2020 Interim Results Briefing by China Construction Bank Transcript

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Venue: Multi-function Hall, B2/F, CCB Tower

Meeting Format: Telephone conference

Liu Guiping: Dear members of the press, analysts, and investors, ladies and gentlemen, good afternoon! Welcome to the 2020 Interim Results Briefing by China Construction Bank. Due to the ongoing requirement for pandemic prevention and control, this briefing takes the form of teleconferencing and video recording. On the occasion of the 2020 Interim Results Briefing, I would like to extend my sincere gratitude and best wishes to friends from all sectors of society for their long-term concern and support on behalf of CCB. I'm Liu Guiping, President of CCB.

Also present at today's briefing are some other bank leaders and senior management members. They are Executive Vice President Lyu Jiajin, Executive Vice President Ji Zhihong, Party Committee Member Wang Hao, Chief Risk Officer Jin Yanmin, and Secretary to the Board Hu Changmiao.

The Briefing is mainly divided into two parts. In the first part, I will make a business briefing. The second part is a Q&A session. The entire meeting will last about 1 hour and 15 minutes. The Half-year Report and the Interim Results Presentation for 2020 have been posted on our official website before the meeting. In the following, I will brief you on the business results in the first half of the year.

Faced up to the unprecedented pandemic shocks and the complex and challenging situations at home and abroad, CCB in the first half of 2020 resolutely followed the spirit of a series of important instructions given by General Secretary Xi Jinping, and implemented the major decisions and deployments made by the CPC Central Committee. In practice, we coordinated efforts to prevent and control the coronavirus spread and promote the development of the Chinese economy and society, empowered the fast formation of a new development pattern where domestic and foreign markets can boost each other, and served the real economy with enhanced quality and efficiency. We continued to push forward our “Three Major Strategies”, achieved remarkable results in digitalized operation, secured historic breakthroughs in principal business, sped up the disposal of non-performing assets, and intensified risk management at greater depth, thus further consolidating the foundation for long-term development.

First, we spared no effort to serve the real economy. In the first half of 2020, our assets and liabilities grew fast by 8.7% and 9.3%, and our loans maintained a momentum of strong expansion. Second, we took concrete moves to reduce fees and forgo profits by lowering the funding costs of market entities. Our profitability still remained in line with expectations. Third, we led the industry by key indicators. The return on assets (ROA), return on equity (ROE), and capital adequacy ratio (CAR) stood at 1.05%, 12.65%, and 16.62%, respectively. Fourth, we further improved the quality of assets, and took the initiative to accelerate the risk exposure. The non-performing loan (NPL) ratio was 1.49%, and the negative scissors difference between overdue loans and NPLs was RMB58.9 billion. We set aside provision prudently, with the allowances to NPLs and the allowances to total loans at 223.47% and 3.34%, respectively, which indicated sufficient risk offsetting capability.

The top two tasks we assumed in the first half of 2020 were helping securing a victory in the COVID-19 pandemic prevention and control and supporting the high-quality development of the Chinese economy. First, we went all out to support the COVID-19 pandemic battle. After the outbreak of the pandemic, we led the industry in rolling out ten measures which aimed to support the coronavirus prevention and control efforts with financial services, and putting in place twenty measures to protect the health and safety of our outlet employees during the pandemic. We implemented such measures as rolling out remote work and strengthening online services, thereby ensuring the health of our workforce and assuring the steady operation of our businesses. In response to the decisions and deployments made by the CPC Central Committee and the changes in the pandemic prevention and control situation, we moved fast to release thirty measures in support of the anti-pandemic drive and the resumption of work and production, enhanced 14 financial services measures targeting the medium, small and micro-sized enterprises (MSMEs), devised 26 special supporting measures for Hubei Province, and launched 29 measures to support the stabilization of foreign trade and foreign investment. We provided credit funds totaling RMB119.5 billion to over 10,000 key enterprises engaged in the pandemic prevention and control and intensified bank-wide efforts to support the containment of the pandemic and the accelerated recovery of real economy.

Second, we continued to facilitate the big picture of ensuring “stability on six fronts” and maintaining “security in six areas” in a targeted and accurate way.

Specifically, we intensified the credit support. In the first half of the year, we granted new loans of RMB1.45 trillion, an increase of RMB694.5 billion year-on-year, which mainly went to the key areas of the real economy and the weak links facing people's livelihood. Infrastructure, manufacturing and green loans went up by 11.4%, 19.6% and 10.1%, respectively, from the beginning of the year. To fuel the coordinated recovery of the industrial chain and the supply chain, we extended network supply chain loans in a total of RMB230.1 billion and trade finance of RMB819.5 billion in the first half of the year. We did a lot to support merchants to reopen business and consumers to resume spending. The transaction volume of credit cards hit RMB1.46 trillion, and the personal consumer loans surged by 34.95% from the beginning of the year. At the same time, we stepped up efforts to support investments in local government bonds and special anti-pandemic government bonds. In the first half of the year, we made new investments in local government bonds of RMB328.8 billion, and underwritten special anti-pandemic government bonds worth RMB60.5 billion.

Third, we joined hands with small and micro enterprises (SMEs) to overcome the difficulties. In the process, we resolutely implemented the requirements set out by the fee reduction and profit concession policy, while adhering to the principle of commercial sustainability. Measures such as cutting loan interest rates and reducing/exempting service fees were adopted to benefit businesses and the people and help enterprises get out of financial difficulties. We offered greater support for inclusive finance. In the first half of the year, new inclusive loans amounted to RMB295.8 billion, with interest rates averaging 4.41%, a year-on-year decrease of 63 basis points. We actively implemented the policy on deferral of principal and interest payments, benefiting more than 150,000 MSMEs in total. The balance of inclusive loans with repayment deferred exceeded RMB40 billion. We continued to improve the quality and efficiency of inclusive financial services, and promoted round-the-clock, online exclusive services vigorously. The "Huidongni" APP was downloaded for nearly 14 million times, with 3.63 million certified corporate users.

In the first half of the year, we rode on the development trends in the era of digital economy, and actively explored modes of digital operation. Specifically, we integrated data into the entire business and management process. We built ecosystems, set up scenarios, and expanded the user base. Since the launch of comprehensive financial service activities themed "Building A Prosperous CCB" in the first quarter, digital operation achieved initial success, and demonstrated its characteristics of comprehensiveness, agility, and accuracy. Various businesses maintained the momentum of sound growth, and the customer base expanded continuously. All of these worked together to lay a solid foundation for our steady, sustainable development.

First, the principal business made historic breakthroughs. We continued to acquire customers and increase deposits in a systematic and network-based way. In the first half of the year, deposits increased by RMB2.04 trillion, thus taking up a larger share of liabilities. Our customer base continued to expand. New active corporate customers exceeded 300,000, and the number of credit card customers crossed the 100 million mark. The personal deposit business maintained a momentum of sound growth, and the proportion of contribution from the retail banking business in total profits further increased to exceed 50% for the first time. Therefore, our position as the largest retail credit bank got further consolidated.

Second, the digital operation regimes and mechanisms were improved constantly. We adhered to the overarching strategy and the market-oriented approach, established the Digital Construction Committee, refined the digital operation systems, and pushed forward the construction of the three major middle offices, that is, “technology middle office”, “data middle office” and “business middle office”. As a result, we preliminarily formed the digital operation capabilities that focused on the group-wide division of labor and collaboration as well as the enterprise-level unified deployment. A cross-departmental, cross-level digital operation team was gradually established. The digital operation was iterated in an agile manner in response to market. In the second quarter alone, we organized 129 product rights and marketing activities, applied and optimized 201 models, set up 65 scenarios of all sorts, and rolled out 51 innovative and enhanced products.

To constantly improve the comprehensive, proactive and intelligent risk control system, we adopted such measures as taking the risk management and control capability as the boundary of the bank-wide business and management practice; upholding the steady, prudent, comprehensive and proactive risk management culture; continuing to elevate the level of refined management on such domains as economic capital, credit process, NPL disposal, credit approval, and authorization compliance; exercising more rigid control over concentration risk and multi-platform lending risk; accelerating the application of 3R systems; speeding up the development of an intelligent risk control system; intensifying the risk management of the investment and transactional business; refining the risk emergency response mechanism for material market risks; coping with potential risks and challenges in a forward-looking way; and winning the tough battle of preventing and mitigating material financial risks.

In the first half of the year, we strengthened the risk prevention and control in a comprehensive and proactive manner, continued to consolidate the foundation of asset quality, and adhered to the principles of unified standards, standardized procedures, scientific and prudent operation, and adequate and timely response. We made more provisions, promoted risk response, and stayed ahead of the market curve. By the end of the first half of the year, the allowances for impairment losses on loans and advances amounted to RMB548.7 billion, an increase of RMB64.9 billion from the beginning of the year, which further pushed up the allowances to total loans. In the first half of the year, our overall business performance could be manifested through a set of figures: “1, 3, 2, and 6”.

“1” refers to a huge “black swan” that we have encountered this year, that is, the COVID-19 pandemic, which is a major public health event. It has undoubtedly dealt a great blow to the global economy including finance. Currently, its impacts are still being strongly felt. As a global systemically important bank, we have unsurprisingly been impacted, and faced considerable challenges. Although the pandemic has caused great uncertainty, we, as a commercial bank with operational risks, must seek certainty amid uncertainty.

“3” refers to the three commitments contained in our business and management philosophy. First, we are committed to being customer-centric and always take serving the real economy as our mission and foremost duty. Economic prosperity is the prerequisite of a booming finance. So, when the macro policies require commercial banks to make reasonable profit concession, we have done a lot of work in reducing fees and forgoing profits without any hesitation. Although doing so has some impact on the profitability of commercial banks in the short term, it will greatly promote the development of the Chinese economy and society and ultimately achieve a virtuous cycle of economy and finance in the long run. Second, we are committed to following the business rule that underpins commercial banks in our operation. At the core of the business rule are two requirements: (1) Persistently building up the value creation ability, (2) Persistently elevating the level of risk prevention and control. Third, we are committed to spreading the altruism-driven culture. We work hard to assume social responsibilities, and act proactively and responsibly. With the comprehensive use of financial and non-financial means, we have taken the initiative in assuming our social responsibilities as a large financial institution in such aspects as the pandemic prevention and control, flood fighting and relief provision, making reasonable profit concession, implementation of ESG concepts to develop green finance, providing assistance to poverty alleviation, and support of public welfare undertakings.

“2” is the two keywords of the business and management practice we carried out in the first half of the year. The first keyword is “digitalization”. The relatively sound results achieved by our principal business could be largely attributed to digitalization. Our preparations for digital operation were commenced in the beginning of the year, which could be fully reflected in the activities for a good start. All our employees were doing better with digital operation. Therefore, our principal business indicators performed well this year. The second keyword is “sustainability”. Although some indicators declined somewhat year-on-year, they still remained within a reasonable range. The momentum of sustainable development has been maintained.

“6”, the most important of these figures, refers to the observation of our overall business and management results from six aspects. Our future development is therefore built on a relatively solid and sustainable footing. I would like to share with you more information about these six aspects:

1) The Party Committee of CCB has launched the “Three Major Strategies” of inclusive finance, house rental, and FinTech since 2018. The release of strategic dividends can be felt more strongly this year, and has given a tremendous boost to our business and customer base.

2) In terms of liability business, deposits from customers accounted for 80.5%, an increase of 1.3 percentage points from the beginning of the year. Of which, the balance of demand deposits approached RMB11 trillion, representing an increase of 9.62% from the beginning of the year and accounting for 56% of deposits from customers.

3) The retail banking business contributed greater value across the board. To be specific, personal deposits went up by 12.1% from the beginning of the year, and accounted for 49.73% of deposits from customers, up 0.4 percentage points from the previous year. Our position as the largest retail credit bank was further consolidated. The balance of personal loans amounted to RMB6.87 trillion, accounting for 41.68% of total loan balance, of which new loans hit RMB389.5 billion. What’s more gratifying is that the proportion of our profits from the retail banking business surged 11.8 percentage points year-on-year to over 55%, crossing the 50% mark and posting a record high. The personal customer base was further consolidated, and the asset quality of the retail banking business was sound. The NPL ratio of residential mortgages was as low as 0.25%, and that of consumer loans was merely 0.85%.

4) Net fee and commission income grew by 4.34% against the backdrop of fee reduction and profit concession this year, and was mainly driven by the improvement in digital operation and professional competence of the team. Fee income from third-party payment, corporate international settlement, agency fund sales, electronic banking, settlement and clearing all achieved rapid growth.

5) Our capital remained adequate. The CAR was 16.62%, declining somewhat year-on-year. Since we have mainly relied on endogenous channels to replenish capital in recent years, the reasonable profit concession has led to a year-on-year decline in profits since this year, resulting in a slowdown of endogenous replenishment. In addition, by the end of June, we have issued USD2 billion Tier-2 capital bonds overseas.

6) Asset quality remained stable in key areas. The non-performing ratio of loans extended to private enterprises, manufacturing enterprises, and wholesale and retail trade enterprises fell by 0.49 percentage points, 0.56 percentage points,

and 1.22 percentage points, respectively. Although inclusive loans grew robustly and the number of related customers increased rapidly to 1.59 million by end of June, the non-performing ratio of inclusive finance loans has instead decreased by 0.25 percentage points.

In addition to the operating data reported to you just now, this set of figures “1, 3, 2, and 6”, I believe, can offer you a closer observation into our half-year report and a more penetrating insight of our bank.

Global economic growth remained weak amid the sweeping COVD-19 pandemic. China’s economy has taken the lead in resuming positive growth in the second quarter. However, the current international landscape is more unstable and uncertain, and the evolution of the pandemic still remains the biggest change affecting the development of the global economy and society. For the next step, we will continue upholding our business tenet of steady operation and value creation, and do our part in the pandemic prevention and control initiative and the support of economic and social development. We will strive to foster new opportunities in a time of crisis and create new prospects in the face of changing circumstances, push forward the “Three Major Strategies” at greater depth, innovate digital operation modes, maintain steady, balanced and sustainable business results, and continue enhancing long-term investment value.

Next is the Q&A session. Questions are welcomed. Before asking your question, please state your name and affiliation first. Owing to time considerations, you are recommended to ask only one question at a time. Now the floor is opened for questions.

Q1 (UBS): Thank you for giving me the chance to ask the first question. I am an analyst with UBS. My question is about the outlook for operating income and profitability. First of all, I would like to congratulate CCB for achieving impressive operating income and very stable pre-provision profit growth despite the complicated and challenging environment in the first half of the year. As we have seen, profits in the second quarter and the first half of the year were sharply dragged down by the surge in provision. Will such situation continue in the second half of the year? As Chairman Guo Shuqing indicated in his remarks, the banking industry would dispose of NPLs amounting to RMB3.4 trillion this year. Will CCB maintain a relatively fast pace in NPL disposal and provisioning in the second half of the year? Will the pace be further accelerated for the next year? Is it possible for CCB to continue posting a negative profit growth?

Jin Yanmin: Thank you for your concern over the operation and development of CCB. The information disclosed in the half-year report is very clear, and the media’s response to it is highly consistent as well. Our profit growth has been weighed down by the substantial increase in provision which is a common phenomenon. The Chinese banking industry is facing the same issue. It is also true for the global banking industry, especially the European and American banks. In the first quarter, the COVID-19 pandemic was basically brought under effective control in China. Therefore, we did not increase provision as much as our European and American counterparts did. However, with the evolution of the pandemic, especially its spread across the world, we further mitigated risks, enhanced our risk offsetting capabilities, and increased provision considerably in the second quarter. So did the European and American banks, we noticed. For some European and American banks, their provision grew faster in the second quarter than in the first quarter. This was largely due to the impact of the "black swan". As of now, the world economy is still in a phase of adjustment. It has a long way to go before getting stabilized, so there will be more NPLs to be released subsequently. As to whether the extent and space of the upcoming NPL release will be as great as the previous round, I personally think there should not be such a sharp rise and rebound again, instead the increase will be gradual this time. Because all countries across the world have adopted some relief policies, their economies have started to make a gradual recovery. This is especially true for China, whose economy is recovering swiftly, hence the pressure on asset quality will reduce in the future. But taking into account the withdrawal of policies upon expiration, it is likely for the asset quality to experience some fluctuations in the future, which will be mainly felt in the first half of next year. After the policy on the deferral of principal and interest payments of qualified loans and the policy for supporting enterprises in resuming production expire, some risk exposures will increase moderately, but in general will be within an acceptable range. With relatively sufficient provision coverage and strong risk offsetting ability, in my view, the ratio and total balance of NPL will remain stable in the future, despite a slight increase, and the resulting influence and impact on profits will be limited.

Q2 (Finance.sina.com): My question is about the Second Curve of CCB. CCB is currently exploring the Second Curve of new finance. Could you please tell us what progress your various businesses have achieved, and at which point the Second Curve can be integrated with your traditional business?

Hu Changmiao: At CCB, we have clearly put forward the initiative of embarking on the Second Curve and exploring the actions of new finance since last year. It is also one of our attempts to adapt to the current economic and financial landscape as well as the development trend of FinTech. Especially after the Western financial sector has fallen into a self-circulation where funds flee from the real economy to the virtual economy, the banking industry needs to better support the real economy, better embody the technological, shareable, and inclusive features of finance, and provide better supporting services for the development of the Chinese economy and society as well as the satisfaction of the Chinese people's yearning for a better life. In fact, while pushing forward our "Three Major Strategies" and expanding new finance actions in the past few years, we have kept making our progress known to the public. Our progress towards strategy implementation was exceptional in the first half of this year. We accomplished remarkable results in a host of aspects such as pursuing the digital operation mode, supporting the development of the Chinese economy and society (especially the use of FinTech in support of the fight against the pandemic this year), and supporting the recovery and development of the real economy. The specific financial indicators and work progress have all been announced to the public, so I won't repeat them here.

At CCB, the First Curve and the Second Curve are developed in a coordinated manner. With respect to the First Curve, we run the existing deposit and loan business and the traditional financial services well. As to the promotion of new strategies and explorations of new finance, we constantly step up efforts to get the two integrated to boost each other. So far, evident results have been achieved. In the next step, we will continue to accelerate the application of FinTech, and further increase the level of financial support in inclusive finance, house rental, and other fields concerning people's livelihood and social development, thus expressing our love for the nation and playing out our role in shouldering corporate social responsibilities as a large bank. On the basis of conducting our traditional financial business well and taking advantage of our strengths in such areas as infrastructure construction, median-to long-term loans, and housing finance, we will roll out more new financial services, enable the water of finance to penetrate into all aspects of social development, and help solve the pain points, difficult issues and key problems confronting the society. When serving the development of the Chinese economy and society, we will strive to maintain our stable and sustainable growth, and coordinate the First Curve and the Second Curve for joint progress.

Liu Guiping: About the question you just asked, I have one point to add. We hope to empower the First Curve and secure success in the Second Curve through digital operation.

Q3 (PIMCO): Thank you, Senior Management. I would like to ask about CCB's capital plans and arrangements. CCB posted comparatively strong credit growth in the first half of the year, whereas the accumulated profits declined somewhat and the core Tier-1 capital faced some downward pressure. As the Senior Management just mentioned, the capital bonds have not been issued this year. So, I would like to ask whether CCB has relaxed its long-term goal of core Tier-1 capital under the new situation. If the goal remains the same, will CCB announce a new capital plan next,

and what will be the allocation among various instruments such as preferred stocks, perpetual bonds, and Tier-2 bonds?

Liu Guiping: We won't relax the requirements for capital adequacy. Instead, we will tighten them, because this is the most basic requirement for commercial bank operations. We will continue to rely on endogenous capital replenishment. Besides, we also have plans for the issuance of Tier-2 capital instruments. In addition to the USD2 billion Tier-2 capital bonds issued overseas in June this year, we plan to issue Tier-2 capital instruments equivalent to RMB65 billion before the end of June in the next year. The relevant plan has been considered and adopted by the Board of Directors.

Q4 (Xinhua News Agency): I have two minor questions. First, I have noticed in the half-year report that CCB Group's non-interest income grew impressively by 10.43% in the first half of the year. It accounted for 31.51% of the total operating income. In particular, other non-interest income surged 24.04%. May I ask the Senior Management how CCB performed so well in regard to the non-interest income? Second, I have noticed in the half-year report that the NPL ratio was 1.49%, but the overdue loan ratio was 1.14%, which was even lower than the former. This phenomenon seems to happen rarely. So, what does this indicate about the trend of CCB's asset quality? Could you please explain it?

Ji Zhihong: Regarding the first question, you mentioned the growth of fee-based income. Since the beginning of this year, we have stepped up our efforts to reduce fees and forgo profits, thus our growth rate slowed down as a whole. As to the figures you just mentioned, I will explain by considering several factors. First, our online business secured very rapid growth in fee income. Specifically, both online payment and credit card businesses generated relatively fast revenue growth. Second, our commission income from trust and fiduciary activities also increased relatively fast, mainly due to our intensified innovation efforts in the related businesses. This is quite obvious. The third one is about technology empowerment. We leverage FinTech empowerment to improve our business and transaction matchmaking activities and the output capabilities of integrated solutions, and helped customers devise comprehensive financial solutions. Fourth, in regard to service integration, we provided customers with batch and precision consulting services, which brought in increasing revenue. All of these are relatively innovative areas.

Of course, there are also some areas where we didn't grow so fast. Affected by the COVID-19 pandemic, the income from agency insurance sales, for example, posted a relatively slow growth. In the first and second quarters, we did more to support foreign trade enterprises in resuming work and production. As these companies returned to operation, the trade finance business and international settlement business proved to grow rapidly, too. In the next step, we will also fully consider the periodic pressure brought on the fee income business by such factors as the current market competition and evolution of the global pandemic. On this basis, we will take active response such as propelling the fee-based businesses and products further towards digital operation, having a good grasp of new trends in consumption, paying particular attention to spotting new opportunities in the corporate banking market, exploring new development opportunities, consolidating the customer base, further building up innovation capabilities and rolling out new businesses to maintain the stable growth of fee income.

Jin Yanmin: We have maintained the implementation of strict risk classification and adhered to the principle of substantial risk judgment in recent years. Our NPL ratio is always higher than our overdue loan ratio. The negative scissors difference is a result of our strict risk classification efforts. In the first half of this year, the negative scissors difference actually expanded compared with that of last year. This was due to several factors. First, we significantly increased our loan supply by more than RMB690 billion year-on-year. These new loans were of relatively good quality. In particular, we continued to vigorously support the real economy, a move that had a relatively large impact on our NPL ratio and overdue loan ratio. Second, we strictly controlled the quality of assets, especially maintaining a close grip on the quality of overdue loans. Third, with respect to the policy factor, we held extensive talks with those enterprises being affected by the pandemic. As for those indeed experiencing temporary difficulties, adjustments were made to their repayment schedule after negotiation, which served as buffers. Fourth, we sped up the disposal of overdue loans and NPLs, which played a crucial role in the decrease of overdue loans.

Q5 (Goldman Sachs): Thanks to the Senior Management for giving me the opportunity to ask questions. I would like to ask a question about digital finance strategy. We have recently noticed that Internet companies are scaling up their financial technology or technology finance significantly, which will have some impact on banks' businesses, or there will be some competition with banks in the future. So, would you please tell us about the investments made by CCB in technology development and the relevant commercial application in the future? As we have observed, CCB launched the digital currency last week. What impact will the digital currency wallet have on the overall industry pattern, such as the payment sector, in the future?

Ji Zhihong: Let's start with answering the second question. We have recently been participating in the pilot research and development (R&D) of digital RMB, and have tested the related functions on our mobile banking platform. As our statement indicated, this test had ended. Some hearsay available on the Internet was actually the test content used in the R&D process, which doesn't mean the official launch of digital RMB. To sum up, the R&D process won't affect the normal commercial operations. The status of the pilot R&D of digital RMB is subject to the information released by the central bank.

Regarding the competition with large Internet companies, in general, we believe that both competition and cooperation exist for banks and Internet companies. In the early stage, competition may play a dominant role. Seen from the recent development trend, it should be said that a competitive-cooperative relationship has formed. Commercial banks have long been different from large Internet companies in terms of the resources put into account maintenance, and their bases are different. At the same time, they compete with each other in many areas. For example, large Internet companies can offer a full range of financial services which cover credit, payment, insurance, and asset management, etc. In the face of this situation, we will continue to leverage the comprehensive advantages we have accumulated for a long period of time in customer trust, funding, and channels, as well as the FinTech capabilities gathered in recent years. In addition, we will also pay special attention to strengthening information security, and will further shore up our efforts in technological security. The information disclosed in the annual report and the half-year report attests to the huge R&D investment we have made. Furthermore, we will continue improving the digital operation mechanism, build a large middle office system including a technology middle office, strengthen the supply capacity of FinTech, and rebuild the financial water conservancy facilities in a digital way. With digital technology, we will render customers with financial services to meet their needs in a more robust, convenient and effective fashion. Thanks to the increased connectivity, we will build a new FinTech-enabled ecosystem fit for large commercial banks.

We have led the industry in establishing a FinTech company, and thus become a forerunner in enabling technology to drive business development. In response to the pain points that hold back the economic and social development, we support the formation of a new finance ecosystem which can better serve the society and improve the people's livelihood. At the same time, the institutional advantages and the professional technical team of the FinTech company are employed to cater to the business development needs of the parent bank. We have established the connectivity with government bodies, shared the technological capabilities with peer banks, did more to empower enterprises, and achieved direct access to users, thus elevating our digital operation capabilities to a brand new height as a whole.

Compared with the emerging FinTech companies, the traditional large banks have their own characteristics in digital operation, especially the in-depth application of digital technology. These features are greatly manifested in our practice, including inclusive finance, house rental, and other businesses.

Q6 (Securities Times): Thank you, Senior Management. I am a reporter from *Securities Times*. I have a question about the net interest margin (NIM). In the first half of this year, CCB's NIM dropped by about 13 basis points year-on-year, but at the 2019 annual results briefing held in March this year, your CFO mentioned that it would be a quite good result to maintain the drop at about 10 basis points for the full year. Could you please explain the reasons for the decline of the NIM in the first half of the year? Looking into the second half of the year, what is the trend of NIM under the influence of such factors as the continued profit concession of the financial system to the real economy and the completion of LPR conversion at the end of August?

Ji Zhihong: Regarding the change in NIM, in general, although our NIM fell by 13 basis points, actually the extent of the drop wasn't much larger than what the market had expected. This is because the overall situation has undergone some major changes. As we all know, China is in the process of deepening the interest rate liberalization reform. This, coupled with the serious impact of the COVID-19 pandemic, forms the big background. Specifically, the NIM is mainly affected by several factors.

First, to deal with the impact of the COVID-19 pandemic, the central bank rolled out very strong countercyclical policies in the first half of the year. Consequently, there followed a marked drop in the investment yield across the entire bond market and money market rates, which dragged down the NIM by 8 basis points. Second, the loan yield went down. On the one hand, the loan prime rate (LPR) fell. On the other hand, we actively shored up the support for the real economy by lowering the financing costs of enterprises. In addition, loan conversion to LPR-pricing took place. All these factors worked together to drag down the loan yield by 9 basis points, compared with the same period of last year, which in turn lowered the NIM by 5 basis points. Third, the costs of general deposits went up slightly. But, in our view, such costs were actually being controlled much better than expected, because it is hardly possible to maintain deposit competition in an orderly manner during the process of interest rate liberalization reform. Nevertheless, the impact of interest expense on general deposits on the NIM was only 3 basis points. Therefore, although the NIM has indeed taken on a gradual downward trend recently and the downward pressure is even expected to continue for some time, we still believe that the extent of the decline remains under control, and it is possible for us to maintain the NIM at a relatively reasonable yet competitive industry level through our efforts in refined management and digital operation.

From the macro perspective, we believe that the order of deposit competition is moving in a positive direction against the backdrop of intensified supervisory efforts by the regulators, and customers reshaping their asset allocation ideas. In particular, we have also done more to transform our mega asset management business which is the third pillar of our business. On the one hand, we guide customers to gradually raise their risk awareness. Therefore, they are developing a habit of diversifying their asset allocation. In other words, customers are no longer entirely dependent upon receiving high yields from deposits. On the other hand, we are also able to provide customers with high-quality asset management products. At the same time, we will pay close attention to the overall changes in external interest rate environment, increase our efforts in dynamic research and judgment, and maintain the coordinated and stable growth of assets and liabilities as a whole. To avoid imposing great pressure on interest spread, we will strengthen our capability in balancing and having a firm grasp on the aggregate amount from the macro perspective.

The second one is about value creation. We will seize business opportunities arising from key areas, and improve the capabilities in asset risk pricing and differential pricing with a view to increasing the comprehensive contribution of customers. Meanwhile, we will further elevate the refined management to a higher level and boost the interest rate risk management capabilities. Through a number of comprehensive measures, we will maintain the NIM at a reasonable industry level.

Q7 (CICC): Thanks to the Senior Management for giving me this opportunity. I am a banking analyst with China International Capital Corporation Limited (CICC). I meant to ask a question about interest margin, which the Senior Management has already provided very sufficient elaboration. So, I would like to ask a follow-up question. If the current market and policy environments related to interest rate remain unchanged, given CCB's asset duration is relatively longer vis-a-vis peer banks, when will CCB's interest margin bottom out, and at what level will the rock-bottom interest margin be? In addition, I would also like to ask a question about the payout ratio. As just mentioned by the bank leaders, the proportion of direct financing in China's entire financing structure is likely to become increasingly higher in the future. For banks, the lower proportion of indirect financing means the pressure on the risk capital taken up by credit assets will be gradually eased. In other words, banks won't need to retain so much self-owned funds for supporting the expansion of credit assets. From this perspective, is it likely for CCB to further raise its payout ratio in the medium term?

Ji Zhihong: To answer the question about to what extent the NIM will further drop, we may have to fully consider the complexity of China's overall interest rate system. From the perspective of deposits and loans, I have just highlighted some factors. At the same time, it can be seen that as the Chinese economy recovers and the COVID-19 pandemic has been brought under control in China earlier than elsewhere in the world, interest rates in the entire Chinese financial market may remain at a relatively stable level. Since market expectations are changing, this change may be more obvious in the near future. In addition, in terms of mortgage rates, we will also resolutely implement the principle that houses are for living in, not for speculation. Thus, these interest rates may remain relatively stable overall. Therefore, we may still see some downside pressure on NIM. However, such pressure will be rather limited. Overall, the NIM is expected to stay at a relatively reasonable level. This is my answer to the first question.

For the second question about dividends, I personally think that the general policy will see no big changes. There is a process for the entire asset structure to adjust and transform. At the same time, China’s economic and financial system has another characteristic. Since banks take up the largest proportion of assets in the entire financial system, commercial banks can play an even greater role in supporting the development of the capital market, which will in turn generate new opportunities for the revenue growth of such businesses as custody service. The related variables may undergo a process of gradual adjustment.

Q8 (Hong Kong Commercial Daily): Good afternoon! I am a reporter from *Hong Kong Commercial Daily*. This is the third time that CCB have held a business results briefing online. During the last annual results briefing, the President said that he hoped we could meet face to face at the next interim results briefing. Now it seems that we have to leave it till next year. Today, I would like to ask a question about the outlook for the second half of the year. Given the current circumstances, can CCB achieve positive growth for the full year? Or is it quite a challenging and difficult task? Under the existing circumstances, is it possible to adjust the dividend policy? We are quite concerned about this, because the banking industry rarely experiences negative growth. Besides, I would also like to ask a question about the overseas market. Since the global economic environment is worse than that of China, why doesn’t CCB change its development strategy for the overseas market?

Liu Guiping: I am very glad to hear from you again. At the time when we announced our annual results, I did hope that we could have face-to-face communication at the interim results release, but didn’t expect this public health event has become so serious. As of yesterday, the number of infected cases worldwide exceeded 24.8 million and the death toll went beyond 820,000. The situation is still quite severe. Therefore, we still choose to communicate with you all online and would like to thank you for your continued concern and attention. As to the manifestation of our business results, we have just mentioned a keyword which is “sustainability”. The overall business structure and development trend still remain under control as we expect. In the process of operation, we will seek truth from facts and make disclosure truthfully, and earnestly follow the business and management tenet that focuses on “Three Commitments” to do our part.

Actually you have raised three questions, the second one is about dividends. It can be said that there is no adjustment plan to date, so we will still make arrangements in accordance with the previous requirements for dividend distribution.

I would invite Party Committee Member Wang Hao to answer the third question regarding the development of overseas business.

Wang Hao: In the first half of this year, we operated more than 200 overseas institutions at all levels in 31 countries and regions around the world, as CCB Europe was granted the license for its Hungary Branch and completed relevant business registration. Under the extremely special circumstances this year, our overseas institutions have taken active and steady steps to respond to the challenges brought about by the COVID-19 pandemic, vigorously supported the pandemic prevention and control efforts at home and abroad, and donated more than 2 million pieces of supplies to 22 foreign countries and regions including Germany, Italy, Malaysia, Hungary, Britain, and South Korea, interpreting the vision of a community with a shared future for mankind with concrete actions. Internally, we have set the working objective of our overseas institutions in the pandemic prevention and control as “three guarantees, two availabilities and one bottom line”, that is, to guarantee safety, stability, and operation, to ensure information and channel availability, and to hold the bottom line of risk prevention and control firmly.

In addition to the traditional multinational business, we quickly launched the cross-border matchmaking platform named “Special Anti-pandemic Medical Zone” in the first half of this year to help match anti-pandemic supplies and demands at home and abroad and support the international cooperative efforts in fighting against the pandemic. As a result, we successfully facilitated the export of nearly 130 million pieces of various medical supplies for pandemic prevention and control and the transaction amount was approximately RMB1 billion. As the base of overseas customers gets constantly expanded and the asset quality remains stable, we have implemented the national plan for stabilizing foreign trade. The launch of key products has been accelerated significantly. Besides, we have continued to increase the financial support for manufacturing and foreign trade enterprises, lowered product access thresholds reasonably, and raised the financing ratio. The granting of “Cross-border Quick Loan” serial products totaled more than RMB7.5 billion. We have persisted in helping push forward the RMB internationalization process, provided financial support for major national projects along the Belt and Road, and helped high-quality enterprises “go global” through engineering factoring, offshore loans under onshore guarantees, and non-financing letters of guarantee under the “Sanjianke” brand.

Seen from what you are concerned about, our current development strategy is still focused on serving the “dual circulations”, resolutely adopting the measures to ensure “stability on six fronts” and maintain “security in six areas”, and doing our best to serve the implementation of national strategies. In the first half of the year, the net profit of our overseas banking institutions totaled RMB2.995 billion, a year-on-year decrease of 30.95%. This was mainly due to the impact of the COVID-19 pandemic. Similar to the domestic trend, the credit impairment charges of these institutions rose sharply year-on-year. Looking at the next stage of development, we will continue to actively participate in the process of reshaping a new pattern in the global industrial chain and supply chain, pursue a customer-centric approach, serve the real economy, implement the policy on fee reduction and profit concession, and provide a full package of services that are integrated in local and foreign currencies, and made available at home and abroad. Seizing market opportunities promptly, we will accelerate the formation of the Second Curve which involves the building of a digital operation platform/ecosystem and the provision of cross-border matchmaking services, and adhere to the key fundamentals of compliance priority and steady development. Considering the developments and changes in the international economic and financial situation, we will continue to consolidate our foundation for compliance management, and propel overseas business towards further sustainable development.

Q9 (GF Securities): Thanks to the Senior Management for giving me the opportunity to ask questions. One of my questions is about asset allocation. We have observed three contradictory aspects, which are the high credit volume in the first half of the year, the low excess reserve at present, and the relatively high supply of government bonds which is ongoing. The contradiction of these three aspects has caused some phenomena. For example, the actual loan rates are still going down, while government bond yields in the interbank market keep going up. Under this price-volume environment, will CCB make any adjustments to the direction in which assets are allocated in the second half of the year? For instance, will the growth rate of credit change? To sum up, this is a question about how to allocate several types of assets in the second half of the year.

Another question is about next year's asset allocation. Given the current changes in profits and the declining endogenous replenishment growth of ROE, will the growth rate of risk assets be impacted in the next year? If the risk-free interest rates rise further, will there be any adjustments to the general direction of asset allocation in the next year? Would you please offer an outlook for the asset allocation strategy in the second half of the year and from then on?

Jin Yanmin: Regarding asset allocation, we must keep the entire asset portfolio consistent with our strategic positioning, as well as the direction and trend of economic development. Our asset structure has remained relatively stable in the recent two years. As you have noticed, we have significantly increased our corporate credit in the first half of this year. On the premise of consolidating our traditional advantages in the retail banking business, we have diverted more resources to our corporate banking business, mainly to meet the needs of the development of the real economy and COVID-19 pandemic prevention and control. Especially since the implementation of the inclusive finance strategy, we have put more resources into the inclusive finance business. In addition to securing our leading position in the market, we have also rolled out innovative development models and blazed new trails. In the future, we will continue to maintain our advantages in this regard. In terms of credit, we have generally consolidated our position in the retail banking business, and cemented our superiority in such traditional corporate banking business segments as infrastructure construction, inclusive finance, green credit, and real estate. As to the financial market business, we have led the market in local government debt investment. At the same time, the asset quality of our financial market business has not been affected by adverse market incidents and remained steadily improving. The subsequent asset portfolio will maintain the same trend.

Q10 (21st Century Business Herald): I just noticed that the Senior Management mentioned that CCB has now become the largest retail credit bank, surpassing ICBC. I would like to ask if CCB will intensify its efforts in the corporate banking business to outstrip ICBC in the future. Besides, we see that CCB maintains a low credit card NPL ratio. Many banks reported that their credit card NPL ratio has risen fairly quickly in the first half of this year. So, could you please tell us what the main reasons are for CCB in achieving such a low ratio?

Lyu Jiajin: Thank you for your concern and good wishes for us. After several generations of joint efforts in developing the retail banking business, we have grown into China's largest retail credit bank. Since the beginning of this year, our entire business including the retail banking business have fostered new opportunities in a time of crisis and created new prospects in the face of changing circumstances amid the shocks of the COVID-19 pandemic and the adjustment of the global economy. Committed to the strategy of digital operation and the in-depth implementation of "Three Major Strategies", our retail banking business has come to the forefront of China's banking industry. Regarding the corporate banking business, we also have such confidence because we possess a sound strategy, a professional team, and advanced technology, which will facilitate the development of our corporate banking business. ICBC is currently a world-leading bank by both scale and operation. It is a respectable bank. We will learn from these advanced banks during our development and perform a better job in serving the real economy, so as to contribute greater value in serving the needs of the Chinese people.

Credit card is a major advantage for us, and is one of our many leading businesses in the market. Currently, we have more than 100 million credit card customers. In terms of scale, we have attained a leading position in China. According to the data on credit card asset quality disclosed by various institutions, our credit card NPL ratio was as low as 1.17%, which remained at a leading position in the industry. Despite the impact and influence of the pandemic this year, our credit card business in the first half of the year maintained relatively healthy development, which could be exemplified by our industry-leading position in terms of card issuance, loan scale, as well as transaction and settlement volume.

About the main reason which you are concerned about, I would like to say that, in fact, the success of any business development does not stem from a single factor. It is closely related to the bank-wide strategy as well as the operation and management of the Bank as a whole including our provincial and municipal branches. In the past two years, our credit card business has been actively implementing the country's development strategies, doing a good job in product innovation, and giving full play to our advantages in digital operations. Focusing on the building of ecosystem-based scenarios, we have achieved progress towards customer acquisition, customer retention and business growth, and actively implemented the policy on fee reduction and profit concession, thereby putting the customer-centric tenet into practice. The combination of many factors has made it possible for our credit card business to achieve good development results to date. At the same time, we have also noticed there are some areas for improvement in the development of credit card business, such as the small proportion of young customers. Despite the steady growth in recent years, there is still room for further improvement. We still need to further expand a series of products and scenarios that can fit well into the networked society and adapt to the growth of "Generation Z" youth. Therefore, in the next step, we will make improvements in customer structure, product development, and scenario building, while firmly committing to our original strategy.

Liu Guiping: Time passes very quickly. At the beginning, I said that today's business results briefing would last 1 hour and 15 minutes. Now we have overrun a bit. I also understand that members of the press, analysts, and investors have many questions to ask. But due to time constraints, I'm afraid to announce that the onsite Q&A and online communication session of today's business results briefing has come to an end. Of course, if you have any questions, please don't hesitate to contact our Board of Directors Office and Public Relations & Corporate Culture Department after the meeting. We will make full communication with you to the best of our knowledge. Thank you once again for your concern and support for us. Thank you!