CMB's corporate customer expansion this year.

[President & CEO Wang Liang]: Thank you for your question. Last year, the number of corporate customers of CMB reached 2,526,100, an increase of 9.02% from the beginning of the year, maintaining rapid growth despite the poor economic situation. I should say this is a positive result of the emphasis we have placed on the expansion of our corporate customer base over the past few years. The rapid growth in the number of corporate customers has contributed more deposits, which is the most important. Moreover, corporate liabilities basically consist of settlement funds and demand deposits, or core deposits namely, which are important sources of CMB's liabilities. Despite the low pricing level of our corporate loan extension, which may be lower than our peers, our relatively low cost of liabilities has allowed us to still maintain a good level of net interest margin of 2.4% last year, with an average cost ratio of 1.52% for customer deposits last year. The low cost of funds is a very important business advantage for us, which mainly derives from the strength of our customers, our large customer base and the diversified offerings we provide to our customers, especially the online settlement solutions that enables a large amount of settlement funds to be deposited with CMB. We still need to persistently follow the successful practices to further advance this year.

With regard to the new development strategy for corporate finance, we will also maintain a steady growth in our corporate customer base this year. In terms of specific strategies:

First of all, in terms of regions, we will focus more on some key regions. As you have noticed, in accordance with the national development strategy, the Yangtze River Delta region, for example, has a vibrant economy with a large number of high-end customers and manufacturing enterprises, which provides a broad market for our financial services; for the Greater Bay Area, Guangdong Province's GDP ranks first in the country and shows good development momentum; and for the Economic Zone on the West Side of the Strait and the Chengdu-Chongqing Economic Circle, these regions are our main battleground for the development of corporate business. We need to increase our presence and investment in these regions to promote the growth of our corporate clients.

Secondly, in terms of industry, we will focus on green industry and manufacturing industry. To this end, we will vigorously enhance our services in green energy, green transportation, green construction, energy conservation and emission reduction, and other relevant industries. We will expand our customer base by focusing on manufacturing sectors such as chemical engineering, automobiles, machinery manufacturing, consumer electronics and other industries where we have deeper professional knowledge and are able to control risks.

Thirdly, we focus on sci-tech finance. Last year, we conducted sci-tech finance sub-branch pilots in six branches and one second-tier branch to specifically serve technological innovation-driven enterprises, as they have great growth potentials. We focus on the more than 9,000 "Little Giants" firms (being specialised and sophisticated enterprises that produce new and unique products) as announced by the Ministry of Industry and Information Technology (MIIT), which have been reviewed by government departments at all levels up to MIIT. Those firms have special technologies and core competencies in specialised fields. These are the targets of our specialised services in terms of sci-tech finance.

Fourthly, we focus on inclusive finance and increase efforts to serve inclusive small businesses. In the past, our inclusive finance was mainly inclusive retail banking, mainly for individual industrial and commercial households. The balance of loans for inclusive small- and micro-enterprises at the end of last year was RMB678.349 billion, which should be said to be very good results. However, in the past, we did not allocate sufficient efforts in terms of inclusive finance for small- and micro-sized enterprises. We set up an independent inclusive finance department throughout the bank last year, specialising in corporate inclusive financial services. It is our hope that a special team, a special institutional mechanism and special approval and risk criteria will be established within three years to make corporate inclusive finance a new growth point for our corporate finance business.

I think our simultaneous efforts in the industry, product, customer base and region will enable us to form a new competitive capability in corporate services.

In addition, in terms of digital transformation, our focus in the past has been on retail business, with the online retail service rate reaching over 99%. Basically all of our online services were delivered through mobile banking. However, we have been lagging behind in online service of corporate business in the past, and we are accelerating our pace. Last year, we completed a full-scale migration to cloud, and on this basis, we will accelerate the digital transformation of corporate finance, investment banking and financial market business, and asset management business. We will enhance our level of intelligent, automatic and intensive digital management in corporate finance to keep up with the technology level of retail finance, and enable us to better empower enterprises and society in an intensive and intelligent manner by leveraging on technology. Thank you.

[Q11: Nihon Keizai Shimbun reporter] Good morning. I'm a reporter from the Nihon Keizai Shimbun. I would like to ask what is CMB's current exposure to Credit Suisse AT1s? Thank you.

[Executive Vice President & CRO Zhu Jiangtao]: We currently haven't granted any credit lines to Credit Suisse. Our partnerships with Credit Suisse are limited to agency clearing and settlement. The Credit Suisse risk event has been going on for a long time, and we have been aware of this risk. For other financial institutions in Europe, our credit lines are mostly granted to systemically important banks. Thank you.

[**Chairman Miao Jianmin**]: Currently, we have no exposure to Credit Suisse AT1 bonds.

[Q12: Liu Chenguang, Jiemian.com reporter]: Good morning. I would like to ask a question on asset quality. In the fourth quarter of last year, CMB's asset quality experienced fluctuations. I would like to know what changes in the forward-looking risk indicators of asset quality have been shown since the first quarter of this year? Also, what are the trends in the quality of corporate real estate assets this year, and when will the non-performing loan ratios be expected to show a turning point?

[Executive Vice President & CRO Zhu Jiangtao]: Thank you for your question. Regarding the change of risk indicators in the first quarter, we are not allowed to disclose the specific data at the current stage because the data has not been disclosed yet. But in terms of trend changes, the asset quality leading indicators such as special-mentioned loan ratio and overdue loan ratio, which are of greater attention to you, have declined compared with those of last year. Of course, the overall external situation is still very uncertain, and we need to further monitor whether this trend will continue throughout the year.

Regarding the turning point of asset quality of corporate real estate loans, I personally understand that the risk of our on-balance sheet real estate business for 2022 can be summarised by "three increases and one decrease". The so-called "three increases" refers to the relatively large increase of non-performing loan formation balance compared with that of last year, which amounts to RMB13.8 billion; secondly, the non-performing loan ratio of real estate loans was 3.99% under the Company's calibre, an increase of 2.6 percentage points compared with that at the beginning of the year; and thirdly, the provisioning ratio of real estate loans was more than twice the average provisioning ratio of the whole bank's corporate loan, which also represented an increase compared with that of the beginning of the year. The "one decrease" means that the ratio of real estate loans to corporate loans was 15.91%, which was 3 percentage points lower than that at the beginning of the year. All in all, the bank's real estate risk was fully released in 2022. Those are the on-balance sheet portion.

With regard to the real estate sector that does not assume credit risk, there are probably two areas of concern: firstly, the balance of real estate assets in investments for wealth management is RMB113.5 billion, of which bonds and debt investments each account for 50%. The balance of the standard products under new products involving corporate entities that have defaulted is RMB5 billion, which has been fully reflected in the net value of our products on the basis of bond valuation issued by ChinaBond Pricing Centre Co., Ltd.. For the non-standard products, all our non-standard products are classified as normal assets. The second area is the agency sales of real estate business. As of the end of last year, the balance of our agency sales products was RMB32.2 billion, of which RMB28.5 billion derived from sales to private banking customers and RMB3.7 billion from sales to corporate customers. This scale is equivalent to about 10% of our peak scale, and this risk has basically been fully released.

Regarding the turning point, my personal judgment is that the formation amount of non-performing loans for the real estate will drop significantly in 2023 compared with that of last year, but the non-performing formation among the four quarters may not be so balanced. The main reason for this is that we have to focus on eliminating the risk of products such as overseas loans under domestic guarantees this year, and this factor will cause disturbance among quarters. At the same time, disposal of non-performing loans for real estate will become more difficult at current stage, so the non-performing ratio for real estate will not be immediately reduced. Therefore, we judge that the non-performing loan ratio for the real estate industry may still rise this year, but the formation amount of non-performing loans will drop significantly.

Overall, it is probable that our risks in the real estate sector will be basically eliminated in 2023.

Thank you.