Q&A Transcript for 2023 Interim Results Conference

of China Merchants Bank

(Based on the recordings)

Meeting Time: 9:30-11:45, 28 August, 2023 (Beijing time)

Meeting Modalities: on-site + video conference

Attendees of China Merchants Bank:

Seated on the Rostrum: Wang Liang, President & CEO of CMB; Zhu Jiangtao, Executive Vice President & CRO of CMB; Zhong Desheng, Executive Assistant President of CMB; Wang Ying, Executive Assistant President of CMB; and Peng Jiawen, Executive Assistant President and CFO and Secretary of the Board of Directors of CMB

Other attendees on-site and online: Independent Directors Wong See Hong, Tian Hongqi and Li Chaoxian, and heads of relevant departments of the Head Office

Moderator: Xia Yangfang, securities affairs representative of CMB and General Manager of the Office of the Board of Directors

External participants: 1, 295 domestic and foreign investors and analysts

Recorder: Investor Relations Management Team of the Office of the Board of Directors of CMB

Question 1: [Richard XU, analyst of Morgan Stanley]: Thank you very much for letting me be the first to ask questions. I would like to ask President Wang Liang a question that I am interested in, which is the growth rate of assets. You just mentioned that the domestic and international environment is indeed relatively complicated and the entire economy is not particularly clear. Personally, I feel that the current loan pricing system is still confusing. Under such circumstances, how can we look forward to the asset growth strategy of China Merchants Bank? In fact, we can see that, in some countries during certain historical periods, for example, some banks in the United States did not achieve the asset growth for many years before 2008, but they lived better after 2008. Do you think it is a more reasonable choice to slow down the growth rate of assets, and is it more beneficial in the future?

[President Wang Liang & CEO]: Thank you for your question. You pay attention to the growth in loans this year. From the perspective of the whole banking industry, the growth rate of loans in the first half of the year was very fast, reaching a total increment of RMB 16 trillion, and the rate also reached a new high. However, there are some irrational situations, that is, the confusing situation as you mentioned. Sometimes the pricing of loans is even lower than that of deposits, and the rapid decline in bank loan interest rates has led to a rapid narrowing of interest rate spreads. These are all objective phenomena.

As for CMB, we achieved very good results in terms of asset origination in the first half of the year, and the cumulative growth of loans exceeded RMB 300 billion. We continued to increase the allocation of bond assets, and the scale of bond investment increased by more than RMB 200 billion. As for asset origination in the first half of the year, our experiences are as follows:

The first feature is that the business logic of assets determining liabilities is becoming more and more obvious. In the first half of the year, the average annual balance of customers' deposits increased by more than RMB 870 billion, and customer loans increased by more than RMB 300 billion. If assets cannot be allocated effectively, the increase in liabilities may result in higher costs and may not achieve the appropriate benefits, so assets determining deposit is becoming increasingly obvious.

The second obvious feature is that the portfolio management ability of a bank is becoming more and more important. Loan extension is an important part of our asset allocation. We should seek a balance between lending, investment, interbank financing and other aspects to achieve a comprehensive balance of liquidity, security and profitability. In the first half of the year, our loan extension remained mainly retail loans. During the same period, there was quite insufficient loan extension due to insufficient mortgages, which showed a negative growth situation. Therefore, we increased the efforts in extending micro-finance loans and consumer loans to make up for the gap caused by insufficient mortgages.

Corporate loans increased by more than RMB 200 billion in the first half of the year, which were mainly loan extended to industries under careful segmentation of industries, regions and customer groups, including manufacturing, inclusive finance, sci-tech finance, and green finance, which all showed a relatively good growth trend. This is how we carried out effective portfolio management in terms of loans, not only maintaining loan quality, but also maintaining relatively good returns. This is the second point: we need to adhere to portfolio management.

Thirdly, we must maintain commercial sustainability, and we must not maintain the loan growth at the expense of commercial interests. When evaluating whether the loan growth is feasible, we should not only evaluate the quality of the loan, but also evaluate whether the pricing level can create value. Therefore, we still insist that the loan pricing level should cover four types of costs: funding cost, risk cost, operating cost, and capital cost. However, due to our rational and scientific pricing for loans, many asset businesses do not conform to the business logic, and therefore, there was a good growth trend of corporate loans in the first quarter, but a slowdown in the second quarter.

We promote the asset allocation according to the above business logic, which should be correct for CMB. As for what you just said, under the current circumstances, should asset growth be maintained at a moderate level? We will continue to follow the consistent business philosophy of CMB, and adhere to the principles of quality-oriented, appropriate scale and efficiency priority. Thank you.

Question 2: **[May Yan, analyst of UBS]: Thank you for giving me this opportunity to ask questions. First of all, I would like to congratulate CMB on its very stable results under such difficult circumstances. I would like to ask a few questions about asset quality, because everyone is paying much attention to this issue, so there would be a few questions to cover. The first one is on real estate risks. Just now, President Wang mentioned in the PPT introduction that CMB's real estate risk exposure was declining. However, due to the continuous collapse of private developers, when do you think CMB's relevant indicators reflecting the quality of real estate assets will reach the peak? For some of the enterprises having difficulties, such as Country Garden, as far as I know, CMB had a risk exposure of about RMB 30 billion to Country Garden at the end of 2021. What is the risk exposure now? How to classify the related assets of Country Garden, and what are the principles of classification? Are these assets special-mentioned loans or normal loans? In addition, there are other real estate enterprises with relatively higher level of risks, such as R&F and Shimao. What is the classification status of the related assets of these real estate enterprises? The second question is about the asset quality of retail loans. We can see that the performance is relatively stable. I know that CMB's consumer loan has grown rapidly recently. Are there any potential adverse issues in this respect in the future? CMB has done a good job in its credit card business, which has also been actively managing risks over the past two years. Is the consumer finance business operated by CMB itself, or is it mainly operated by Merchants Union Consumer Finance Co., Ltd? Will the risk from consumer finance be higher? The last question is about the risk of the local government financing platform, about which there are many related reports. Does CMB have existing loans granted to local government financing platforms that need extension or interest rates reduction? If the prolongation or reduction of the interest rate was carried out in**

accordance with the *Measures for Risk Classification of Financial Assets of Commercial Banks* which came into effect on 1 July, is it necessary to classify them as special-mentioned loans? Thank you.

[Zhu Jiangtao, Executive Vice President & CRO]: Thank you very much for your question. The first question is about real estate risks. This is our view of real estate risks. From a policy point of view, there is a new tone in the Political Bureau of the Central Committee of the CPC recently. In order to adapt to the new situation that the relationship between supply and demand in China's real estate market has undergone major changes, the real estate policy shall be adjusted and optimised in a timely manner. In fact, I personally understand that this is to further send a very positive signal to the market, but it takes time from the implementation of the policy to the recovery of market expectation, and then to the formation of the actual purchasing power of the market.

In terms of the sales situation, the sales area of commercial housing in the first half of this year decreased by 5.3% compared with the same period of the previous year. Based on the sales situation in July, there was still a significant decline both on a month-on-month basis and on a year-on-year basis. Specifically, at the enterprise level, the number of newly defaulted market entities has also increased this year. For example, some large real estate enterprises that you just mentioned have defaulted. It should be said that the differentiation of real estate enterprises in the overall market is still intensifying.

In terms of the real estate risks of the Bank, the Bank's formation amount of non-performing loans (NPL) in the real estate sector in the first half of the year was RMB 4.8 billion, representing a significant drop compared with that in the same period last year. We expect that the formation amount of real estate NPL in the second half of the year will increase slightly compared with that of the first half of the year, and will decrease on a year-on-year basis. The formation amount of NPL in real estate will decrease significantly throughout the year. If we examine from the perspective of NPL ratio, the NPL ratio of the Bank's real estate loan to corporate customers at the end of June was 5.45 %, representing 1.46 percentage points higher than that at the beginning of the year, which was mainly due to lagged effect brought by NPL disposal. This is in line with our initial assessment at the beginning of the year. Therefore, as the whole, our assessment of the real estate risk for CMB is that the peak of the formation amount of real estate NPL should be in 2022.

In addition, the NPL ratio of real estate, to which everyone is paying attention, is mainly affected by three factors as President Wang introduced just now. However, optimistic estimates suggest that the turning point of the Bank's real estate NPL ratio may occur this year. This pertains to the overall state of real estate risks.

Regarding the cooperation and exposure of Country Garden, the amount of credit facility granted by CMB to Country Garden is not disclosed in the regular report. The information I can share that the facility granted by CMB to Country Garden is basically in line with the position of CMB in the industry, which means that the credit line matches with the market position of CMB. In terms of the structure of the credit facility, the Bank's proprietary domestic business exposure accounts for 87% of the total facility amount, and this part is basically project financing. And the coverage ratio of project asset value to loan is more than 1.5 times. In the future, we will continue to pay attention to risks and further strengthen project management. The second part of the facility structure is the overseas proprietary business exposure, accounting for 5%, which is mainly overseas clean syndicated loans. Once the borrowing entity defaults, the risk of this part of the business is relatively large. The third part of the facility structure is the business that the Bank does not assume credit risk, which accounts for 8% of the total. Among which, agency sales of trust products to private banking clients accounts for 4% of the total, and this business is likely to be recovered and settled within the year; investment in standardized financial products accounts for 4% of the total, and the risks of this part of the business have been reflected in the fluctuation of the net value of products. This is about our cooperation with Country Garden in general.

In terms of classification and provisioning, generally speaking, our overall classification is prudent and provisioning is sufficient. When communicating with the market at the beginning of this year, we mentioned that the overall allowance-to-loan ratio of our real estate business is close to 15%, which is more than twice the average allowance-to-loan ratio of corporate loans. As at the end of June this year, the allowance-to-loan ratio of the Bank's real estate business continued to rise.

Regarding the classification principles, the criteria we adopt at least include: first, to check whether the corporate entity has defaulted in the open market; second, to check the coverage ratio of the overall value of the project to the debt; third, to check whether the business itself is overdue or owes interest; and fourth, to check whether the enterprise is involved in other risks such as litigation, so as to consider the classification comprehensively. Judging from the current overall situation, the total amount of real estate loans involving defaulted group companies but are not classified as non-performing loan is around RMB 7.3 billion. This is the overall situation on the classification of real estate loan.

[Wang Ying, Executive Assistant President]: Let me answer your question about the risk of consumer loans. As for personal loans, CMB has always adhered to the development strategy of focusing on collateralized loans. By the end of June this year, the proportion of collateralized loans in the personal loan balance of our bank was still above 80%. The quality of personal loan assets is generally stable. As you just said, including credit cards, both the balance and ratio of NPL in the first half of this year dropped. Consumer loans have grown rapidly this year, partly due to the recovery of market demand, and partly due to the decline in mortgage loans so that we have increased the extension of consumer loans. We are faster than before, but compared to the entire consumer loan market, our total amount is actually not large. The asset quality of our consumer credit loans also remained relatively stable, and both the NPL ratio and the special-mentioned loan ratio decreased slightly year on year.

Why should we increase the proportion of credit loans on the basis of vigorously developing collateralized loans? What kind of considerations are we taking? Or why do we have the confidence in the asset quality of consumer loans? This is mainly due to the following considerations:

First, we believe that the determinant of risk, that is, the determinant of whether it will become an NPL, is not only the guarantee method, but most importantly depends on the quality of the customer base. The quality of credit loans of high-quality customer base is better than that of high-risk collateralized loans. Therefore, expanding the increment of credit loans does not mean that loans are exposed to customers with higher risk level.

Secondly, in the development of credit loans, we have always insisted on a high-quality customer base. What is the definition of high-quality customer base in CMB? It refers to payroll customers from high-quality industries and professions, and customers holding assets with the Bank.

Thirdly, according to the principle of matching risks and returns, an increase in the proportion of credit loans will lead to a corresponding increase in returns. From the perspective of the return level after considering the risks, the Bank’s data shows that the RAROC of consumer loans is higher than that of mortgages and micro-finance loans.

Fourthly, the Bank has relatively stable quantitative risk control measures and end-to-end chain-based risk control ability for personal loans. Therefore, we have the professional ability to support the sustainable development of our business in a relatively complicated and changing risk situation, and meanwhile we can secure the bottom line of risk control. In the past three years of the pandemic, the Bank’s asset quality of personal loans has remained stable, and it is also at a relatively good level among peers, showing that our risk control ability for personal loans can withstand the test of fluctuations.

Based on the above considerations, we are confident in the quality of our assets. However, we can't take it lightly. In the current fierce competition of the consumer loan market, the market pricing of credit loan is gradually falling, and loans are easy to obtain. Therefore, we must continue to focus on preventing the risk of joint debt in the future. In view of this potential risk, we will continue to adhere to the strategy of choosing to develop an excellent customer base, and the onboarding criteria of the customer base will never be relaxed. At the same time, in terms of the model risk control ability, CMB will continue to enrich the external data of the model and optimise the iteration to further improve the accuracy of the model in identifying customer credit risks.

Finally, I would like to say that in asset growth, quality assurance, price stability and volume growth are an impossible trinity, and quality assurance is always the top priority for CMB. Thank you.

[Zhu Jiangtao, Executive Vice President & CRO]: I will continue to answer your question about LGFV risks. As at the end of June, 2023, the NPL ratio of on-balance-sheet loans extended to the local government financing platform of CMB was 0.14%, which was the same as that at the beginning of the year, and the special-mentioned loan ratio was 0.63%, up 0.04 percentage points from the beginning of the year. The overall indicators were at a relatively low level. In my opinion, the risks are manageable.

From the perspective of regional structure, the balance of platform financing business in high-risk areas accounts for less than 10%, which focuses on transportation investment customers and public utility customers.

In terms of strategy, we adhere to the following principles: First, we make careful selection of regions. We classify the regions according to the debt ratio and implement differentiated management. Secondly, we provide support to clients from the most qualified industries. We have classified platform enterprises into four categories, with a focus on supporting transportation investment customers and public utility customers. Thirdly, we maintain compliance operation. All businesses are carried out under the premise of compliance. For example, the Bank will resolutely not touch bottom lines such as hidden debts. Fourthly, we place emphasis on self-compensation. We will develop the businesses under the principle of commercial sustainability. Generally speaking, the overall risk is manageable from the perspective of quality indicators and overall management. Of course, we will continue to strengthen management and control in the future, especially for the debt risks in key regions. Thank you.

Question 3: [Zhu Chenxi, Portfolio Manager of Guotai Junan Securities Asset Management]: Thank you for giving me the opportunity to ask questions. My question is at the strategic level. In fact, almost two years ago, I remember that in the annual report of 2020, we presented the general direction of the new strategy. We also noticed that there have been many changes in the overall economic and policy environment in the past two years. Therefore, I would like to ask the management whether there are any new thoughts on the future development of CMB based on the changes in the past two years, and what is the possible direction of change? Thank you.

[Wang Liang, President & CEO]: Thank you for your question. As you said, CMB formulated the "14th Five-Year Strategic Plan" two years ago. Our strategic vision is to become the best value creation bank with innovation-driven development, leading model and distinguished features. We have always carried out our business management in accordance with the strategic goals determined by the Board of Directors and the strategic direction of "value creation bank". There has been no change in strategy, and we will continue to maintain strategic determination. However, in terms of the tactics we adopt, we will make flexible adjustments according to the changes in the external business situation in order to better implement the strategy.

We adhere to the strategic goal of building a "value creation bank", which is both our bank-wide values and our methodology. I believe that such a goal is also in line with the future development trend of CMB and can promote CMB to achieve high-quality growth. In implementing the strategic goal of "value creation bank", the tactics should be constantly optimised and adjusted according to the macroeconomic situation and the development stage of CMB, and some new countermeasures should be implemented. At the 2022 annual results presentation conference, I said that our "value creation bank" strategy was proposed on the basis of the original "retail banking" strategy and "light-model bank" strategy. We should consistently continue to consolidate the advantages of retail banking business. With the development of retail banking business at this stage, CMB should constantly innovate in the retail business, form a new service business model, and continue to maintain a leading position in the market. According to this idea, we will continue to consolidate the systematic competitiveness of retail banking business, create a systematic competitive advantage, and turn our advantage into a winning position for CMB to cope with the economic cycle changes in the future. As for the "Light-model Bank" strategy, I have summed it up before. The biggest result it achieved is to maintain CMB's capital endogenous growth through light capital management. We have not conducted ordinary share refinancing for ten consecutive years. We will continue to adhere to this business strategy, and in terms of business management and business positioning, we insist on the positioning of low capital consumption, so as to reduce risks and capital consumption and generate better returns for shareholders. At present, we have further sublimated these two strategies, forming the “value creation bank” strategy.

Moreover, in combination with the development characteristics of CMB and the current external situation, we propose to further implement the regional development strategy. In particular, by focusing on the Yangtze River Delta, the Pearl River Delta, Chengdu-Chongqing Region and the West Side of Taiwan Strait, and other economically developed regions and provinces, we will promote market share of CMB in these regions and enhance our competitiveness, so that the Bank’s branches in these regions can make greater contributions to CMB. We have implemented such a strategy since last year. Although the time is not long, it has started to yield results.

What’s more, we should further promote the implementation of the development strategy of CMB in the segmentation fields and build our competitive advantage in these segmentation fields. In the past, we have built very good competitive advantages among our peers in some key products, such as credit cards, wealth management, private banking and asset custody products. How can we better support the development of CMB in the next step? We must study the changes of the current market demand and continue to build new competitive advantages based on the capabilities of CMB. How can we further innovate in sci-tech finance, green finance, auto finance, pension finance and digital and technology capabilities, so as to maintain our competitive characteristics among our peers and form our development advantages? We have set up different teams in the head office to focus on the above aspects to build competitiveness and cultivate new growth force for a sustainable development in the future.

Finally, Miao Jianmin, Chairman of CMB proposed the idea of “capital-heavy business is the foundation of capital-light business, and we should achieve balanced development between these two businesses”, strengthening the capital-heavy business and expanding the capital-light business, to create a new Malik curve and create a new growth pole. The new growth pole refers to the extensive wealth management sector. In the sector of asset management, wealth management and asset custody, which have less capital consumption and broad future development prospects, we should further strive to make this sector contribute to CMB. Strategically, we have made great efforts to cultivate new growth forces. In my opinion, CMB has a broad market space. It currently has the strength and ability to increase investment in these new growth areas, and will certainly be able to achieve its goal to be driven by innovation with leading model and distinctive features in the future, and become a bank that creates value for shareholders. In a word, CMB’s strategy remains unchanged, and its development tactics will be constantly and flexibly adjusted according to the actual situation, so as to ultimately achieve our strategic goals. Thank you.

Question 4: [Zhang Shuaishuai, analyst of CICC]: Thank you for giving me the opportunity to ask questions. I would like to ask Executive Assistant President Wang Ying a question. You have been in charge of CMB's retail business for some time. Retail business is an original competitive edge of CMB and contributes a lot to market value. From the current viewpoint, the retail asset business and wealth business will be affected by the economic cycle and the capital market cycle as demand is relatively weak, and in some areas demand may be in a downward trend. What do you think of this issue? What is the focus of development effort for the Bank's retail business, and what will the retail business of CMB grow into in the future? Thank you.

[Wang Ying, Executive Assistant President]: Thank you for your question. You have written many research articles, to which I have been paying attention and studying.

Your question is very broad. I'll try to answer it briefly at two levels. The first is about the focus of development effort for retail business in the future. As far as retail business itself is concerned, we have made a serious reflection and conclusion. The reason why the retail business of CMB has such a leading edge today is that every segment under the large retail system of the Bank has its relative strength. No matter it is our wealth management, private banking, credit cards, or retail credit, whether in terms of AUM or MAU, all these made up CMB's overall retail strength. Therefore, the effort of our retail business in the future will not be focused on a single aspect. It's an all-round concerted effort.

For example, we all need to continue to consolidate and upgrade the wealth management, private banking, credit card and retail credit business, which had shown their competitive edges. For some emerging fields, we should also build up our strengths, such as pension finance, buy-side investment adviser model in wealth management, family trust and family office. Why do we want to build a leading edge in each segments? We should consider it from two perspectives. On the one hand, as retail banking business is a systematic business, the strength of single aspect is not enough to support the whole system, and only the strength of multiple aspects can promote each other, making the whole retail business stronger. Our past practical experience shows that basic customers bring in gold card and Sunflower level customers, which may become diamond card holders. All data such as AUM, MAU and MAC (payment and settlement) are mutually supportive and interdependent. On the other hand, perhaps one day in the future, when the retail business of CMB is large enough and strong enough, we may make choices, make trade-offs, and be more focused, dedicated and eminent in one, two or three areas, instead of making widespread, all-pronged efforts as we are now. However, at the present historical phase, no matter whether it is the retail business of CMB or the nation's banking sector, no matter whether it is wealth management or private banking business, they are all in the early development stage. At present, we have no reason or right to choose what to give up and what to focus on. Even though we have now a slight advantage, I think we have just taken a small step in the fields of wealth management, credit card and retail credit business. Our private banking and pension finance businesses have just begun. Even our traditional payment business has once lost favor. Based on these considerations, I believe that we need to make all-round efforts.

How to evaluate the advantages of these segments? We are making 3-5 year plans according to the requirements of President Wang Liang, and we will have clear quantitative requirements and evaluation, mainly on the level of contribution of each segment made to the Bank and the level of market share. How can we build competitive edge for each segment? Different fields have different business development paths, but they have something in common. Simply, how to create the common advantages of the extensive retail business? The answer is to further maintain our established strong base quantity-wise mainly in three aspects. The first is the vast clientele. Among the 190 million retail customers, there are only 65 million MAC customers, 46 million customers holding wealth products with CMB, and 110 million active users of CMB APP and CMB Life APP, which still have huge room for development. Secondly, we have a wealth management relationship manager team of 10,000 people to serve tens of millions of customers, and this team needs to improve its professional competence. Thirdly, we actively cooperate with more than 350 asset management institutions through an open platform. We should continue to strengthen these quantitative advantages.

In terms of quality improvement, we will continue to pursue four systems and one support. Due to time constraints, I will not elaborate on the four systems, that is, product system, asset allocation system, people + digitalization system, and outlet + remote +App channel service system. These four systems should be pursued continuously. In addition, I especially want to emphasize science and technology, which is the most important common support for building the four systems. Whether we are talking about the development history of the Bank's retail business or the Bank itself, it is a development history of financial technology. Every leap achieved by our retail business results from the explosive power of technology. From being the first to launch the All-in-one card in China and to help customers with classified and segmented services, to launching the All-in-one Net and APP, the support of science and technology is critical. Technology and business are deeply integrated in CMB. At present, the artificial intelligence (AI) laboratory of the Bank is putting in resources and talents to speed up the research and application of ChatGPT-related technologies in conjunction with top universities and leading companies in China. We believe that the application of AI would be first reflected in the wealth management and customer service fields of retail business. That is how efforts can be applied from the perspective of our retail business.

The second level of effort goes beyond the scope of retail business itself. CMB proposed to build itself into a value creation bank this year. The principle of balance is very important to a value creation bank. From the past experience of both CMB and some best and top-tiered financial institutions in the world, it is evident that retail business can thrive and expand further only when corporate business, investment and financial market business, wealth management and asset management businesses are very sizable and strong. If those sectors are not strong, retail banking will encounter bottlenecks in development. Therefore, our efforts for retail business are focused on the above two areas.

Let's go to the second point. Frankly speaking, you have just summed up the current situation very accurately. The current situation we face is declining demand. The structure of CMB's AUM is significantly associated with the capital market. The influence of economic cycle and capital market poses a great challenge to us. In contrast to the past situation, retail business is not in a prosperous period, but experiencing an adjustment against the headwind. I don't think it's a bad thing either. In the past, we grew by leaps and bounds; now we take the opportunity to think clearly in this hard time, which may force us to grow stronger and tougher. Retail business and wealth management are being hit but its trend of growth in size and competence remains unchanged. We will keep investing huge resources and efforts into them so that they may maintain professionalism and their leading position in the future.

What do we want to grow into in total size? We hope that the scale of retail asset business, retail revenue, retail profit contribution and retail contribution of non-interest income to the whole bank will increase to about 60% in the future on the basis of maintaining more than 50% at present, and the AUM/Assets coefficient will continue to increase from 1.2 to higher. As President Wang Liang said in the results briefing just now, for CMB, we expect that retail finance will remain the backbone and strategic focus of CMB in the future, so that retail finance will become a big platform for wealth ecology, a ballast stone for asset business, a driving force for flywheel effect and a leader in value creation.

For my task of running CMB's retail business, there is as much responsibility as there is glory, but my team and I, together with over 50,000 retail staff in the whole bank will do our best. Managing retail business here is different from that in other banks. This is a bank where everyone knows, talks about and engages in retail business. Our retail business does not exist to satisfy KPI, but is already in the gene of CMB, is part of the organizational culture of CMB, and is rooted in the heart of CMBers. CMB's retail business has come to the current state because of the trust and choice of 190 million customers. At present, we have a deep understanding and analysis of our own strengths and weak points, especially of our shortcomings, and we are well-prepared. We hope that investors and customers can keep trust in us and work together with us in a longer time dimension while paying attention to the current individual financial indicators. We will definitely enrich public communication with data and repay everyone with satisfactory results. Thank you.

Question 5: [Katherine LEI, analyst of J.P. Morgan]: Thank you for giving me this opportunity to ask questions. I have a question for interest margin, about which everyone is paying attention to. We noticed that the Bank's interest margin narrowed in the second quarter, to a greater extent than that in the first quarter. Please share with us how CMB will manage the interest margin in the second half of the year. What expectations can we have as analysts on the interest margin on a quarter-on-quarter basis? Here, I have a specific question for Mr. Zhong Desheng, the Executive Assistant President, about corporate banking business. When analyzing the interest margin of the corporate banking business, particularly concerning liability management and deposits, we noted that the cost ratio of time deposits increased significantly in the first half of this year as compared with the second half of last year. I would like to ask whether this trend will change in the second half of this year. In addition, on certain other banks' briefing sessions on corporate banking business, we feel that everyone may pay more attention to some similar industries, such as green, new energy and high-end manufacturing. Now that everyone seems to follow the crowd, does CMB have some special strategies in place, for example, in pricing? How can we balance the relationship between return, risk and strategic customers in corporate banking business? Thank you.

[Peng Jiawen, Executive Assistant President & CFO]: Thank you for your question. Since last year, the banking industry has been under the pressure of narrowing interest margin. In the past year or two, every time during communication with investors and analysts, I would talk about the expectation on interest margin. Generally speaking, the pressure lingers on. I also told you in the first quarter communication that I believed there would still be pressure on narrower interest margin in the second quarter. Considering the current situation of CMB or other banks, we see that the data disclosed so far all reflected this feature: narrowing interest margins. As far as CMB is concerned, the net interest margin in the first half of the year was 2.23%. Although the absolute level still maintained a relatively leading position, we noted a significantly lower interest margin which declined 21 basis points (BP) year-on-year. The quarter-on-quarter ratio also catches attention. In the second quarter of this year, the interest margin under the Group's calibre was 2.16%, which was 13 BP lower than that in the first quarter, and the quarter-on-quarter decline in both absolute and percentage terms were relatively high. So, I just take this opportunity to explain our thoughts and considerations to you and analyze the reasons.

Some of the factors here are the common factors of the banking industry, and some are the unique factors of CMB. I'd like to report them to you here. Factors that affect the narrowing of interest margin can be divided into structural factors and pricing factors, because structure and pricing are the two elements that affect interest margin.

Regarding the structural factors that affect the narrowing of interest margin, our assets mainly reflect the features of CMB. Our credit card assets and housing loans have always contributed a lot and accounted for a relatively high proportion, and they are also assets with relatively high yields, which has encountered growth pressures in the first quarter and the second quarter. Firstly, residential mortgage loan decreased by 0.76% from the beginning of the year, but it still maintained growth in market share. For CMB, this type of asset accounts for a relatively large proportion, hence bringing a relatively large impact. Secondly, as to credit card assets, income from this type of asset is relatively high. For CMB, we are currently leading the market in terms of increment, but in terms of total balance, the first half of the year witnessed an increase of RMB 21.372 billion as compared with the end of last year, representing a growth rate of 2.42%, which is relatively low. The decline in the proportion of these two assets has structurally affected the level of net interest margin to a certain extent. That is one structural asset-side factor to consider. On the liability side, the structural factors are mainly manifested in the changes in the proportion of time deposits and demand deposits. It may be that the current situation faced by every bank is a decline in the proportion of demand deposits and an increase in the proportion of time deposits. However, for CMB, due to the relatively large foundation, customer base and proportion of retail business, the wealth attribute is more significant on the deposit side. It is precisely because many deposits reflect the attributes of wealth products, the switch from demand deposits to time deposits becomes more evident in CMB. This is considered as another structural factor.

As to pricing factors, firstly, interest rate on corporate loan assets goes down, which is mainly due to two reasons: Firstly, the cut of LPR drove down interest rates. The cycle of re-pricing continues to bring down pricing, and several consecutive cuts of LPR also have an impact. Secondly, the change brought by supply and demand relationship matters. As mentioned in your question just now, there is still a shortage of corporate loan assets. When everyone is competing for the same type of asset, it will definitely bring down the asset yield. The aggregate effect of these two factors has led to a drop in the pricing of corporate loans. Secondly, the income and pricing of retail assets have weakened even more, including the credit card assets mentioned just now. Also, in the weakening trend are the pricings of micro-finance loans, consumer loans and residential mortgage loans. There are some macro-level factors here, and some are also affected by the relation between supply and demand. Therefore, the decreased pricing reflected on the loan side also had a negative impact on the net interest margin. So far what I have explained are the situation and insight as reflected by the data.

Overall, we feel that everyone is more focused on the issue of quarter-on-quarter growth. We attach great importance to the analysis of quarter-on-quarter changes, because they can let us see the changes in trend. The quarter-on-quarter changes of CMB this year have some features different from our peers. I think there are two main factors: Firstly, the first quarter of this year saw a surge in loan extension. Generally speaking, banks will put some projects on hold at the end of the previous year and increase the loan extension in the first quarter of the current year, so the proportion of credit assets in the first quarter is relatively high. In the second quarter, overall demand for loans was still weak, so the amount of loan extension in the second quarter is relatively low. That is a factor from the asset side. Secondly, the cost of deposits is still rising from quarter to quarter. That is to say, in the first and second quarters of this year, the change in the proportion of time/demand deposits is more evident in CMB.

You should also see another point, that is, although the net interest margin decreased by 13 BP in the second quarter as compared with that in the first quarter, it has dropped by 22 BP as compared with the same period of last year, and if we compare the figure for the first six-months of this year with that of last year, it dropped by 21BP. That is to say, compared with the same period last year, the decline did not fluctuate much, and it can be inferred that last year has also such a feature. Last year, the net interest margin for the second quarter decreased by 14 BP as compared with the first quarter, which reflected the unique features of CMB and also influence of seasonal factors. We may also say that at the present time every bank has its own different features.

The net interest margin of CMB in the second quarter decreased significantly as compared with that in the first quarter. However, from the perspective of the growth of net interest income, based on the statements disclosed by various other banks, CMB is the only large and medium-sized bank that has achieved positive growth in net interest income which grew by 1.21% for the reporting period. There are two factors resulted in the growth of net interest income: price factor, and quantity factor. Interest margin for the first half year decreased by 21 BP on a year-on-year basis, and the decline rate was relatively low compared with most peers. In terms of quantity, do we bring about income growth through the rapid growth of quantity? Someone asked this question just now. I looked through the data. In the first half of this year, the growth rate of our risk-weighted assets under the weight approach of the Bank's caliber was 6.8% as compared with the end of last year, representing a year-on-year decrease of 1.3% as compared with the same period of last year. This proves that the growth rate of our risk-weighted assets is closely in line with the external economic growth rate, and it declined slightly under the current slowdown in overall economic growth. Compared with industry peers, the growth rate of our risk-weighted assets has also maintained a moderate level. In other words, a moderate asset growth can secure positive growth of net interest income, which shows that the performance of interest margin remains relatively good. Nevertheless, we should still pay close attention to these trend changes.

There are several issues that everyone is more focused on, and I will share about them altogether to you here. For example, the problem of rising deposit costs. We are paying much attention to the cost of deposits. One of the great advantages of CMB is that the cost of deposits is relatively low, so we monitor it very closely. In the first half of the year, the cost of deposits in CMB increased, both on a year-on-year basis and on a month-on-month basis. We can analyze it from another perspective: when we break down the cost of deposits into cost of corporate customer deposits and cost of retail customer deposits, we get the first observation that retail customer deposits contribute most to the total rise in cost. Alternatively, if we break down the same into cost of time deposits and cost of demand deposits, we get the second observation that the cost of time deposits decreased, while the cost of demand deposit increased slightly, and the change in the proportion of time deposits as well as demand deposits is the most important factor causing the increase in the cost of deposits. For the third perspective, if we classify deposits based on RMB and foreign currency, the cost of RMB deposits decreased by 4 bps on a year-on-year basis, and the cost of foreign currency deposits increased by 171 bps. To some extent, the increase in the cost of foreign currency deposits also brought about the increase of the overall deposit cost. However, foreign currency is more of a factor with technical essence, so no excessive analysis is needed. This is because the return on foreign currency assets also benefits with the rising cost of foreign currency deposits, and these two factors are basically hedged. Therefore, what we should focus on is the rise in cost of deposits at the retail side, which is the most important factor that we need to pay attention to at present.

Based on these analyses, it is clear to everyone that the current increase in the cost of deposits mainly comes from the rising deposit costs on the retail side, which is mainly due to two factors including change in the ratio of time deposits to demand deposits on the retail side and the increase in the cost of demand deposits on the retail side. It is easy to understand that in the current situation where the overall risk appetite of customers has changed, which is reflected by the redemption of net worth of wealth management products, poor performance of the capital market, and unfavourable sales of equity products, customers' demand has shifted towards low-risk products, and our deposits have served as such low-risk products at a certain stage.

In fact, Ms. Wang Ying, Executive Assistant President, has mentioned that everyone in CMB knows, talks about and supports retail business, which is a common phenomenon in our Bank. As the Chief Financial Officer, my concern is how to balance the financial costs under the background of supporting the supply of retail products. We are doing a multiple-choice question now. If we maintain the steady growth of the customer base and AUM, we may have to sacrifice some financial costs. My personal understanding is that we should strike a balance between these two sides which are of equal importance. Consequently, the current increase in the cost of retail deposits is a cost increase under our budget management, which means our supply of deposit products with relatively high yield at the beginning of this year is planned and arranged. At present, it is all carried out according to this supply arrangement, and is within our budget, so there's no need to worry. The fact is that it is not disorderly carried out to loosen the control of costs in pursuit of the growth of deposits, but orderly to increase the supply of some deposit products to support the growth of retail customer base and AUM.

We have also noticed that the cost of our retail demand deposits increased, while the cost of demand deposits of some banking peers has not changed much. What is the reason? I'd like to explain that this is a phased factor, mainly due to the rectification of cash products of CMB (we are the first to conduct the rectification) and the inclusion of some redeemed wealth management products back on the balance sheet. At the end of last year, we recorded a loss in the net value of wealth management products, and the redemption of wealth management products required further products for the related funds. At that time, we appropriately launched some demand deposit products to accommodate such funds. This is phased, planned and arranged. Generally speaking, we have very strict requirements on the management and control of deposit costs, and please be assured that we manage them according to our budget.

With regard to NIM (net interest margin), there is concern for its trend of the next step, so I'd like to make some explanation. I think there is still a great pressure on the management of NIM. In addition to the external economic environment and the pressure on economic growth, there are also some policy factors. For example, there is still room for reduction of the LPR loan interest rate, and the adjustment on the interest rate for existing residential mortgage loans is likely to be implemented. These factors may bring greater pressure to NIM. However, I believe that there will be some positive effects as well: First, it is highly probable that under the background of deposit interest rate liberalization, commercial banks' self-initiated reduction of the deposit interest rate is a must. Second, the current loan interest rate is too low due to the relationship between supply and demand, and the management for the self-regulatory mechanism of interest rate will also be strengthened. From the perspective of macro-environment, the resilience of China's economic growth is still relatively strong, and I believe that the growth momentum will be restored over time, which will create a loose environment for us. This is another positive factor.

By the way, I would like to talk about the adjustment on the interest rate for existing residential mortgage loans. Based on the statement of the central bank, it has directly changed from "encouragement and support" to "guidance". I think that it is imperative to lower the interest rate for the existing residential mortgage loans, which is highly probable to occur. At present, we have made corresponding plans but we have no final solution, because there are many factors that need to be taken into account, such as the city-specific policy, the fairness while implementing the city-specific policy, and the capability of the banking system to support the implementation. It is particularly complicated, and the situation may vary depending on different cities, branches and customers. On the whole, we will steadily push forward the implementation under the guidance of the central bank in accordance with the market-oriented and legalization-based principle.

We have evaluated the impact internally, but the data cannot be disclosed here. We have conducted the evaluation mainly based on three scenarios: optimistic scenario, neutral scenario, and unfavourable scenario. According to the evaluation results, it is still controllable in general and should be under our control. Of course, we should not only see the negative impact. Personally, I think that the adjustment on the interest rate for the existing residential mortgage loans also has its positive effects: First, the interest rate for the existing residential mortgage loans is reduced because there is a large amount of early repayment. With the downward adjustment, the factors stimulating early repayment of such loans will be mitigated to certain extent, which in turn will bring about the increase in the new residential mortgage loans. Second, with the downward adjustment, customer loyalty will be enhanced, which will further deepen our business operation with customers and thus benefit the growth of retail business. For this reason, we can't just notice the negative impact on short-term finance, it has its own advantages in the long run. Next, we will implement the adjustment steadily.

Generally speaking, we will face greater pressure in the following stage, but we will try our best to arrange the allocation and structure of assets and liabilities, manage the quantity at the same time, and balance the relationship between risk and quantity growth. We hope that CMB may keep its leading performance in NIM and deposit costs.

[Zhong Desheng, Executive Assistant President]: Next, I will answer the following two questions.

First, I believe that the logic and reasons are clear regarding the trend towards corporate time deposits. In the first half of this year, the economic operation was relatively weak, and the investment activities and business activities of some industries and enterprises declined. Therefore, these enterprises chose to arrange the monetary funds as time deposits. It is a choice closely related to the economic situation and business operations of enterprises. This is about one aspect of the first question.

As to the trend in the second half of this year, by virtue of the constant implementation of a series of national policies for stabilising growth and stimulating the economy and their roles played in the market, the tendency towards corporate time deposits should be gradually eased and improved in the next stage. It should be specifically noted that CMB attaches great importance to the settlement services provided to corporate customers, that is the services relating to CMB's role as our customers' the principal bank and the principal settlement bank. Therefore, the proportion of our demand deposits is one of the highest proportions among banks. In the next stage, with further development of our business services such as digital intelligent finance, the proportion of demand deposits from corporate customers will further increase, and our advantage on the liability side will be further enhanced. This is about the time deposits in the first half of this year.

As for the second question, which is a relatively broad one, is about the homogeneous competition in the corporate banking field, or the phenomena of homogenisation reflected by the strategies on corporate banking business chosen by various commercial banks. In my opinion, it relates to two aspects:

On the one hand, the market for the corporate banking business of commercial banks is relatively common or relatively homogeneous. Based on the sectors of the national economy, industrial development policies or changes in the trend and momentum of industry development, commercial banks will make rational choices to select the development direction with better growth, trend and momentum in the national economy.

Furthermore, I want to talk about CMB's own strategy or positioning in this respect. Mr. Wang Liang, our President, has said that we should continue to build up our distinctive advantages in segmented areas. In other words, we should build up our features and advantages in the segmented areas and seek some differentiated features on the basis of strengthening and optimising our corporate banking business. At the beginning of this year, we proposed to develop featured finance in seven sectors and chose two directions: the first is the main direction of the future development of the national economy represented by the seven sectors, or the key areas with good momentum. The second direction is that the strategy is based on CMB's own endowments and features. As time is limited, I can't explain the seven financial sectors one by one. Let me give you examples in two aspects. For example, we propose to build up digital intelligent finance to adapt to the digital and intelligent development direction of enterprises. We thus propose to develop such a featured service in respect to better integration of financial services into the digital transformation process of enterprises.

On the other hand, it is related to the endowments and advantages accumulated by CMB for many years. 15 years ago, we began to launch enterprise-level CBS to provide enterprises with treasury management service, or the cross-bank cash management service. With the improvement of technologies in recent years, as well as our further understanding on corporate treasury management and the development trend of integration of business and finance, digital intelligent finance, which we innovatively launched on the basis of our original foundation, is an important direction in our future development. Another example is sci-tech finance. Sci-tech finance originated from Qian Ying Zhan Yi (千鹰展翼) plan launched by CMB ten years ago, by which we put great efforts into high-tech enterprises and provided them with continuous services. After ten years of development, we have had more than 110,000 growing high-quality high-tech corporate customers in our high-tech customer group, and more and more growing high-tech enterprises we served went public in the capital market. In the past three years, the account coverage rate of IPO enterprises has reached 85 %. Therefore, the future-oriented layout not only reflects our judgment on the development trend, but also is supported by our established foundation and strength.

In summary, it is an important strategy for CMB to seek the differentiation and trend of its corporate banking business and maintain its advantages in segmented areas in the course of the national economic development.

Question 6: ["JIA TOU GU ZI DI", an individual investor]: Thank you for giving me the opportunity to ask questions. I'd like to put questions to President Wang. It has been more than a year since you took over the president position of CMB, and what is your primary concern in the next year considering the operation of CMB? From a medium-term perspective, for example, what is your primary concern in the next 3-5 years? What measures are you going to take to address the issues of medium-term concerns? Thank you.

[Wang Liang, President & CEO]: Thank you for your question. I have studied your posted articles seriously. You have done deep research on CMB, and many questions are very accurate.

Just now, you asked me about my short-term and medium-term concerns. My short-term concern is how to provide satisfying operating results for our investors. I noticed that you have pointed out many shortcomings to us, and we will seriously think about them. After the release of our first quarterly report this year, you posted an article, pointing out “do not make excuses and do not emphasise objective reasons”, which touched me deeply. I think that the short-term concern is how we can improve our results as soon as possible to win the recognition of investors and experts. In the medium term, what we pay more attention to and think more about is how to make such a large enterprise as CMB go with stability and sustainability and achieve sustainable business success, and to be sure there is no mistakes or risks in the short term. If we fail to do so, the long-term stable development of CMB will be adversely affected.

The question I am thinking about is: in the face of the current macro-economic situation, how can CMB, as a micro entity, balance the relationship between macro-economic situation and itself as an individual entity? From this point of view, I want to say that the downward trend of interest rates is a trending change, but as a commercial bank, it is necessary to maintain a moderate level of profitability, so there are certain contradictions between them. Why is the downward trend of interest rates a trending change? At present, the economic growth rate is slowing down, and it is necessary to maintain moderate liquidity, but the effective credit demand of high-quality customers is insufficient. These factors will inevitably lead to the reduction of loan interest rates and the narrowing of interest margin, which may put great pressure on the operation of banks.

However, it is necessary to maintain reasonable profitability of commercial banks: First, only having reasonable profitability can commercial banks maintain the capital endogenous capability and better serve and support the real economy. Second, only maintaining a reasonable interest margin and profitability can commercial banks be in a strong position to resolve various risks and enhance their ability to resist risks. Third, each commercial bank need maintain reasonable profitability in order to strengthen the confidence of depositors and the willingness of the public to deposit their money in the bank. If the bank is unprofitable, who has the courage to deposit money in a loss-making bank? Reasonable profitability is an important cornerstone for any banks to maintain credibility and financial stability. Against the backdrop of reducing interest rates, narrowing interest spreads and declining profitability, it is contradictory to require commercial banks to maintain reasonable profitability. In this contradiction, how should CMB position itself? A bank can maintain reasonable profitability only if it has accurate business positioning and excellent operation and management. Under the background of narrowed interest spread in the future, banks are facing differentiation. Some banks will be able to record outstanding results, some will encounter difficulties, and some will be unable to survive. At that time, we will try our best to be among the ranks with outstanding results. We are at a critical turning point now. We need to focus on our strategic target of building a value creation bank in order to become a bank with outstanding results in the future.

Second, in terms of risks, the real estate sector used to be a “grey rhino”. Facing the risk of grey rhino events, should we let it break out or should we dissolve, absorb and resolve this risk as soon as possible? Or should we let this grey rhino event continue to exist and break out in the future? The real estate sector which is highly associated with the banking industry belongs to a capital-intensive industry. After two years of development, the risk of grey rhino events in the real estate industry has actually erupted. During the outbreak, commercial banks including CMB have the ability and strength to cope with the losses caused by real estate risks to banks and the financial sector. If the losses caused by the risk of grey rhino events in the real estate industry can be offset by banks quickly while banks still having reasonable interest spread and rather good profitability, it is very crucial for the healthy development of the whole banking industry.

The impact of real estate risks on CMB is reflected in three aspects: 1) loans recorded on the balance sheet; 2) asset securitisation products issued by real estate enterprises in the investment portfolio of wealth management; and 3) agency sales of trust schemes to private banking clients. After two years of efforts, the risks are basically defused. I think CMB is able to develop healthily after this process.

The real estate risks also inspire us. Will there be any other grey rhinos events in the future? We can’t afford to repeat the mistakes in the real estate sector. On the contrary, we should avoid and guard against the possible grey rhino or black swan events in a timely manner, so as to ensure the stability and sustainability of CMB. This is the second aspect I will consider in the long run.

Third, CMB recorded a normal and good operating result in the first half of this year, and it maintained a positive growth in earnings while defusing risks. The net operating income has a slight negative growth, but mainly due to the adjustment caused by pricing, which is an objective factor. On the whole, our business operations in the first half of the year remains stable, provides a solid foundation and brings confidence to us. Our operating fundamentals have not changed, as the capital adequacy ratio has maintained endogenous growth while excluding the impact of cash dividends, and the allowance coverage ratio is still very high. Because of the foundation mentioned above, we are confident enough to cope with the impact of various unfavorable factors in the future. Since we have enough confidence and such a sound foundation, I will consider how to maintain CMB’s current fundamentals in the medium and long term.

How can we keep such fundamentals? First, we must continue to maintain a high level of ROE. Second, we will continue to maintain our strong risk compensation capacity. Third, we will continue to maintain the bank's capital endogenous capability. Fourth, we will continue to maintain a relatively low non-performing loan ratio and good asset quality. Fifth, we will continue to maintain a sound business structure, with retail business being the main body, the proportion of non-interest income staying ahead, and the funding cost remaining at a low level. If we can keep these advantages, we may maintain the solid operating fundamentals. However, how can we create a new situation? We can't just hold onto the previous achievements, and they can't be maintained without being proactive.

How to be proactive and create a new situation? First, we must rely on management to meet with success. The era when banks used to rely on extensive management and high interest spreads to make profits has come to an end. Nowadays, banks need to improve the level of refined management to manage and control costs, businesses and risks so as to gain profits. This is the success of management. Second, we should depend on technological empowerment through increasing technology input, digital transformation and intelligent operation. Third, we should drive business development with innovation. Under the current circumstances, CMB has the first mover advantages by adhering to innovation and being at the forefront in every stage of its development. At present, we need innovation to solve the current dilemma of weak revenue growth and narrowing interest spreads, and achieve a leading advantage. Fourth, we should implement the regional strategy. Fifth, we should create new advantages in segmented areas. By focusing on the said aspects, I believe that CMB has the ability and strength to continuously create value for shareholders.

Question 7: [Ma Kunpeng, analyst of China Securities]: Dear senior management, we know that there was a huge operating pressure of the Bank in the first half of the year, as shown in the interim report of CMB. On the one hand, we saw that the customer growth was steady and robust, and at the same time, the speed of disposing NPL was very fast. However, we can see that growth and income indicators are not very active. Overall, it is a very cautious defensive strategy under the unfavorable environment which I quite agree with. Of course, the defensive strategy can't always be applicable and subsequent changes depend on improvements of the external environment. So, I want to ask President Wang Liang: In your opinion, what favorable changes in the external economic environment of the whole banking industry can drive CMB to take more active strategies? And what

preparations have CMB made for that?

[Wang Liang, President & CEO]: Based on the changes in the external environment, China's banking industry mainly takes domestic market as its operating market, and the economic growth of China is now featured by high quality instead of high speed in the past. After entering the stage of high-quality development, growth speed is not the main goal. The GDP growth target this year is expected to be around 5%, and the economic growth rate is not taken as the main indicator in decision-making. The banking industry witnessed the growth-oriented GDP changed into quality-oriented one in such an economy, which brought changes in economic structure and industrial structure. The financial industry needs to keep pace with the times according to the changes in industrial structure so as to find its own development opportunities in the market.

It has changed a lot. In the past, the model of "real estate + government platform + finance" was the mainstream, and a lot of credit funds of banks were mainly used for real estate and platform financing. Now the model of "technology + industry + finance" prevails. The banking industry puts a large amount of credit funds mainly into green, manufacturing and new energy industries. All banks are subject to adjustments and changes for business structure, credit structure and customer structure, which is an irresistible trend. As the banking industry is facing the challenges brought by the adjustment of industrial structure, CMB must also adapt to the changes in the situation.

First of all, in terms of industrial structure, credit funds are mainly extended to new economy, new growth engines, new energy, high-end manufacturing industry, and technology enterprises. The extension of credit funds in these fields cannot simply rely on strategies of large amounts, long maturities, and low interest rates which can result in vicious competition. It is necessary to avoid excessive competition and adhere to the principle of commercial sustainability. As customers now need the integrated service of "investment and commercial banking", we should not only provide credit financing services, but also resort to investment banking solutions to stimulate credit financing. At present, CMB has formed an alliance with many industrial funds and PE institutions. Through the investment by investment companies and the loan financing by commercial banks, we can provide proper services to new enterprises in new industries via the "integration of investment and commercial banking", thereby developing new important customers in the future. In addition, we propose the service model of "funds + industrial park + finance". Currently, there are many industrial parks in various regions, especially in the Yangtze River Delta and Pearl River Delta. The development of industrial parks contributes to the formation of industrial ecology, then bringing industrial cluster effect. From the perspective of financial services and CMB, how to develop service capabilities for industrial ecology to further serve the industrial parks is of concern to us. Moreover, focusing on the model of "1+N" with a leading enterprise covered by upstream and downstream supply chains, we provide full-chain services to better integrate financial services into the industrial chain. Therefore, financial services must keep pace with the changes in the industry.

Secondly, the regional differentiation of China's economy is becoming much more obvious. At present, credit granting in China is mainly concentrated in six leading provinces and cities, i.e. Guangdong, Jiangsu, Zhejiang, Shandong, Shanghai and Beijing. Since credit resources in China are all concentrated in these leading provinces and cities, our credit resources should also be extended to such regions to benefit from the increasing economic growth and siphonic effect there.

If there is explosive economic growth in the future, we must have forward-looking layout in the industries with promising future and the regions with great development potential, so as to obtain the future growth dividends in these fields, industries and regions. Therefore, CMB has allocated more resources to branches in key areas. In the field of corporate finance, we will deepen the research on key sectors and industries from the level of Head Office, give full play to the leading role of the Head Office, promote the whole bank to form the industry understanding over these regions and form the advantages of distinctive services. From the perspective of retail finance, we will leverage the advantages of retail business and give full play to its "flywheel effect" so as to drive the businesses of wealth management, asset management, private banking and asset custody to create new growth poles. I think there is still a huge development potential in the retail sector, and there will be great growth so long as we do a good job in this respect. Thank you.

Question 8: [Zoe Zou, analyst of CLSA]: Thank you. I would like to seek opinions from the senior management about the sustainability of capital endogenous growth of CMB as it always has a good condition for capital adequacy ratio. In addition, what is the impact of the new capital rules on CMB, and will the floor requirements during the parallel run period be cancelled in the future? Thank you.

[Peng Jiawen, Executive Assistant President & CFO]: Thank you for your question. First of all, let me answer the question about capital endogenous capability. Over the years, we have always regarded endogenous growth of capital as the main goal of capital management. Based on the actual results, this goal has been well achieved. No matter during the period of rapid economic growth or economic downturn, we have achieved continuous endogenous growth of capital through a series of management measures. About the sustainability, it depends on how we manage it. For capital endogenous capability, an important indicator within our Bank is the capital return level. The efforts to maintain endogenous growth of capital are not about how much capital we invest. If the capital return cannot support the increase of risk assets, it will be difficult to keep capital endogenous capability. Hence, regardless of the growth rate, the precondition is to maintain a sustainable return on capital. The return on capital has been adjusted for risks, which embodies our long-standing development concept of "dynamically balanced development in terms of quality, efficiency and scale" as mentioned by President Wang Liang just now. Fast-growing profits accompanied by risks cannot constitute endogenous growth of capital, neither can profits with slow growth. So we should strike a balance in this respect. In the future, we will still take the return on capital as the core management goal to realise our sustainable endogenous growth of capital.

Now let me talk about the impact of the new capital rules. The official implementation of the new capital rules may be delayed, and I think there are many technical difficulties. For CMB, all is ready except what is crucial, that is to say, we will start to implement the rules once the regulatory authority requires, as our preliminary preparations are all made. The rules were originally planned to be implemented early next year, but now it appears to be further delayed. However, from the perspective of CMB itself, we have carried out a series of preparatory work, including analysing the impact on our Bank and our response measures.

In terms of the impact, some provisions in the new capital rules will be subject to adjustments because the final official draft has not yet been issued. In respect of the exposure draft for now, it can bring positive impacts, but also negative ones for a short term. For the positive impacts, there are some structural factors, including less strict capital floor requirements during the parallel run period, which is relatively favorable for banks that have adopted Advanced Measurement Approach, and less weight assigned to the retail business, which is also beneficial to us. For the negative impacts, issues about conversion coefficient of letters of credit, risk asset measurement for revolving line of retail, and transparency of asset management products, may bring some impacts for the short term. I think these negative impacts will not last for too long, because commercial banks will definitely carry out a series of structural adjustments to cope with the impacts when the final official policy comes out.

Overall, from my point of view, the official implementation of the new capital rules will have relatively neutral impacts on banks. Even if there are favorable impacts, no major fluctuations will occur. The premise of the regulatory implementation is that it will contribute to the stable operation of commercial banks and will not cause major fluctuations. Therefore, whether for CMB or other banks, the impacts are likely to be neutral in general while some banks facing more positive ones and others facing more negative ones. Even if the impacts are negative, I think they are short-term ones, and it is conducive to the stable development of commercial banks in the long run. Thank you.

Question 9: [Gary LAM, analyst of HSBC]: Thank you for giving me the opportunity to ask questions. In terms of the prospect of the extensive wealth management business mentioned by President Wang just now, we have noticed that some trust companies have recently experienced some risk events and there are some concerns about their insolvency. Will it affect the prospect of agency distribution of trust schemes? How does the declining tendency of fund management fee rate affect our income from intermediate businesses? About the insurance, the pricing of many insurance policies will be subject to adjustments in the second half of the year. Will it also have an impact on the growth of income from agency sales? Thank you.

[Wang Ying, Executive Assistant President]: With regard to some trust companies, we have paid close attention to recent news about them. CMB has always been adhering to a prudent risk culture in its selection of trust institutions for cooperation. We have no cooperation or business relationship with the trust companies that have been caught up in public opinion recently. After the news, we reviewed all of our trust businesses, and no underlying assets were involved with such trust institutions. Since the publication of the new regulations on asset management, we have rapidly conducted the transformation from non-standard assets to standard assets in the past two years in accordance with the relevant regulatory requirements, so the agency distribution of trust schemes of CMB will not be affected.

With regard to insurance, we believe that the growth of income from agency distribution of insurance policies will slow down on a month-on-month basis, but it is optimistic on a year-on-year basis. In the first half of this year, the entire banking and insurance industry has a good development momentum. One reason is that the risk appetite of customers has declined and the demand for insurance policies allocation is on the rise. Another reason is that everyone believes that products with predetermined interest rate of 3.5% will have an adjustment, so customers have accelerated the speed of insurance policies allocation. Under such a background, we have a better performance. In the first half of the year, the sales of agency insurance premiums of CMB achieved an increase of 54.88% year-on-year. Based on the current situation, it is expected to maintain a good growth rate in the second half of the year. We will enhance our professional skills, increase cooperation with leading insurance companies, and strive to achieve sustained growth. The final outcome depends on many other factors, including the performance of the capital market, whether the risk appetite of customers becomes high or not.

CMB attaches great importance to insurance products which account for 8% of AUM, and we think they should be further increased. As China falls far behind Europe and the United States in the insurance penetration rate in terms of density and depth, and customers' demand for stable capital appreciation, safety assurance and especially pension is on the rise, there is a huge market space. Therefore, we believe that the future insurance allocation will gradually focus on protection insurance, while CMB has advantages in this respect. In 2005 when we first introduced the business of agency distribution of insurance policies, we initiated regular insurance business, including insurances with stronger protection such as critical illness insurance, annuity insurance and whole life insurance. Therefore, we have confidence in maintaining and enhancing our market share and our advantages in insurance industry in the future.

[Peng Jiawen, Executive Assistant President & CFO]: In terms of the agency sales rate of funds, it has some impacts on various banks from the perspective of finance. As far as our Bank is concerned, it involves two sectors: agency sales of funds and fund custody. We have an overall forecast, showing the impacts are controllable in general. We can make up for the loss by adjusting product structure and increasing product quantity. Thank you.

Question 10: [Xiao Feifei, analyst of CITIC Securities]: Thank you for giving me the chance to ask the last question. My question is about investment banking business and corporate banking business with medium term (2-3 years). In terms of the investment banking business, as CMB has stepped up its efforts to manage such business since last year, could you please update us about the subsequent business strategies? In terms of the corporate banking business, President Wang Liang just now mentioned that CMB will still develop retail business in an all-round way, for which we highly recognize as the front end of retail development still needs the establishment of the whole service system for corporate banking. Then, what core competitiveness is we committed to building in corporate banking business? Is it the acquisition of assets, the balance of risk pricing or the innovation of products? Thank you.

[Wang Liang, President & CEO]: Thank you for your question. You just mentioned the investment banking business, and we have really increased the allocation of funds in this area in the past two years. Affected by the pandemic in the past two years, credit demand is insufficient, and the yield level of bond investment is relatively high. CMB had a good growth momentum of liabilities in recent years. In the past two years, the deposit growth has been more than RMB1 trillion every year, and it has increased by more than RMB870 billion this year.

The growth rate of liabilities is very fast. Based on the needs of portfolio management and allocation, the share of bond investment has increased, and it should be said that good returns have been achieved. Because of the interest rate downturn, interest rate bonds, local government bonds and some financial bonds, especially government bonds we invested, are tax-free, and the comprehensive return level is not less favorable than that of loans. With the growth of liabilities, I think we should further increase bond investments.

As mentioned earlier, the growth rate of other non-interest income was relatively fast in the first half of the year, the main reason of which was the benefits from our increased investment in this sector. Just now, you talked about how to enhance our core competitiveness for corporate banking business. We put forward the retail banking strategy in 2004. At that time, with limited resources and capital, only developing retail banking business could help us get out of the trouble and no longer rely on the capital market for refinancing. But now, we already have capital strength. If the retail banking business still relies on the development of retail baking itself, the effect, speed and efficiency of growth will be greatly restricted. If we promote the development of C-side business through B-side business, we may get twice the result with half the effort.

We have four major business sectors under the strategy of building a value creation bank , namely, retail finance, corporate finance, investment banking and financial markets, wealth management and asset management. The four major sectors should develop in a coordinated manner to form a “flywheel effect”, so as to promote the development of retail business and the growth of non-interest income, realise capital-light operation and create better value returns for shareholders.

The development of corporate finance does not simply rely on loan granting, and our priority is to obtain high-quality customer base. By the end of June 2023, the total number of our corporate customers is close to 2.65 million. Customer acquisition is an important indicator of developing our corporate customers. Customers are our greatest resource, and we have great growth potential in developing retail, payroll and wealth management businesses.

Why do we attach importance to the service and marketing for enterprises in new industries such as new economy and high technology? Because these enterprises have a lot of growth potential, just as small trees will probably grow into towering trees. Some Internet platform companies and high-tech enterprises just newly established when we first served them 20 years ago, and now they have become the leading enterprises in China. Therefore, we are now focusing on strengthening the services to these enterprises of new economy, new energy and new business. The improvement of these service capabilities can not only promote the development of corporate banking business, but also provide support to retail business. Consequently, the ability to acquire and manage customers is one of the core competences of corporate banking services.

Secondly, developing the core competence of corporate banking service is conducive to strengthen the understanding of these industries. Only by better understanding these industries and enterprises can we make better allocation of resources and investments for customer services, including credit funds, in an accurate and effective way. So we can find new room for growth in the future. We should strengthen the industry-based professional operations and enhance professional service capabilities, which is also one of our core competences.

Thirdly, corporate customer service system with segmented and classified management. No matter for retail customers or corporate customers, there are different service needs for different customer types, including both group-level, national or even multinational companies and small- and medium-sized enterprises. We should establish service teams at different levels, including the Head Office level, branch level and sub-branch level, and implement segmented and classified services, so as to enhance service capabilities in terms of the organisational system.

Fourthly, digital service capabilities. In the past, digitalisation was mainly implemented in the retail sector and efforts were made to strengthen the development of mobile APP. Now the cloud migration has completed, and we have financial resources and manpower to promote the digital transformation of corporate businesses.

All these will internally promote the enhancement of core competitiveness of corporate banking business. As long as we have strong advantages, the scale of our customers will continue to expand, and our cooperation with customers will continue to deepen. Therefore, we can attract more customers to handle businesses in CMB while creating value for our customers, achieving a win-win situation. In addition, the development of corporate banking business will promote the advancement of other business sectors, forming robust interaction and "flywheel effect". Thank you.

[Moderator]: Because of the limited time, we now have to bring the 2023 Interim Results Presentation of China Merchants Bank to an end. If you want to know more details, you can refer to the 2023 Interim Results Announcement released by us on 25 August 2023, or further contact with the Investor Relations Management Team of the Office of the Board of Directors of CMB.

Thank you again for attending this meeting in your busy schedule and asking questions actively. I would like to express my gratitude to all of you for your constant interest and support. CMB will continue to do a good job in all aspects and create value for shareholders and all sectors of society! Thank you all!