[LU] Lufax Holding
Q3 2022 Earnings Conference Call
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Executives
Yong Suk Cho, Chairman and Chief Executive Officer
Gregory Gibb, Director and Co-Chief Executive Officer
David Choy, Chief Financial Officer
Xinyan Liu, Head of Board Office and Capital Markets

Analysts
Alex Ye, UBS
Emma Xu, Bank of America
Yada Lee, CICC

Presentation

Operator: Ladies and gentlemen, thank you for standing by, and welcome to the Lufax Holding Limited Third Quarter 2022 Earnings Call. (Operator Instructions). After the management's prepared remarks, we will have a Q&A session. Please note this event is being recorded.

Now, I'd like to hand the conference over to your speaker-host today, Ms. Xinyan Liu, the company's Head of Board Office and Capital Markets. Please go ahead, ma'am.

Xinyan Liu: Thank you very much. Hello, everyone, and welcome to our third quarter 2022 earnings conference call. Our quarterly financial and operating results were released by our Newswire services earlier today and are currently available online.

Today, you will hear from our Chairman and CEO, Mr. YS Cho, who will provide an update of the macroeconomics and the Covid impact, our latest business strategy and the recent regulatory developments. Our Co-CEO, Mr. Greg Gibb, will then go through our third quarter results and provide more details on our business priorities. Afterwards, our CFO, Mr. David Choy, will offer a closer look into our financials before we open up the call for questions.

Before we continue, I would like to refer you to our safe harbor statement in our earnings press release, which also applies to this call as we will be making forward-looking statements.

Please also note that we will discuss non-IFRS measures today, which are more thoroughly explained and reconciled to the most comparable measures reported under the International Financial Reporting Standards in our earnings release and filings with the SEC.

With that, I'm now pleased to turn over the call to Mr. YS Cho, Chairman and CEO of Lufax.

Yong Suk Cho: Thank you for joining. The third quarter has been challenging. Our core small business owner segment, which makes up 87% of our new loans facilitated excluding consumer finance loans, has been significantly impacted by the deteriorating macro environment in the third quarter. In periods of macroeconomic change, small businesses are typically the earliest to be impacted ahead of consumer finance and other lending. As a result, our profitability has been negatively impacted due to rising credit impairment losses and credit enhancement costs.

Ongoing pandemic controls and slowing economic growth impacted credit quality in the third quarter. Our lead indicator for credit quality, the C to M3 ratio, which estimates the percentage of current loans that will become non-performing at the end of three months, increased by 0.1%, quarter-on-quarter, to 0.8% this quarter. Our C to M3 ratio stood at 0.4% in the third quarter of 2021, indicating that credit quality has worsened considerably versus a year ago.

In the third quarter of 2022, data from market analysts suggests that the GDP share of cities with high or medium-risk pandemic controls increased versus the second quarter, which we believe is having a broader impact on small businesses given a backdrop of declining business and consumer confidence.

While credit quality deterioration advanced across-the-board in the third quarter, we witnessed growing differences in economic resilience in various regions, which led to significant divergence in credit performance by region. Taking Shanghai, for example, the C-M3 ratio for general unsecured loans spiked to 2.3% in the second quarter of this year, but after a short period of time after re-opening, quickly returned to pre-lockdown level of 0.5% in the third quarter of 2022, demonstrating strong resilience. In comparison, C-M3 ratio for some other regions, in particular, lower-tier cities, were worse and probably will take much longer to recover.

Let me provide a sense of this by comparing credit quality for unsecured loans. On average, the C-M3 ratio for top performing regions, which mainly consist of cities and regions with strong economic foundations such as Beijing and Shanghai, improved by 1 basis point in the third quarter compared to second quarter; while the C-M3 ratio for average performing regions and less desirable performing regions deteriorated by 13 and 20 basis points, respectively, during the same period. This geographic divergence is fundamentally re-shaping the map for where sustainable lending can be enabled medium-term. Today, about two-thirds of our existing business is in cities and regions where we believe the economic foundations are stronger and likely to be more resilient in recovery.

Small businesses contribute to 60% of GDP and 80% of job creation while receiving only 26% of the financing as of 2021 year-end. We believe long-term demand will remain substantial, as the small business owner segment is expected to be agile and responsive when the macro environment improves.

We are confident that we are well positioned to re-scale when the time is appropriate, leveraging our existing strengths, including extensive channel and institutional partnerships and a strong capital position. However, medium-term, we must first adjust our business strategies by deepening our focus on well-rated small business owners, in more resilient cities, with increased reliance on our direct sales force channel.

The increased focus will result in reduced gross revenue in medium term, but will improve the profitability and sustainability of the new business. We must go through a period of digesting credit losses on the existing vintages as they run down, while building up the more sustainable and profitable new portfolio. This process will likely result in a U-shaped recovery pattern for our business. In the nearer-term, we expect this adjusted strategy will generate new loan facilitation volumes at approximately two-thirds of the volumes we have generated in recent years. Exact volumes will be determined by the overall timing of the macroeconomic recovery, which remains uncertain at the moment.

While we hope that a recovery will come sooner, our immediate plans assume a status quo in the current operating environment. Our optimization of resources, including further cost restructuring, will be completed over the next several quarters. During this time, we assume that our credit impairment losses and CGI credit enhancement costs will remain at elevated levels, while the under-performing portion of existing vintages run down, clearly impacting profits. Taking uncertainties into account, we believe that the timing for a notable improvement in our bottom line performance is more likely in 2024 than in 2023.

This is clearly a challenge for us, but we are confident in our ability to execute. We will use this business re-prioritization to continue to upgrade our technology, operations, and risk management with the objective of strengthening our long-term market leadership in the small business owner segment. Given our customer access, strong balance sheet, and long-term partnerships with financial institutions, we have the necessary advantages to navigate through this difficult period.

While the operating environment demands change, the regulatory environment is now stabilizing. The 429 rectification process lead by the PBOC and CBIRC has now transitioned to normalized regulation oversight without substantial outstanding issues for the company. Our bank-guarantee model, under which we bear 22.5% credit risk on the outstanding balance of loans we facilitated as of the end of September, is distinct from a lending facilitation platform and in line with prevailing requirements. Looking forward, we expect our portion of risk sharing with financial partners to increase to at least 30% over the next several quarters.

As stated before, the use of our guarantee company also allows us to share required data directly with funding partners. On October 25, the CBIRC released a report regarding the P&C industry where credit guarantee insurance, a core component of our business model, is recognized as playing a positive role in helping small businesses increase their funding availability.

Finally, I have an update on changes to our board. In consideration of potential Hong Kong listing requirements, and to improve our ESG standing, we have added two new female directors, namely, Mrs. Cai Fangfang and Mrs. Fu Xin, to the board. In addition, we are pleased to welcome Mr. Ji Guangheng to join our board as a director again. All three new directors are PingAn executives, re-affirming the ongoing support from our largest shareholder.

The new board structure continues to be made up of nine members with four current independent directors, two current company directors, myself and Greg, and the three new directors who are PingAn executives. Under the new structure, we are reducing one independent director and adding an additional director nominated by PingAn.

I will now turn the call over to Greg for more detail on our operating results and business priorities.

Gregory Gibb: Thank you, Y.S. I will now provide more detail on results and our operational focus. Please note all figures are in RMB and all comparisons for the third quarter are on a year-over-year basis, unless otherwise stated.

Third quarter results were negatively impacted by deterioration in credit quality. As a result, third quarter profit was 1.4 billion, declining 67.1% versus a year ago. As a result of progressively tightening credit standards, new loan volumes were 123.8 billion, declining 27.9% versus a year ago.

Credit impairment losses totaled 4 billion, increasing 137.7% year-over-year. Overall profitability has also been negatively impacted by higher insurance premiums. Total expenses excluding credit impairment losses, asset impairment losses, finance costs and other losses decreased by 12.7% as a result of tighter cost control.

Third quarter revenues declined by 17.2% versus a year earlier to 13.2 billion, and our outstanding balance of loans facilitated declined by 1.3% versus a year earlier to 636 billion as of September 30, 2022.

We have entered what we expect to be a U-shaped profitability pattern driven by the credit quality issues that YS detailed. Our historical loan vintages are now experiencing higher credit losses given the macro environment. As a result of progressive credit tightening, new business initiated in the last several quarters is demonstrating better performance.

But we must now follow a path of continuing to strengthen our collection on existing vintages, while building up the more sustainable and profitable new portfolio, while at the same time, we continue to refine our channel management through optimizing our direct sales force, so we become more nimble and efficient in selectively targeting a higher-quality customer base with the most productive workforce. This will mean reduced new business volumes and gross revenues in the medium-term, but new business should be able to generate better results as compared to the historical loan vintages as a whole.

We believe bottom line profit recovery will be driven by three factors: evolving credit performance of the historical vintages, run-off speed of the historical vintages, and growth rate of the prioritized new business. At this stage, we can't accurately predict how long the historical vintages will see elevated credit impairment, as the drivers are fundamentally macro in nature. But as YS stated, timing for a notable improvement in our bottom line performance is more likely in 2024 than in 2023, as new business volumes replace vintage volumes, and policy changes potentially lead to improvement in the macro environment.

Recently, we have witnessed positive signals around commitment by the banking system to support some key industries including real estate. We believe these developments could potentially bring positive impacts to the macro environment and our businesses, although the exact timing impact is yet to be seen and difficult to predict.

As we navigate through the current downturn, we will continue to strengthen our operating capabilities and financial institution partnerships. We have recently launched our new small business owner ecosystem. Its intent is to engage potential customers at an earlier stage, deepen our interaction with existing customers, and create both new cross-sell opportunities and a new source of customer referrals.

As the first step, we launched the testing version of our LuDianTong app in October 2022. LuDianTong has an open-platform design and is being populated with digital operating tools and industry-focused content for SBOs to operate businesses more effectively. LuDianTong builds a WeChat Moments-like social network connecting our direct sales force with existing and prospective SBOs, and helping these SBOs to better serve their existing prospective customers, deliver more impactful marketing, more frequent engagement and more direct feedback with their customers. Compared with other players, we believe that our extensive offline direct sales network would allow us to acquire users more efficiently and offer more differentiated value to users.

We are also continuing to develop LuJinTong, which helps banks with strong risk capabilities acquire borrowers directly through dispersed sourcing agents nationwide. Under this model, the company does not provide or participate in credit risk sharing. Year-to-date, LuJinTong provided online services to more than 10,000 active agents in their efforts to facilitate loans to partner financial institutions.

For funding partners under our risk sharing model, we have increased 16 new bank partners compared to the same period last year. We continue to explore development of new data and technology solutions to share with our partner institutions in the areas of efficient customer matching, risk analytics, portfolio management, and collection services.

Our risk sharing reached 22.5% of the total portfolio as of September 30, 2022. The guarantee company's net capital stood at 47.8 billion at the end of the third quarter, operating with a leverage ratio of 2.1x. More broadly, our net assets stood at 95 billion, with 46 billion cash on hand, figures which provide confidence to our financial partners in this otherwise challenging environment.

Our current guidance for the full year 2022 is total income 57 billion to 58 billion, with net profits ranging 8.5 billion to 8.9 billion. New loan sales for the full year are expected to reach 490 billion to 495 billion. Wealth management client assets are expected to end the year between 390 billion and 430 billion. These projections are below our previous estimates and reflect both the macroeconomic environment and our strategy to be more selective in credit selection. These forecasts reflect our current views of the market and operational conditions, which are subject to change.

Finally, we would like to thank our shareholders for their continued support to our business. In October, we distributed our first half 2022 dividends of USD0.17 per ADS, and we will continue to deliver value to our shareholders.

We also continue to stay close with regulators, and remain ready to initiate a Hong Kong listing plan as soon as permissible, subject to regulatory approvals.

With that, I would like to hand over to David who will elaborate on our financial performance in greater detail.

David Choy: Thanks, Greg. I will now provide a close look into our financials. Please note that all numbers are in RMB terms, and all comparisons are on a year-on-year basis unless otherwise stated.

Our total income for the third quarter was 13.2 billion, while net profit was 1.4 billion.

Our total expenses for the third quarter grew by 11.5%. The increase in the total expenses was primarily driven by the increase in credit impairment costs, while our operating-related expenses actually decreased by 12.7% due to operating efficiencies and optimizations.

Next, let's take a closer look at our revenue. First of all, our revenue was negatively impacted by the economic environment, resulting in a 17.2% decrease in our top line this quarter. As we are dedicated to building up a more sustainable business model, the total income mix of our retail credit facilitation business continued to evolve.

During this quarter, while technology platform-based income decreased by 30.3% to 6.7 billion, our net interest income grew 21.5% to 4.6 billion, and our guarantee income grew by 44.1% to 1.9 billion. As a result, our retail credit facilitation platform service fees, as a percentage of total income, decreased to 47.8% from 57.1% a year ago.

And as the trust funding model provided lower funding costs through the use of asset-backed securities, we continued to utilize them more in our funding mix as a result. Income from consolidated trusts is recognized as net interest income, so our net interest income as a percentage of total income actually increased to 35% from 23.9% a year ago.

Moreover, we continued to better utilize our guarantee company's abundant capital to bear more credit risk by ourselves, instead of through our P&C insurance partners. As a result, we generated more guarantee income, reaching 14.1% of total income, compared with 8.1% a year ago.

In terms of wealth management, our platform transaction and service fees decreased by 22.1% to 364 million in the third quarter from 467 million in the same period of 2021. This decrease was primarily caused by the decline in fees generated from our current products, partially offset by the increase in fees generated from platform service.

Our other income, which mainly includes account management fees, collections, and other value-added service fees charged to our credit enhancement partners as part of the retail credit facilitation process, was negative 129 million in the third quarter of 2022 compared to 997 million in the same period of 2021. The majority of the decreases were due to a refund of account management fees to our primary credit enhancement partner, as a result of worse-than-expected collection performance and narrowing down of service scope and change of fee structure that we provided and charged for our primary credit enhancement partner since this quarter.

Turning to our expenses, we continued to prudently manage our operational expenses. Our total expenses, excluding credit and asset impairment losses, finance costs and other losses, decreased by 12.7% year-over-year to 6.7 billion this quarter. In the third quarter, our total expenses grew to 11.1 billion from 9.9 billion a year ago. This was primarily driven by an increase in credit impairment losses of 2.3 billion year-over-year.

Our total sales and marketing expenses, which mainly include expenses for borrowers and investor acquisition costs, as well as general sales and marketing expenses, decreased by 11.7% to 4.1 billion in the third quarter. This decrease was driven by the decrease in new loan sales and optimization of our commission-based compensation structure. In addition to that, the continual optimization of productivity of our direct sales force also provides us with flexibility in our cost structure.

Our general and administrative expenses decreased by 36.8% to 592 million in the third quarter from 937 million in the same period of 2021, thanks to our stringent cost control measures.

Our operation and service expenses decreased by 3.6% to 1.6 billion in the third quarter from 1.7 billion a year ago, mainly due to the decrease of trust plan management expenses and our effective expense control measures.

Our credit impairment losses increased by 137.7% to 4 billion in the third quarter from 1.7 billion a year ago. This was mainly driven by two factors. First, the provision and indemnity losses driven by the increased risk exposure as we move towards a more balanced risk-taking model; and second, as a reference, the company bore risk on 22.5% of its outstanding balance, up from 14.8% as of September of 2021. Secondly, the change in credit performance due to the impact of Covid-19 outbreaks also contributed to the increase in credit impairment losses.

Our asset impairment losses decreased to 68 million in the third quarter from 410 million a year ago. The number for the third quarter of 2021 was unusually high, mainly due to impairment losses of intangible assets and goodwill.

Our finance costs increased by 82.1% to 306 million in the third quarter of 2022 from 168 million in the same period of 2021, mainly due to the increase in interest expense.

Other losses were 7 million in the third quarter compared to other gains of 36 million a year ago, mainly due to foreign exchange losses. As a result, our net income decreased to 1.4 billion during the third quarter from 4.1 billion in the same quarter of 2021. Meanwhile, our basic and diluted earnings per ADS during the third quarter were both RMB 0.58 or USD0.08.

On the balance sheet side, our balance sheet remains strong and solid, as our cash at bank balance increased. As of September 30, 2022, we had a cash balance of 45.8 billion in cash at bank, as compared with 34.7 billion as of December 31, 2021. In addition, liquid assets maturing in 90 days or less amounted to 46.5 billion as of the end of September 2022.

As of the end of September 2022, our guarantee company's leverage is only at 2.1 times, while regulatory requirements allow us to leverage up to 10 times. All these provide strong support for the company to remain resilient in the face of economic downturn.

That concludes our prepared remarks for today. Operator, we are now ready to take questions.

Questions and Answers

Operator: Thank you very much. We are ready for -- (Operator Instructions). Alex Ye of UBS.

Alex Ye: I have two. The first one is on your asset quality. So can you give us some color in terms of your C-M3 growth rate into October and November, as well as the outlook for the coming few quarters? I understand that there could be substantial uncertainty around the macro front. Perhaps can you also talk about how is it likely to evolve under different scenarios? For example, assuming the current lockdown, rolling lockdown, across different city states, as it is today? And second, perhaps assuming we have a material easing on reopening from Q2 of next year.

And second question is on your take rate outlook. So I understand arrangement has been tightening, good criteria. So when should we expect the take rate to broaden and start to improve? I guess there are different moving parts to that equation. For example, the CGI premium has increased a lot this quarter. Given there could be some lagging effect on the CGI pricing, so should we expect further material uptick in Q4?

And in terms of your loan pricing, we have been declining for over a year, and has been quite stable lately. So is there any room for us to maybe roll back some of the pricing cuts and maybe perhaps somehow offset the takeaway pressure?

Yong Suk Cho: Okay. Let me answer your question. If I miss any, please let me know later. So the first question about asset quality and our C-M3 net flow trends. Our flow rate increased by 0.1% to 0.8% in the third quarter this year from 0.7% in the second quarter.

And then considering the resurgence of Covid-19 and then regional lockdowns recently, the flow rate in the near term and midterm, we believe it will stay at a relatively high level. And then looking at the October, November number, it seems like it's stable. It just does not change much. And then we believe communication of Covid policy and then reopening will surely boost up consumption and investment. Both are critical for the economy that is driven by confidence level. And given we are extra-focused, we understand that small businesses are typically the earliest to be impacted ahead of customer finance and other lending in a downturn.

We are more sensitive to Covid control measures as shown in our C-M3 net fluctuation risk rate. But likewise, we believe their credit performance will respond to the relocation of Covid control policy quickly. So once policy gets loosened, then we believe the performance will improve relatively quickly.

And then the third question about our take rate, in relation with the CGI premium, we hope early Covid will come soon. For example, at (Speaking foreign language) where we experienced almost three months consecutive lockdown, our current performance is one of the best, almost 35

branches we have. So the regional economy, the regional -- that the actual environment is now hugely different. But overall, we hope that like Shanghai, the other regions can recover quickly with less pandemic control measures. But we assume (Speaking foreign language) so we assume a status quo in the current operating environment. So in fourth quarter and early 2023, we also expect our CGI credit enhancement cost will remain at high levels, and then it affects our take rate for sure.

So to mitigate this impact on take rates, we continue to optimize our funding cost, which is now less than 6%. And we also keep reducing our operating costs to offset the impact from rising costs. we believe we see the recovery more likely in 2024 than 2023. That is our fair estimation.

And the last question was about loan pricing. Our corporate loan balance is well in line with the policy guidelines. And then it's now 21% in the third quarter, which is reduced from 21.4% from the second quarter. But if you look at new loss, it's already less than 20%. So by now, we believe, we strongly believe, we are in full compliance with the regulations and window guidance given from CBIC regarding APR. And that we haven't received any formal notification on reducing our APR product.

And in addition, compared with regulatory requirements and guidance, the decrease of APR is also driven by our own strategy to target higher-quality segments. And in the near term, we maintain our over APR level for new loans, while we focus more on high-quality SBO segments in more economically-resilient regions. And then -- okay.

Gregory Gibb: Alex, any follow-up question on that?

Alex Ye: Thank you. That's all for me.

Operator: Emma Xu of Bank of America.

Emma Xu: I have three. So the first one is about your third quarter results and fourth quarter [technical difficulty]. So we noticed that your third quarter result is much weaker than previous guidance. And you also revised out your full year guidance and now implied losses in the fourth quarter. So could management explain in a little more detail what lead to the weak business performance in third quarter, and the weak 4Q guidance now?

And the second question is about the outlook. So management just said that you expect the recovery to happen more likely in 2024 than 2023, but could you give us more details? For example, do you still expect this business continue to decline in 2023? And when do you expect the performance to bottom?

And then the third question is about your share buyback. We noticed that your share prices have dropped a lot this year. But it seems that the buyback activity has stopped in recent quarters. So could management tell us why the buyback activity stopped recently?

And a related question about your dividends -- so do you still think that you can maintain a stable dividend (indiscernible), or is there still room for you to increase the payout ratio and then maintain a relatively stable dividend? Yes, so this is my three questions.

Yong Suk Cho: Thanks, Emma. Yes, regarding your first question on our third quarter results, you see this is weaker than expected. Then our main change is really macro challenges on our SBO sector due to pandemic control and then macro uncertainties. The operating environment has been fundamentally reshaped to our SBO segments. And then this is also expected to continue in the near -- in the near to midterm, we think.

Covid resurgence in various key cities really affected our operation in sales and collection in branches or centers. And the customer confidence level remains low, indicating overall weak market demand. So basically, we got quite immediately that hit from the macro environment change. And then having those in mind, we just adjusted our risk policy and growth plan, focusing more on quality segments. So that as a result decreased our new sales volume recently.

Then what Covid measures we have to deal with the situation? We will continue to prioritize quality over volume in the meantime, and focus on sustainable profitability, meaning less scale. But we go after profitable and then sustainable segments, and we tighten our credit standards policy and focus on customers with higher rating, and then particularly customers in more developed regions and then also customers in our better-performing segments.

And then lastly, channel-wise, we will develop more direct sales channels, and their leaders and also other channels because we see higher customer quality from our own U.S. channels.

Gregory Gibb: So on the outlook, as we put forward this morning, we do think it is a U-shaped pattern, so let me explain a little bit more how this plays out. So the existing portfolio, which was acquired as early as 2020, which is still in force, so we have 2020, 2021, 2022, which makes up our existing portfolio. Over the last three quarters, we have progressively tightened our credit standards, but there is part of the portfolio which was brought into pre-tightening. That part of the portfolio is experiencing elevated levels of impairment and credit cost, and that will continue to play through over the next couple of quarters.

The business that we have acquired in the last couple of quarters, as YS outlined, has been done at a much higher credit standard, right? So that part of the business is performing better. So what you have to kind of visualize is that we have, if you will, the legacy book gradually running off over the next 12 to 18 months; and then the new book that we've been building up over the last couple of quarters as well, will grow with a higher level of profitability.

But as we have tightened our credit standards, the absolute volume in the near term will be less. So you can envision the legacy running off, that's one line, and the building of the new book with new credit standards increasing, that's another line. And when those two lines cross, that will determine, if you will, the turning point in our U-shaped bottom line profit recovery.

Now the exact timing for that really depends a little bit on whether there is real progress on policy change, including Covid, because we believe as soon as you have any policy change, the small business owners will respond quite quickly. And then two things will happen. The first is that the quality of the legacy business, if you will, the business initiated over the last couple of years, should actually show demonstrated improvement. That's number one. Number two is our willingness to accelerate new business growth at the higher standard will also increase. So it's

very hard to call right now which quarter is going to be the bottom. But if we think about this over the next year to 18 months, we know it's somewhere in that period.

And for us, what is most important is to make sure that even if we assume the worst case, which is nothing changes for the next 12 months, that we are in a very good position in terms of our capital base, in terms of our funding partners, in terms of the network and how we're prioritizing our channels. So as soon as it does change, we can step on the gas pedal again, and be very strong financially and fundamentally in our footprint and in our chosen segments.

So we are doing a lot of preparation for that day when it comes, where we have confidence that we can hit that bottom in the U, and it's really time to accelerate. We do believe that if we look around the industry, that at that time, our competition will most likely be less. And our relative leadership in the market will be intact, and our ability to extend it should come at that time. So it's very hard to call, as you know, in a market at the bottom, but we are relatively clear that it should be within the course of 2023. And therefore, 2024 is really where you could see the billable improvement.

But I really want to emphasize when we face an environment like this, the first thing to do is to really make sure that you assume the worst, and are going not only to survive, but prosper when it recovers. And so that is the way we prioritize who we're selecting to serve now, how we're managing costs, where we're putting resources.

So in light of that, to your follow-up question on buybacks, so we have bought back over time now about 110 million shares, representing more than USD800 million that we bought back progressively since being listed. In the current environment, we believe we want to place, obviously, liquidity is number one. Obviously, we have a lot of it, which is important, I think, just giving confidence to our financial partners. Two, we would then prioritize dividend; and then three, we would look at other ways to create value for shareholders.

In terms of dividends, obviously, our policy is a cap of 40%. That's something we will look at as needed over time. But we will prioritize dividend over maybe other aspects in the near term.

Emma, does that answer your questions?

Emma Xu: Yes, that is very helpful. Just one quick follow-up. You mentioned that the U-shaped recovery depends the running of your legacy portfolio, which is extended before the tightening of credit policy. So could you tell us the percentage of the legacy portfolio in your existing portfolio?

Gregory Gibb: We haven't disclosed those specifics, but I think YS gave a pretty good indication of the following concept, which is even in our legacy portfolio, we have seen a greater regional differentiation in credit performance. And so as we look across the existing book, even within the existing legacy book, we think about two-thirds of it is placed in geographies which are reasonably economically resilient, which means that of the existing book that was initiated back in 2020, 2021, it's going to be in regions which are poorer performing, right? So that doesn't give you the exact number because we haven't disclosed it, but it gives you a sense of magnitude, right?

So we're not saying the entire legacy book is that a lot of it is actually quite well positioned, and as we build the new book, it is actually prioritized in those stronger geographies as well. So if we've done our strategy right with the way we tuned our credit policy, the way we're doing new business, that should help us on the upside of the U as soon as the environment improves.

Emma Xu: Thank you.

Operator: Yada Li of CICC.

Yada Li: I am Yada from CICC. So I have two questions for today, and the first one is regarding the cost side. I saw the growth in the lower origination volume has been slowing down. And how are you able to control the operational cost of the large direct sales team in the future?

And additionally, looking forward, what is the trend of our credit insurance cost specifically? And the second one is about can you give us more color on the updates or any potential timeline on the HK secondary listing?

Yong Suk Cho: Well, thanks, Yada, for the questions. I guess you mentioned about the cost controls for operating costs and also about the CGI, right? So first, simply put, for the cost control, I think key words is to keep focused and be nimble and efficient. We have placed increasing focus on optimizing and improving the quality of our direct sales team. And we also observed more significant improvements in our productivity in regions where we are successful in hiring high-quality DST. So we will keep making our decision as we are now, getting more selective in terms of a higher-quality customer base.

In terms of the CGI percentage and cost, I think as we have mentioned before, we do hope a recovery will come sooner. But as of today, we announced we're assuming a sales growth scenario which in medium term, we assume our credit enhancement cost will still remain at elevated levels, and our CGI expense will be at pretty much the same level we have right now.

Gregory Gibb: On the question of a potential Hong Kong listing, we still see it as a very important thing to be ready for. And getting ourselves ready is something that we have been focusing on. In terms of earliest timing, we'd have to do it off of the back of our 2022 financial results. And we're staying very close to regulators' understanding whether or not any other communication is required for actually initiating the process.

I think that, as YS talked about, the rectification completion, the 429 rectification completion, I think has created greater certainty. You've seen some other movement in the industry on this front, and so as soon as this is viable from both our financials being ready in terms of your financials, that's something we would obviously prioritize.

Operator: So this concludes --

Gregory Gibb: Operator, any other questions?

Operator: Thank you. This concludes our Q&A session for today. I will now hand the call over to our management for the closing remarks.

Xinyan Liu: Okay. Thank you. This concludes today's call. Thank you for joining the conference call. If you have more questions, please do not hesitate to contact the company's team offline. Thanks again.

Gregory Gibb: Thank you.

Operator: Thank you. This concludes today's call. Thank you, everyone, for joining. And you may disconnect your line now.