[LU] Lufax Holding Ltd.
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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
Emma Xu, Bank of America
Richard Xu, Morgan Stanley
Alex Ye, UBS
Yada Li, CICC

Presentation

Operator: Ladies and gentlemen, thank you for standing by, and welcome to the Lufax Holding Limited Third Quarter 2023 Earnings Call. (Operator Instructions). After the management's prepared remarks, we will have a question-and-answer 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.

Xinyan Liu: Thank you, operator. Hello, everyone, and welcome to our third quarter 2023 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. Y.S. Cho, who will provide an update of our latest business strategy, the macroeconomic trends and the recent development of our business. 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.

With that, I now pleased to turn over the call to Mr. Y.S. Cho, Chairman and CEO of Lufax. Y.S., please.

Y.S. Cho: Thank you for joining today's call. While the macroeconomics recovered gradually in the third quarter, the small business segment still faced a complex landscape and needs more time to recover. We continued to pursue a strategy of de-risking and diversification, maintaining our asset quality, with the goal of improving our asset quality overall for long-term, healthy and sustainable growth.

During the third quarter, while high-quality loan demand from SBOs remained weak, our consumer finance business recorded a healthy growth, with a new loan sales volume increase of 15.3% sequentially and 48.5% from the same period last year. We are also taking steps to further diversify our operations by acquiring a virtual bank in Hong Kong.

Let me now provide some updates for the third quarter. On the regulatory front, the State Council released guidance on promoting high-quality development of inclusive finance. The guidance recognizes the value of non-bank institutions such as guarantee, consumer finance and small lending companies, and encourages market participants to take steps to serve the financial needs of SBOs, as well as enhance consumer protection. We believe the guidance and recent regulatory development will promote healthy development of the industry, and benefit leading players that operate businesses in a compliant manner and with proper licenses.

As for the macroeconomic conditions, recent data has shown that China's economy is gradually recovering. GDP in the third quarter increased by 4.9% from the same period last year, putting the economy on track to meet the annual growth target of 5%.

During the third quarter, large enterprises demonstrated the strongest signs of recovery, while SMEs continued to face pressure from the broader macro situation. The SME business conditions index, published by the Cheung Kong Graduate School of Business, declined from 50.2 in June to 49.9 in September. The Small and Medium Enterprises Development Index published by the China Association of Small and Medium Enterprises was also below the critical threshold of 100 in the third quarter, indicating that the SBO segment will likely recover more slowly than the rest of the economy.

Let's explore the impact of these factors on our business. Under the pressure from the complex macroeconomic environment, de-risking is crucial for the sustainability of our business. In the third quarter, we continued our strategy of prioritizing asset quality over quantity. We have completed the strategic adjustment initiated in the beginning of the year by reducing our footprint in less economically resilient regions with relatively high risk and optimizing our direct sales force. We believe these difficult but necessary steps will establish the foundation for long-term sustainable growth.

As high-quality demand for loans from SBOs remained weak and we continued to prioritize prudence in our strategic execution, new loan sales decreased slightly from RMB53.5 billion in the second quarter to RMB50.5 billion this quarter. In terms of asset quality, risk performance of the old book, which are loans enabled before 2023, has stabilized. Meanwhile, early indicators suggest that asset quality of new loans enabled in 2023 is in line with our expectation, although not yet recovered to pre-COVID levels.

Next, let me share some strategic updates. We have completed our transition to a business model under which our guarantee subsidiary provides 100% of our credit enhancement, as CGI premiums remained elevated due to impairment losses suffered by CGI partners. At present, we have secured sufficient credit lines from our funding partners to support our 100% guarantee model for the remainder of 2023 and throughout 2024. We were able to make this shift in large part due to our strong capital position.

At the end of the third quarter, the leverage ratio of our guarantee subsidiary was only 1.6x, well below the maximum regulatory limit of 10x. Switching to our 100% guarantee model will play an important role in alleviating the impact of elevated CGI premiums, resulting in a 13% to 14% take rate from a long-term perspective, but exerting pressure on medium-term profitability, as upfront provisions are recorded for new business.

Last quarter, we mentioned our strategy to grow our consumer finance business by leveraging the advantages of our consumer finance license and synergies with the Puhui business, and we continued to implement this strategy. During the third quarter, the new loan sales of our consumer finance business was 20.6 billion, representing a 15.3% quarter-over-quarter and 48.5% year-over-year growth. The NPL of our consumer finance business decreased to 1.9% in the third quarter from 2.2% in the second quarter.

The competitive advantages of our consumer finance business have made it an increasingly important part of our business. With our consumer finance license, we can operate this business in full compliance with regulations, and benefit from lower funding costs enabled by interbank money markets. With the SBO segment likely to face continuing challenges from the macro environment in the near term, the consumer finance business serves as a good supplement to the Puhui business, enabling us to further mitigate risk and diversify product offerings. Together with our transition to the 100% guarantee model, we will be able to provide more comprehensive products to our target customers, with simpler and better customer experience.

Now, let's turn to a new initiative we are undertaking to further diversify our business. Subject to approval from the Hong Kong Monetary Authority and OneConnect's shareholders, we will acquire 100% of the shares of Ping An OneConnect Bank, or PAOB, from OneConnect at a cash consideration of HKD933 million, representing 2.2 % of our cash at bank as of the end of September. As one of the eight virtual banks in Hong Kong, PAOB is a fully-licensed bank with a service scope similar to traditional banks, but without physical operating branches.

As of June 30, 2023, PAOB's loan balance was HKD1.8 billion and its capital adequacy ratio was 100%, which was substantially higher than relevant regulatory requirement. All of its loans were SME loans in Hong Kong, and a significant portion of outstanding balance is backed by Hong Kong government's SME Financing Guarantee Scheme.

We believe the business and target customers of PAOB sync well with our existing operations, enabling us to leverage our operational experience and technological expertise in its business development. From a long-term perspective, the prospects of Greater Bay area also bring upside potentials via this banking license.

Overall, we took a number of steps in the third quarter to carry forward our efforts on de-risking and diversification, including the completion of our transition into the 100% guarantee model, further developing our consumer finance business and acquisition of the virtual bank in Hong Kong, aiming to create foundations for long-term sustainable growth. In the short term, as most of our strategic efforts on de-risking had been concluded by the end of the third quarter, we expect volume in new loan sales to be stabilized, and we are on track to meet our new loan sales guidance for the full year of 2023 to be in the range of RMB190 billion to RMB210 billion.

I will now turn the call over to Greg for more details on our operating results.

Gregory Gibb: Thank you, Y.S. I will now provide more details on our third quarter results and our operational focus for this year. Please note, old book refers to unsecured loans enabled before January 1, 2023, and new book refers to unsecured loans enabled afterwards. All figures are in Renminbi unless otherwise stated.

During the third quarter of 2023, our performance remained under pressure from the complex macro environment and challenges faced by SBOs. Total new loan sales during the third quarter was 50.5 billion, amongst which approximately 40% was contributed by the consumer finance business.

Now let's dive into the detailed performance of Puhui business and consumer finance business. First, let's take a closer look at our Puhui business. During the third quarter, we enabled 29.9 billion of new loans under the Puhui brand.

Despite the pressure on new loan sales, the productivity of our direct sales team further improved during the third quarter. Average productivity for our direct sales team rose by 25.4% quarter-over-quarter, continuing the positive trend we noted in the second quarter. 68% of new loans enabled during the third quarter came from our direct sales team, compared to 61% in the second quarter.

The overall pricing by balance of loans enabled under the Puhui business remained stable at 20%. We have not encountered any pressure to decrease price and we have the flexibility to adjust our prices to the extent commercially sensible. As we have completed the transition into the 100% guarantee model, we expect to improve our take rate by alleviating the negative impacts of elevated CGI premiums in the long term. Our profitability, however, will suffer in the medium term due to the impact of upfront provisions under the 100% guarantee model.

Now, let's look at the risk performance of Puhui business during the third quarter. The risk-bearing by balance of Puhui business at the end of third quarter increased to 25.7% from 22.4% as of the end of second quarter, mainly due to greater portion of loans enabled under our 100% guarantee model. By the end of this year, we expect our total risk bearing, including consumer finance, to increase to above 40%.

The C-M3 flow rate of the Puhui business increased from 1% as of the end of June to 1.1% as of the end of September, partially due to the 16.1% decrease in outstanding loan balance of the Puhui business.

Taking a closer look into Puhui portfolio, asset quality of our old book was stabilized. As the amount of old book decreased as a percentage of total portfolio, the absolute amount of old book that would become overdue will continue to decrease, although the C-M3 ratio remains at an elevated level.

On the other hand, though not yet recovered to pre-COVID levels, asset quality on new book is in line with our expectation, and we continued to operate with tighter credit standards and focus on higher-quality demands from stronger SBOs based in economically resilient regions. In light of the macro environment, we plan to maintain our emphasis on quality over quantity for the foreseeable future.

Now, let's move on to our consumer finance business. Our consumer finance continued to record a healthy growth during the third quarter. New loan sales in the third quarter amounted to 20.6 billion, increased by 15.3% sequentially and 48.5% from the same period last year. The total outstanding balance of consumer finance loans at the end of third quarter was 36.1 billion, up 9.9% from the end of the second quarter and 29.4% year-over-year. The NPL ratio of the consumer finance business was 1.9% in the third quarter, as compared to 2.2% in the second quarter.

Providing smaller ticket size, shorter tenor consumption loans helps to enhance our product line, as well as diversify our business operations. In addition, with the increased amount of consumer finance loans as a percentage of new loan sales, the lower funding costs of the consumer finance business will help bring down our overall funding cost. We plan to continue our efforts to grow the consumer finance business while the SBO segment remains under pressure.

Due to aforementioned factors, our total income decreased from 9.3 billion in the second quarter to 8.1 billion in the third quarter, mainly due to a decline in our outstanding loan balance and new loans enabled to SBOs.

On the expense front, we maintained our emphasis on optimizing our operational efficiency, and decreased our operating expenses by 6.1% from the previous quarter, and 31% from the same period last year. Credit impairment losses remained at 3 billion for the quarter, mainly due to the impairment losses arising from the old book. As a result, we recorded 131 million of net profit for the third quarter.

As Y.S. mentioned earlier, we plan to acquire 100% of the equity interest of PAOB to bring additional diversity to our business. Subject to regulatory and OneConnect's shareholders' approvals, we hope to close the deal in the first half of 2024.

Finally, we are pleased to announce that we have paid out the first half 2023 dividends in October, with an aggregate amount of US$89 million. We would like to thank our shareholders for their continued support, and will continue to use our best efforts to deliver value to our shareholders.

I will now turn the call over to David, our CFO, for more details on our financial performance.

David Choy: Thanks, Greg. I will now provide a closer look into our third quarter results. Please note that all numbers are in Renminbi terms, and all comparisons are on a year-over-year basis unless otherwise stated.

In the third quarter 2023, our total income was 8.1 billion. Total expenses were 7.7 billion and net profit was 131 million. As Y.S. and Greg mentioned before, our performance was impacted by the macroeconomic situation affecting the SBO segment, and of course, the negative growth in loan balance. This resulted in a 39% decrease in our top line this quarter.

During the third quarter, our technology platform-based income was 3.3 billion, representing a decrease of 51.2%. Our net interest income was 3.3 billion, a decrease of 28.4%, and our guarantee income was 941 million, a decrease of 49.5%.

Furthermore, primarily due to the decline in loan balance, guarantee income was 941 million, compared to 1.9 billion a year ago.

For 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 enablement process, the amount was 291 million in the third quarter of 2023, compared to other loss of 129 million in the same period of 2022.

Turning to our expenses. We are committed to cost optimization for sustainable growth while preserving our core capability. Our total expenses, excluding credit and asset impairment losses, finance costs, and others, decreased by 31.1% year-over-year to 4.7 billion this quarter, as we continued to enhance our operational efficiency. In the third quarter, our total expenses decreased by 30.1% to 7.7 billion, from 11.1 billion a year ago. This decrease was primarily due to decreases in sales and marketing expenses and credit impairment losses.

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 43.7% to 2.3 billion in the third quarter. The decrease was mainly due to decreased borrower acquisition costs as a result of the decrease in new loan sales and decreased investor acquisition and retention expenses and referral expenses from platform service attributable to the decreased transaction volume.

Our general and administrative expenses decreased by 15.6% to 500 million in the third quarter, mainly due to our expense control measures and decreases in taxes and surcharges.

Our operation and servicing expenses decreased by 7.6% to 1.5 billion in the third quarter, mainly due to our efforts in expense control and decrease of loan balance, partially offset by increasing resources invested in collection services.

Our credit impairment losses decreased by 24.1% to 3 billion in the third quarter, primarily due to the decrease in provision of loans and receivables as a result of the decreased loan balance.

Our finance costs decreased by 86.9% to 40 million in the third quarter from 306 million in the same period of 2022, mainly due to the increase of interest income from bank deposits, plus the decreased interest cost resulting from our repayment of our convertible promissory notes and our

other U.S. dollar debt. As a result, net profit for the third quarter was 131 million, compared to net profit of 1.4 billion in the same quarter of 2022.

Meanwhile, our basic and diluted earnings per ADS during the third quarter were both RMB0.04 or USD0.01.

Turning now to our balance sheet. Our balance sheet remains strong and solid, as our cash at bank balance has decreased since the end of our last fiscal year. As of September 30, 2023, we had a cash balance of 39.8 billion in cash at bank, as compared with 43.9 billion as of December 31, 2022. As of the end of September 2023, our guarantee subsidiary's leverage ratio was only 1.6x, as compared to a maximum regulatory limit of 10x.

All of these factors offer substantial backing for the company to navigate through the changing macroeconomic landscape, maintaining our resilience and creating options to deliver value to our shareholders in the future.

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

Questions and Answers

Operator: Thank you. We will now begin the question-and-answer session. (Operator Instructions). Emma Xu with BofA Securities.

Emma Xu: Thank you for giving me the opportunity to ask questions. Actually, I have two questions. The first one is about the loan demand and new loan pricing. So previously, you mentioned that you are on track to meet your full year loan growth target now. But we just wanted to get more details about the overall loan demand in the fourth quarter so far, including the SME loans and the consumer finance loan, and how it will impact your loan pricing for different loan products?

And the second one is about the unit economics under the full guarantee model. So we understand that you have been progressing towards this model for a while, and we probably get some more data now. So could you please run us through that unit economics under this new model?

Y. S. Cho: Thank you for your question. We see the macro economy is gradually recovering, but our major target segments, our small business segments, they need more time. So as a result, loan demands, or especially, SBO segments, remain quite weak. Their confidence level, we think, hasn't restored back to the previous level, so we see a weak current demand. But as we said in the previous announcement, we believe we'll deliver this year's new loan sales guidance as planned.

Now regarding overall APR, our overall APR level on portfolio remained stable at around 20%, and then we do not see any further pressure to reduce our loan price via APR. Through our continuous communication with regulators, we see that they're also gradually getting aware of

that question that simply arose again and again. Otherwise, we cannot ensure the financial service coverage for the whole SBO segments. So we believe we have more flexibility in the future than before to adjust our loan price as necessary.

And to your question about our UE on the full guarantee model, now we fully switch it to 100% sales guarantee model. So it's a model, a mix of our guarantee plus bank funding. We don't have CGI partners anymore. So as normal CGI premium paid, our take rate will be a lot higher than before, to around 14% level. And going forward we'll continue to optimize while reducing our funding costs, but upfront primarily on the sales 100% guarantee model will affect our bottom line short of 1-year term. Thank you.

Operator: Thank you. Richard Xu with Morgan Stanley.

Richard Xu: This is Richard from Morgan Stanley -- a question on the cost side. Given, obviously, the loan size has been shrinking and the company had been optimized in the loan size and client base in the risk environment, is there any room to optimize the sales force? Because at the moment, I guess, cost control is also a very important aspect that we can probably analyze and see the profitability of the business. Any thoughts on that?

Y. S. Cho: Okay. Thanks for your question. By now, we have completed the adjustment of our sales team. We reduced our sales team, especially in the regions. The local economy is not resilient, and then we don't see much development potential. So as a result, we have a lot less number of teams. But our plan has been all completed, and now our focus is we don't have any further optimized plan for sales team. Our focus is more about how to retain our remaining the best quality or a lot better than before quality sales team.

And we see the department has been continuously improving its optimization, although we all know that we tighten underwriting policy very much from this year, but see the remaining direct sales team, the department has been improving. And then we understand the productivity enhancement is the best way to optimize our cost ratio, but also, we'll continue our efforts to further optimize our funding costs and other operational costs.

Gregory Gibb: So just, Richard, Greg here. To add to Y.S.'s comment, if you look at the third quarter, quarter-on-quarter operation expense is down 6% and year-on-year, operational expense is down 31%. So actually, starting in the fourth quarter last year and then progressively up until about July, August this year, we went through quite substantial restructuring, and that restructuring included frontline, mid-and-back office, so pretty far-reaching.

And as Y.S. said, I think given that we have made those adjustments, and that we're starting to see improved productivity in the front line, the key now is really to capture the benefits from the ongoing change in the mix of our business, right? So if you look at, for example, Y.S. mentioned funding cost. Our funding cost, through the Puhui guarantee model, when we partner with banks and other trust companies, it's still raising around 5.5% on average. But when you look at the consumer finance business, that funding cost is about 3.5%, 3.6%. And then if you look at the new business mix in the third quarter, where our consumer finance made up above 40% of all new business, you can see as that change in the mix of the business occurs, it creates an overall lower funding cost as well.

So there's still more room, we believe, in the current interest rate environment here in China to optimize funding costs on the guarantee model. And we'll be working to do that with our bank partners. But the key now really is to take advantage of the fact that the old book, which has really been the source of our challenges, the book written before 2023, that old book is a percentage of our total business, right?

So if you take, let's say, unsecured loans written prior to 2023 versus the total, which includes also unsecured business generated post-January 1 this year, secured business, consumer finance business, that old book is roughly about half of our outstanding today. And by the next 12 months out, that percentage will drop to low-double-digit. So we have a situation where that the old runs off; the new is performing in line with expectation.

Productivity for the direct sales has been lifting consistently in both Q2 and Q3. So we think that the right-sizing things that we have done in terms of the front line are now largely completed. And it's really just now to sort of work through the remaining part of the old book, continue to improve our mix, and continue to be prudent in our new loan growth. And we think that with those steps, I wouldn't say that we are at the end of all challenges at this point, but we've certainly worked through a large part of it and we think we've right-sized for our future steps.

Operator: Thank you. Alex Ye with UBS.

Alex Ye: I have two questions. First one is on asset quality. So where are we in terms of the legacy asset quality risk? Did the company see any early indicators that the asset quality on this part could actually improve? And what driver will be needed for that improvement?

And second, regarding your PAOB deal, can you also share some color on that, including any initial thoughts on the future strategy on that bank? For example, what kind of growth prospects should we be expecting? How is profitability now and when to expect it to breakeven, and also any color on the asset quality of the SME loan book?

Gregory Gibb: Sure. On asset quality for the domestic Puhui-branded SBO business, right, as we've highlighted, the C-M3 ratio, which is that lead indicator, still remains at an elevated level, right? So for Q3, it was at 1.1% versus about 1% in Q2, so it has remained at an elevated level. But if you factor in that our -- this is a numerator-denominator issue when you do through the ratio. Actually, the denominator, for example, has shrunk about 16% if you look at just a quarter-on-quarter change, right? So if you were to factor that in, you would actually start to see gradual improvement.

And we look through the overall book because that old business written prior to 2023, as I said, is now approaching to be about half of the total portfolio, and that will continue to decline over the next 6 to 12 months. So the absolute loss that comes from the old book will continue to decline.

And then what will drive these signals going forward is the portion of the overall portfolio, which is coming from new business. And the performance of that part is in line with our expectation. I think Y.S. has outlined that if you look at the quality of new business written since January 1 of this year, it is actually better than new business written in 2022 and 2021. It's not back to 2019 levels because we would expect an improved quality because we are focusing on a

higher-quality customer base, we've narrowed our focus on to the best credit quality groups. But we do see that it is generating a profitable outcome. We believe that the new business that we are doing today through its lifetime will be a positive contributor to the company in 2023 and beyond on a per-account basis.

So we think the asset quality, while it is still challenging, the environment is still challenging, we are seeing a gradual improvement. One other indicator that we've seen recently is that the amount that we're able to recover post-indemnity, post-90 days, where it's been charged off, that recovery is actually gradually improving as well this year and in the third quarter, so that we will bring some room going forward. So I don't think it's time to celebrate that everything has returned to normal, but I think it is time that we know that we probably have seen the worst, and we will see gradual improvement in overall quality going forward.

In terms of PAOB, the digital virtual bank license in Hong Kong, we've actually -- Lu Holdings has been looking at this market for some time. When the initial licenses were issued, eight of them back in 2019, we did consider at that point looking into it, but then didn't pursue it for other reasons. Given the opportunity to fully acquire this license today at roughly about 1.2x, 1.3x book value, we think is actually quite a good medium-term growth option, a very affordable medium-term growth option for us.

If you look at PAOB in the context of the eight virtual banks in Hong Kong by loan assets and total assets, it's roughly ranked third. And if you look at its relative profitability, it actually has the least losses of any player in the market. And the focus of PAOB, while it's still relatively small, of about 1.8 billion Hong Kong outstanding loans, with a majority of those backed by the Hong Kong SME government guarantee program, it's quite low risk.

If you look at the losses that it incurred last year, it's about 160 million Hong Kong and we would expect losses this year to be in that range. We would expect to grow the business in the context of Hong Kong, on the loan side diversifying its products a little bit more, diversifying its acquisition channels a bit more, taking our experience in technology risk and sales force deployment and bringing those into the mix.

And we will also look at opportunities. If you look out over the next 1 to 2 years, in addition to lending opportunities which may extend into the Greater Bay, we have to continue to watch the policy on that closely. But we do think that is the general direction that people want to go. We'll also look at non-lending businesses, where the bank has the ability, obviously beyond deposits, to also do a number of other products. And so those are areas that we will look to develop. So, over the next 2 to 3 years with investment in development, we believe this will become a profitable venture for us.

And I think if you take the broader perspective of Lu Holdings, and I think if you look at the words that Y.S. used today, mentioned several times, diversification. So the focus really for the last 2-plus years in the current environment has been to de-risk to reduce our exposure to the SBO segment, while focusing on the high-quality customers, and start to diversify our business domestically with consumer finance; and also, I think through Hong Kong, with this full banking license that gives us long-term opportunities in Hong Kong, Greater Bay, but also can be a

launch point for other markets over time. So we look at it as an important and affordable option for us to continue to pursue diversification strategies.

Operator: Thank you. Yada Li with CICC.

Yada Li: This is Yada from CICC and I have two questions for today. The first one is about our consumer finance segment. I was wondering how we shifted the strategic focus towards the consumer finance. And looking forward, how much it will contribute to the whole loan book? And compared with the consumer finance peers, what are the unique advantages that we have to develop such business?

And the second one is that I notice you have almost a RMB40 billion cash in bank as of this quarter's end, and besides the normal dividend payout, will management consider a share repurchase or a special dividend to deliver more value to the shareholders? And that's all.

Gregory Gibb: Sure. I'll take your first question on consumer finance. So I think we have to first define what is consumer finance for us. How does it add to what we already have been doing for many years? So if you look at our traditional focus on the small business owner segment, over time, we've enabled lending to more than 6 million small business owners. And as you know, those loans have always been granted in the form of to the individual, mostly for use in their businesses. So actually, we have quite a large installed base of customers that we have interacted with and continue to interact with.

Now, most of the lending that we have done traditionally has been larger ticket, RMB200,000 to RMB300,000, and has typically been for a duration of 2 to 3 years. With our consumer finance license, we have an opportunity to provide a higher-frequency service to customers that we have served for many years. So we have the ability to understand those customers, to understand beyond some of their longer-term needs; particularly, as they repaid over time, they may have shorter-term requirements as individuals as well. And those requirements could be in form of consumption of their own personal needs. So we have been developing a product set that serves these individuals.

We've also been developing a product set, which allows us to partner with a number of other online platforms, so that we're also reaching out into new customer segments. Today, the business is developing around half with the ability to serve small business owners and their individual needs, and the other half through partnerships that extends our reach into the customer base. We continue to invest in this business to generate more and more scenarios, which are closely linked to customers' consumption behavior.

I think what's very important, if you look at consumer finance in the context of Lu Holdings, is that it increases our frequency of interaction for those customers we serve. It also gives us a broader data set to understand some of their needs and behaviors, which allows us to better judge their overall credit risk in their various needs. So it's an opportunity to leverage what we have to also broaden who we serve, to do it with a broader set of products with shorter durations, which gives us more flexibility and adds to data that we can use to assess customers more broadly.

Today, as we said in the third quarter, of total new loan sales enabled through the company, about 40% were for consumer finance. It makes up about 11% of the total outstandings today. If

you roll forward over the next 12 to 18 months, we would expect that it will still be a very large share of new sales, and will increasingly make up a larger part of the portfolio, right? So we're now at low-double-digits in percentage of the portfolio, and we believe that will continue to increase over the next 12 to 18 months. So it is an important diversification initiative, but it also helps reinforce our overall position in terms of customers and risk and service.

David, do you want to address the second question?

David Choy: Thanks, Yada, for your second questions. Yes, we have been exploring all the ways to deliver value to our shareholders ever since our listing. As you may be aware, we did some buybacks in previous years, and we continue to pay out dividends in recent years. We will continue to do so, of course. And as you may aware, we just paid out the first half 2023 the dividends in October with an amount of about US$89 million. It's just a relatively small amount relative to our cash position. And I think after all, we won't exclude any methods or ways to deliver value to our shareholders as a whole, considering the full perspective of total shareholders returned. And we also find ways to preserve cash or deploy capital in a way to support the sustainable growth for business model in the future, or to create options for future business model and growth.

Thank you, Yada.

Operator: Thank you. That concludes our question-and-answer session for today. I will now turn the call back over to our management for closing remarks.

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

Operator: Thank you. That concludes the call today. Thank you, everyone, for attending, and you may now disconnect.