Lufax Holding Ltd. [LU]
Q4 2021 Earnings Conference Call
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Company Participants:

Ji Guangheng; Chairman of Board and Chairman of Executive Committee
Y. S. Cho; Co-Chief Executive Officer and Director
Greg Gibb; Co-Chief Executive Officer and Director
James Zheng; Chief Financial Officer
Yu Chen; Head of Board Office & Capital Markets

Analysts:
Richard Xu; Morgan Stanley & Co., LLC
Hans Fan; CLSA Limited
Thomas Wang; Goldman Sachs
May Yan; UBS Securities, LLC

Presentation:

Operator: Ladies and gentlemen, thank you for standing by, and welcome to Lufax Holdings Ltd Fourth-Quarter 2021 Earnings Call. [Operator Instructions] Please note, this event is being recorded.

Now I would like to hand the conference over to your speaker host today, Mr. Yu Chen, the Company's Head of Board Office and Capital Markets. Please go ahead, sir.

Yu Chen: Thank you, Operator. Hello, everyone, and welcome to our fourth quarter 2021 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, Mr. Ji Guangheng, who will start the call with some key achievements in 2021, address current capital markets concerns and, finally, share our outlook for 2022. Our Co-CEO, Mr. Greg Gibb, will then provide a review of our progress and details of our development strategies in the quarter. Afterwards, our CFO, Mr. James Zheng, will offer a closer look into our financials before we open up the call for questions. In addition, Mr. Y.S. Cho, our Co-CEO, and Mr. David Choy, CFO of our Retail Credit Facilitation Business, will also be available during the question-and-answer session.

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. Ji, Chairman of Lufax.

Ji Guangheng: [Foreign Language]

[As Interpreted]: Hello, everyone, and thank you for joining our fourth quarter 2021 earnings conference call. I will start today's call with an update of our key achievements for the year, then address current market concerns and, finally, share our outlook for 2022.

In 2021 we achieved steady growth, improved regulatory compliance and corporate governance and strengthened our status as the role model for compliance and governance among overseas-listed Chinese companies.

Our full-year 2021 total income increased by 19%, net profit by 36%, and non-IFRS net profit by 29% when excluding the impact of none-core items. As a result, our basic earnings per ADS for 2021 reached CNY7.11. At the same time, we increased our share of credit risk bearing while proactively reducing the all-in costs of our 2021 average outstanding loan balance by 3 percentage points, improving regulatory compliance and contributing to the national goal of "common prosperity".

In communicating with regulators, we had open and frequent dialogues through all available channels at all levels and achieved satisfactory results. Upholding our principle of preemptive diagnosis and swift operational adjustments for timely, optimal results, we maintained a proactive, candid, positive, and responsible stance in aligning the direction of our business with the trends of regulatory changes.

Since releasing our Q3 results, our management team had over 50 investor engagement events including post-earnings calls, non-deal roadshows, and other meetings. Based on our data, 66% of the investor questions were about business operations, 24% about macroeconomic and regulatory trends and the remainder about capital market initiatives such as dividend payout, share buybacks, and Hong Kong listing. We are glad to see that investors are refocusing their attention back onto our core business as we gained more clarity on the regulatory front. I will share our thoughts on macroeconomic and regulatory directions and then Greg and Y.S. will discuss our operational and financial results.

By the end of 2021, we had completed the vast majority of our rectification initiatives and were on track to clear the remaining issues that required prolonged efforts, including the closing of redundant subsidiaries, running off our online deposit products, and stopping sharing certain borrower data directly with financial institutions.

Judging from information and insights gathered from all channels, including a statement from Mr. Guo Shuqing, Chairman of CBIRC, during the Q&A session of a press conference on March 2, we believe that the regulatory rectification process is gradually entering its final phase. We will continue to push the rectification process towards the finish line and cooperate with the regulatory authorities for final review. Based on preliminary feedback from a number of relevant regulatory authorities, we are ranked in the front of the 14 companies undergoing regulatory review based on our rectification stance, execution plans, and accomplished results. We envision that these aforementioned assessments will be validated over time.

Although the Preliminary Draft mandates that local financial institutions shall not conduct business across provincial administrative boundaries, we foresee rather limited impact on Lufax for the following reasons. First of all, our guarantee companies have largely completed the establishment of a nationwide local branch network that enables us to conduct local business. Secondly, we possess a nationwide consumer finance license. Thirdly, we have sufficient time to stay attuned to new licensing requirements, devise proactive plans, and execute preparations, as the draft regulation is currently still at the stage of soliciting public comments. With our abundant capital reserves, excellent compliance infrastructure, and sound corporate governance, we are well positioned to apply for and attain a national micro-lending license or any necessary license should they become available.

Forcing ADRs to delist from the US exchange will affect not just us, but all US-listed Chinese companies. With such regulation's long-lasting and widespread impact, we believe that both US and Chinese authorities are engaged in constant discussions. Since our public listing, Lufax has strictly complied with all relevant regulations in both countries and fulfilled our disclosure obligations. At the same time, we have explored ways for potential dual listing on the Hong Kong Stock Exchange and engaged in preliminary communications with relevant regulatory departments.

Thirdly, the outlook for 2022. Having overcome many challenges in 2021, we enter into 2022 facing continued uncertainties. Knowing the credit risks due to the macroeconomic slowdowns and pockets of COVID resurgence, we have made preemptive preparations. In the fourth quarter, we placed greater emphasis on credit asset quality by implementing more stringent risk management criteria.

In 2022, we will focus on deepening our business transformation and returning more value to our shareholders.

To ensure the quality of our income and the sustainability of our growth, we plan to deepen our business transformation and strike a balance between scale expansion and quality improvement in 2022.

In our retail credit facilitation business, to mitigate the impact of shifting market dynamics, we plan to strengthen our direct sales channel, recruiting more capable direct salespeople, optimize our team structure and help them achieve greater productivity. In addition to increasing the contribution of direct sales to our overall loan volume, we will also implement more prudent risk management measures to keep macroeconomic impacts under tight control.

In our wealth management business, we strive to optimize our product mix, improve our user experience, enhance our service quality and efficiency, and secure our client assets' principal value as well as return on investment.

These initiatives may cause some short-term fluctuations in our results, but we are confident we will resume our growth trajectory in the second half of 2022. We are convinced that these business transformation initiatives are necessary to lay a solid foundation for our long-term stability and growth. Greg will share more details of our business initiatives and financial guidance later.

Despite continued market volatilities and uncertainties in 2022, we hold high confidence in our own prospects because of our steady profitability, quality cash flow, ample capital reserve, and preemptive compliance measures. As such, we will continue to reward our shareholders through share buybacks and dividend payouts.

In April 2022, we will distribute roughly 30% of our 2021 net profit to shareholders in the form of cash dividends equal to US$0.34 per ADS.

In terms of share buyback, as of December 31, 2021, we had completed about US$860 million, or 86% of the US$1 billion total share buyback announced in 2021. On top of it, our board of directors has approved another US$500 million of share buybacks in 2022.

Finally, I would like to reiterate our core competitive advantages born out of our exceptional business model. First, our business is fully in sync with China's national policy directive of supporting the real economy, as we primarily serve small and micro business owners, mostly in wholesale trade, manufacturing, and retail industries. Second, we operate through guarantee licenses as well as our nationwide consumer finance license. Thirdly, we have attained unparalleled insight into regulatory trends through our close dialogues with regulatory authorities. We have also accomplished thorough implementation of regulatory requirements by leveraging our domain expertise and financial DNA. The combination of those unique factors enables us to achieve business transformation and growth steadily and sustainably in a constant evolving policy environment.

Looking ahead, we will continue to uphold our commitment to maintaining full operational compliance, providing compassionate and inclusive financial services, setting ourselves as a role model for corporate governance among overseas-listed Chinese companies, and generating growing value for our shareholders and our society.

With that, I will turn the call over to Greg, who will share our business updates in detail.

Greg Gibb: Thank you, Chairman Ji.

In 2021, we successfully and smoothly executed a series of operational adjustments to ensure the long-term sustainability of our growth and profitability. We reduced the average APR of our loan portfolio, increased self-risk bearing and reduced our reliance on Ping An Life channel for sourcing. Our full-year revenue grew by 18.8% year over year and net profit grew by 36.1% year over year, both exceeding guidance.

In 2021, Our Retail Credit Facilitation business achieved a number of important milestones.

First, we lowered our average loan portfolio pricing to 22.4% in the fourth quarter of 2021 from 25.7% in the same period of 2020, while maintaining overall unit economics. More details will be elaborated by James.

Second, our business model is more in line to meet regulatory requirements. As Chairman Ji mentioned before, our guarantee company has set up locally approved subsidiaries in all of mainland China except Tibet, Ningxia, and Yunnan provinces, allowing us to operate our financial licenses locally. In terms of potential future license requirement, we have a consumer finance license, which enables us to leverage up to 10x our capital, as opposed to a 5x leverage ratio that is currently contemplated for the proposed national micro lending license. Should any changes occur that give rise to a national or nationwide micro lending license, we have the required capital reserves, eligibility, and preparedness to initiate our application for such one, giving us even more flexibility in serving our core small business owner segments.

Our current guarantee licenses allow us to share credit risk and process data flows with more than 65 national and local funding partners, under existing regulatory frameworks. In addition, we are actively exploring new collaboration to meet expected credit rating license usage requirements which come into effect by the mid of 2023. We are prepared to connect to a third-party credit scoring company by the end of June this year. Based on our latest understanding, the cost of that connection and the potential changes to our business model will not have any material impact.

Third, we continue to increase our share of risk bearing, in line with regulatory guidelines. During the fourth quarter of 2021, excluding the consumer finance company, we bore risk on 20.8% of new loans facilitated, up from 10.0% in the same period of 2020. Our guarantee company that bears credit risk operates with a leverage ratio under 2x at the end of 2021, against a maximum leverage requirement of 10x. Our healthy leverage ratio, together with strong capital position, gives us comfort to meet any new capital requirements that may come from regulatory changes.

Last but not least, we saw improvements in the direct sales productivity and operating costs to deliver steady gross and net returns despite sharply reduced reliance on Ping An. During the quarter, new loan sales from the Ping An life channel continued to slow down, accounting for 24.6% of new loan sales during the fourth quarter, down from 36.4% in the same period of 2021. To counter this, our direct sales team contributed more by improving productivity. Compared to the fourth quarter of 2020, our direct sales generated 21.6% more volume in new loan sales but headcount only increased 8.4% and productivity rose 12.1%. This increased investment in O2O direct sales re-affirms our view that our offline to online service approach is the most effective way to increase coverage of this otherwise hard to reach small business owner segment.

Our wealth management business is also making good progress in a transitioning market. In the fourth quarter, total client assets of CNY432 billion is overall flat but grew 13% year over year when excluding P2P and online bank deposit products. Meanwhile, we also deepened our product reform to effectively shift our focus toward high-value clients and higher take-rate products. As of December 31, 2021, contribution to total client assets from customers with investments of more than CNY300,000 on our platform increased to 81% from 76% of the same period in 2020. Client assets from customers with investments over CNY1 million on the platform grew by 14% year over year, and these customers have a clear preference for higher take-rate products. We have differentiated ourselves by demonstrating consistent growth in high-value customers and higher take-rate products, laying a solid foundation for future growth. As a result, our take rate in fourth quarter was 64.0 basis points, increasing 19.9 base points compared to the previous quarter.

Driven by the optimization in product and investor mix, our wealth management business has improved economics. Going forward, we will further focus on higher take-rate products and new growth on upper middle-class customers as we continue to develop additional value-added services to bolster wealth management revenues.

Now, let's take a look at future strategies. In the second half of 2021, the transformation of the Ping An Life business led to more notable decline in the business velocity and credit quality of customers sourced through the life channel. The impact of this decline is seen in the change in our overall C-to-M3 flow rates, which deteriorated from 0.4% in Q3 to 0.5% in Q4. This deterioration deepened our resolve in Q4 to initiate change in our channel mix, further reducing reliance on the life channel and increasing the quality, productivity, and then the number of direct sales.

In 2022, we will strengthen our direct sales channel by raising our recruiting standards, hiring more capable direct salespeople, providing them with more systematic training, equipping them with new technology, and overall helping them achieve greater productivity. Increasing contribution from direct sales will help sustain our new loan sales growth and should improve our overall loan portfolio quality, as our direct salesforce exerts higher control over the assessment of borrower creditworthiness than our referral channels. As a result of actions taken, we expect the C-to-M3 flow-through rate to peak in the first quarter and normalize in the second half, creating limited financial impact in the course of 2022. In the next few months, we will closely monitor new loan sales, channel mix, asset quality, and productivity of direct sales to track our progress and demonstrate our success in this transition.

Finally, regarding our guidance, most of the impact from these channel adjustments will occur in the first half of 2022, resulting in slower profit growth in the first half, but accelerated new business and profit growth in the second half. Our guidance for 2022 is therefore more detailed to reflect timing of planned adjustments and one-time items.

We expect our new loan sales growth to be relatively flat to low-single digit in Q1 and gradually pick up to 3 to 6% for the first half. An accelerated growth in new loan sales should be witnessed during the second half and we expect to grow new loan sales at 9 to 12% for the whole year. We expect total income to grow 8 to 10% for Q1, 10 to 12% for both the first half and the full year. Projected profit growth for the full year is 11 to 13%, with profit growth of negative 2% to 2% in Q1 and 1% to 3% in the first half. The slower profit growth in the first half reflects a number of year-over-year legacy-related items in the first and second quarter, which suppress relative profit growth in the first half of 2022. If we remove the impact of these specific items, year-over-year net profit growth is expected to be 6 to 10% in Q1 and 6 to 9% in the first half, respectively.

Lufax's management team has a track record of executing transformations to ensure business sustainability and profitability and we believe this time is no different. By taking the short-term pain of making the channel transition in the first half, at a time we believe to be prudent with overall growth, we will set strong foundations for steady, high quality long-term growth.

I will now turn the call over to James Zheng, our CFO, to go through the detailed operating and financial performance and our guidance for the year.

James Zheng: Thank you, Greg. I will now provide a closer look into our fourth-quarter results. Please note that all numbers are in RMB terms and all comparisons are on a year-over-year basis unless otherwise stated.

We concluded the fourth quarter with solid financial results, achieving consistent growth in both the top line and the bottom line. During the quarter, our total income was CNY15.8 billion, up 19.2% year over year, and our net profit increased by 1.7% to CNY2.9 billion year over year. Without considering the one-time asset impairment cost, our net profit is CNY3.4 billion, about 19.7% year-over-year growth. For the full year of 2021, our total income was CNY61.8 billion, up 18.8% year over year, and our net profit increased by 36.1% to CNY16.7 billion year over year. And the growth in both income and the net profit for the full year of 2021 exceeded the high end of our previously announced guidance range. Additionally, our net margin for the full year of 2021 improved to 27% from 24% last year.

Let's have a closer look at our operating numbers. First, we further reduced our APR while maintaining stable retail credit facilitation business's unit economics**.** Our loan balance APR was 22.4% in the fourth quarter of 2021, a 3.3-percentage-point decline from 25.7% in the fourth quarter of 2020. In comparison, our loan balance take rate was 9% in the fourth quarter of 2021, only 0.1-percentage-point decline from 9.1% in the fourth quarter of 2020.

Our loan balance APR was 23.5% in the full year of 2021, a 3-percentage-point decline from 26.5% in 2020, while our 2021 take rate only declined 0.2-percentage-point to 9.6%. As we continued to diversify funding sources, engage with more banking partners, reduce credit insurance premiums on our loan portfolios, and improve customer charging mechanism which lead to diminishing impact from the early loan repayments, we will continue to maintain stable unit economics and drive relentless improvements in our sales and operating efficiencies despite APR declines.

Second, we maintained a stable growth in our overall loan volume and further penetrated into core and targeted customer segments. On the retail credit side, we grew our new loan sales by 14.3% to CNY151.6 billion during the fourth quarter of 2021, in line with our business focus on risk management under the current macro conditions. At the same time, we continued focusing on serving small business owners. During the fourth quarter, excluding our consumer finance subsidiary, 79.6% of new loans facilitated were disbursed to small business owners, up from 74.4% in the same period of 2020. On the wealth management side, despite the negative impact of P2P and online deposit products runoff, we managed to grow our total client assets to CNY432.7 billion as of December 31, 2021.

Third, we continued to execute our plan to evolve our risk-sharing business while simultaneously maintaining asset quality. In line with prevailing regulatory requirements, we bore credit risks for 21% of the new loans we facilitated in the fourth quarter of 2021, up from 20% in the third quarter and 10% in the fourth quarter last year. As of December 31, 2021, our outstanding balance of loans facilitated with guarantees from third-party credit enhancement partners accounted for 78.9% of the total outstanding balance of loans facilitated, down from 89.4% as of December 31, 2020.

All of the aforementioned operating metrics exclude those of our consumer finance subsidiary. Due to the slowdown of macro-economic growth, COVID-19 pandemic and life channel changes, we saw some

deterioration of overall asset quality. Thanks to our risk management system, the negative impact on our risk indicators are limited. Excluding consumer finance subsidiary, our DPD 30-day-plus and DPD 90-plus delinquency rates were 2.2% and 1.2% for the total loans we facilitated as of December 31, 2021, compared to 1.9% and 1.1% as of September 30, 2021. We will remain vigilant and be prudent on our borrower acquisition and risk management strategy.

Fourth, we've optimized our product mix to improve the take rate of our wealth management segment. During the quarter, our take rate for the segment increased by 19.9 bps to 64.0 bps from 44.1 bps in the previous quarter, primarily driven by our continued product mix optimization as we sharpened our focus on products with a higher take rate.

Now let's take a closer look at our fourth-quarter financial numbers. At the highest level, our total income in fourth quarter grew by CNY2.5 billion, or 19.2% year-over year growth, while total expense increased by CNY2.4 billion, or 26.2% year-over-year growth. And then the net profit grew by 1.7% year over year to reach CNY2.9 billion. While operating-related costs continued to remain flat due to efficiencies, total expense increase is primarily driven by the credit impairment cost due to higher risk sharing, and one-time asset impairment cost. Excluding one-time asset impairment cost, which was mainly due to impairment loss of intangible assets related to Qianhai asset exchange and the Tianjin Guarantee Company, total net profit was CNY3.4 billion, reaching 19.7% year-over-year increase.

Next, let's go through financial numbers line by line.

As the total income mix of our retail credit facilitation business continued to improve thanks to the evolution of our business and the risk-sharing model, total income increased by CNY2.5 billion, or 19.2% year over year. During the quarter, while the platform service fees decreased by 10.4% to CNY8.8 billion, our net interest income grew 81.5% to CNY4.2 billion, and our guaranteed income grew by more than 538% to CNY1.6 billion. In addition, other income, which is directly linked to delivering services to our financial partners, increased to CNY769 million in the fourth quarter from CNY452 million in the same period of last year.

As a result, our retail credit facilitation platform service fees as a percentage of total income decreased to 51% from 70%. Because consolidated trust plans provide lower funding costs, we continued to utilize them in our funding operations, enabling our net interest income as a percentage of total income to increase to 27% from 18% a year ago. Moreover, as we continued to bear more credit risk, we generated more guarantee income, reaching 10% as a percent of total income, compared to 2% a year ago. By expanding our service to credit enhancement partners in account management, collections, and other value-added services, our other income as a percentage of total income increased to 5% from 3% a year ago. Our investment income decreased by 7% to CNY359 million in the quarter from CNY386 million in the same period of last year, mainly due to the fair value losses from investment assets.

In terms of wealth management, our total platform transaction service fees increased by 23% to CNY708 million in the fourth quarter from CNY576 million in the same period of 2020. This increase was mainly driven by an increase in fees generated from our current products, which was partially offset by the run-off of legacy products.

Turning to our expenses, in the fourth quarter, our total expenses grew by CNY2.4 billion, or 26.2%, to CNY11.5 billion from CNY9.1 billion in the same period of 2020, primarily driven by increase of credit impairment costs and a one-time asset impairment cost. Total expenses, excluding credit and asset impairment losses, financial costs and other losses, increased by 4% to CNY8.3 billion in the fourth quarter of 2021 from CNY8 billion in the same period of 2020, remained almost the same as we further improved operating efficiency.

Our total sales and marketing expenses, which include expenses for borrowers and investor acquisition, as well as general sales and marketing expenses, decreased by 1% to CNY4.8 billion in the fourth quarter.

Our general and administrative expenses decreased by 1.5% to CNY971 million in the fourth quarter from CNY986 million in the same period of 2020. This decrease was mainly due to our expense control measures.

Our operations and servicing expenses increased by 15.2% to CNY1.9 billion in the fourth quarter from 1.7 billion a year ago. This increase was primarily due to the increase in trust plans' management expenses resulting from the increase in the usage of consolidated trust plans and growth in the outstanding balance of loans facilitated.

Our technology and analytics expense increased by 29.5% to CNY597 million in the fourth quarter of 2021 from CNY461 million in the same period of 2020, mainly due to our ongoing investments in technology research development and the lower base in the fourth quarter of 2020 as a result of social security relief during the COVID-19 outbreak.

Our credit impairment losses increased by 157.2% to CNY2.5 billion in the fourth quarter from CNY985 million a year ago. This was mainly due to the increase of provision and indemnity loss driven by increased risk exposure as the risk sharing at the total balance level has increased from 6.3% to 16.6%. It is worth noting that we grew our guarantee income by 539%, a faster pace than expense, and continued to achieve positive profitability for our guarantee business. Included in the credit impairment losses, there is also an CNY216 million increase related to legacy products in wealth management business.

Our finance cost decreased by 18% to CNY267 million in the fourth quarter from CNY326 million a year ago, mainly due to the decrease in the balance of convertible bonds following our C-round convertible notes restructuring and the increase in interest income resulting from the increase in deposits. Additionally, our effective tax rate was 33.3% during the fourth quarter of 2021 versus 31.9% in the same period of 2020 due to one-time deferred tax asset impact. For the full year of 2021, our effective tax rate was 28.6% versus 31.5% in 2020.

As a consequence of the aforementioned factors, our net profit increased by 1.7% to CNY2.9 billion during the fourth quarter from CNY2.8 billion in the same quarter of 2020. Meanwhile, our basic and diluted earnings per ADS during the fourth quarter were CNY1.26 and CNY1.21, respectively. Our basic and diluted earnings per ADS during the year of 2021 were CNY7.11 and CNY6.69, respectively, represented a 27.2% and 20.5% growth year over year.

As of December 31, 2021, we had a cash balance of CNY34.7 billion compared to CNY24.2 billion as of December 31, 2020.

Looking ahead, we expect that annual new loan sales growth to be at 9 to 12%, but the growth will notably be much higher in the second half due to the completion of channel optimization initiative. Similarly, we expect a total income growth of 10 to 12% throughout the year. Operating-related costs will stay stable across the year with annual increase at about 6 to 8%. Credit-related provision growth will even out in the second half given that increased risk sharing already started in second half of 2021. As a result, we expect our total profit to grow at 11 to 13% for the whole year. Year-over-year growth will be similarly lower in the second half due to one-time legacy P2P related items in 2021. The profit growth rates will pick up in second half once the channel optimization impact starts to come through, and the credit costs are normalized on an annual basis.

Next let me give you some specific guidance for Q1, first half and all year. For the full year of 2022, we expect new loans to grow by 9 to 12% year over year to the range of CNY706.8 billion to CNY726.2 billion and wealth management assets to grow by 2 to 3% year over year to the range of CNY441.3 billion to CNY445.7 billion. We expect our total income to grow by 10 to 12% year over year to the range

of CNY68.0 billion to CNY69.3 billion, and net profit to grow by 11 to 13% year over year to the range of CNY18.6 billion to CNY18.9 billion.

For the first quarter of 2022, we expect new loans to grow by minus 2 to 2% year over year to the range of CNY169.0 billion to CNY175.8 billion and wealth management client assets to grow by 2 to 3% year over year to the range of CNY429.6 billion to CNY433.8 billion. Since Retail Credit Facilitation income is recognized over the life of a loan and is more driven by loan balance, we expect the total income to grow by 8 to 10% year over year to the range of CNY16.5 billion to CNY16.8 billion. In the first quarter, net profit will grow minus 2 to 2% year over year to the range of CNY4.9 billion to CNY5.1 billion, but if excluding the legacy P2P impact in 2021, net profit is expected to grow by 6 to 10% year over year.

For the first half of 2022, we expect new loans to grow by 3 to 6% year over year to the range of CNY334.8 billion to CNY344.6 billion and wealth management client assets to grow by 3 to 4% year over year to the range of CNY433.7 billion to CNY437.9 billion. We expect our total income to grow by 10 to 12% year over year to the range of CNY33.1 billion to CNY33.7 billion, and net profit to grow by 1 to 3% year over year to the range of CNY9.8 billion to CNY10.0 billion and by 6 to 9% excluding the legacy P2P impact in 2021.

This forecast reflects our current and preliminary views on the market and operational conditions, which are subject to change.

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

Questions & Answers:

Operator: Thank you. [Operator Instructions] We have our first question from Richard Xu from Morgan Stanley.

Richard Xu: Thank you, management, for your detailed explanations. I have just some additional questions on the, I guess, reform of the direct marketing channels. Could management provide us a little more detail in terms of what's entailed? And then, I know that it's basically in the past couple years management has been reducing the, I guess, the costs for the direct marketing channels. Will this lead to rising costs, cost/income ratio, from the reform of direct marketing channels?

And for the insurance channels, any expectations in terms of the contribution from those channels in a couple years? Thank you.

Y. S. Cho: Okay, let me answer this question and then Greg can supplement if I miss any. So, let me first give you the overall picture on the new loan sales before I talk about this reform. If you look at our total new loan sales growth ratio in 2021, it was 14.8%, 15.9% from direct sales, while last year made negative 7% growth. In the fourth quarter, quarter on quarter the total loans grew by 14.3%, in which direct sales did deliver 21.6% growth, while life channel made negative 20% growth. And if I share our January, February number, DS channels, they are still delivering 2-digit growth. But life channel contribution, their sales volume dropped -- I mean, compared with the same period in 2021, their sales volume has dropped by almost 14% -- So, as a result, the life channel contribution ratio for our newer sales, it dropped from 36% in 2020 down to 29% in 2021 and then down to 24% in fourth quarter last year. And if I mention January/February number, it already came down to 20%. It is quite a rapid decrease.

And this is the result of our management decision. This is what we exactly intended, because if you understand the difference of net flow sequence and net flow of DS channel and life channel as of today, the life channel's credit quality, which is measured by net flow is almost 50% higher than that off-site

direct sales channel. So, we have control and safeguard our portfolio quality. So, going forward I believe this 20% life channel will be maintained, because we believe we took all the necessary actions by now to curb the rising risk of live channel.

Then, going to our direct sales reform, so it's obvious that we have to increase sales volume from direct sales to cover the short from life channel. Make sure I want to emphasize, this reform -- what do we mean by this reform -- is not to fix some issue. This has been all along -- it's a good channel. As Greg said, fourth quarter last year, DS channel sales volume growth rate was 21.6%, which was delivered by 8% headcount growth and then 12%-plus with the growth. So, DS channel is very strong now in terms of new sales delivery and credit quality. So, yes, this reform we are doing now is to increase DS channel contribution in sales, new sales volumes.

Of course, we want to achieve this through mild increments, rather than having more and more sales people. So, if you analyze our DS mix, we find that this group posts sales experiences for more than a few years before they joined us and married and have reasonably -- are indebted, so they need to work hard for family. So those groups used to take up about 10% of our new hires, but it increased to 45% by first quarter of this year. For that, we put extra input. We increased the fixed salary to attract more new types. And then, gradually we changed fixed salary to a variable commission.

Our analysis shows that. This group is a new type, they show obviously higher productivity when compared to other groups. And then if we have more and more new-type groups, eventually this will further reduce our sales expense, because direct sales are expense components, one-third variable -- fixed, and then two-thirds are the variable. So, when we have more-and-more-new loan sales, we do eventually also decrease our direct-sales -- our sales cost.

And then, once those will prove they can deliver high profitability and a low delinquency ratio, then we want to change their role from simply salesforce to customer relationship managers, so they can manage not only sales, but also complaint handling, and delinquency management. And eventually we incentivize them, based on balance, current balance, instead of loan amount, newer amount. And then, I believe this task, compared with value achieved on the last two years, for example, like recovery from the pandemic impact ahead of other players, to our increasing portion from 1% to about 20% in cooperation with our 65 partner banks, 5 trust companies, and keeping the net margin unchanged despite we sharply decreased our APR. Compared with those tasks, we have full confidence and you can see that, how we deliver this.

Greg Gibb: Richard, any follow-up question on that?

Richard Xu: That's pretty clear. Thank you.

Operator: We now have our next question, from Hans Fan from CLSA.

Hans Fan: Thank you, management, for giving me this opportunity to ask a question. I actually have two questions today. So, the first one is actually on the take rate in the fourth quarter. We note that the take rate was down a lot Q on Q, to 9%. Can you please elaborate on the drivers behind this and also, if you look into this year in terms of take rate, how do we see the change there? That's the first question.

And the second question is on the regulatory sites. Just now Chairman Ji mentioned -- oh, sorry -- Greg mentioned that by end of June is likely -- looks like we're finished and connect to the third-party credit-scoring companies. So just wondering how likely this is to happen? Is that 100% sure? Have we come up with a regulation on this yet? Because this is something really cared by the market. So just wondering how comfortable we are on this. Thank you.

Y. S. Cho: Let me answer your first question first, about the take rate. Normally, the fourth quarter is the period where we have the lowest take rate and margin. So, if you compare year on year 2020 and 2021, yes, the balance base UE actually didn't change at all. And if you also look at our new business UE. Our

net margin didn't change any, while our APR dropped from, like, almost 27%, down to 23%, which is like 4 percentage points.

So, going forward, this year, how do we see the take rate and net margin trend? we believe, this year our take rate and margin will not change much. Why? Number one, about the price, our average blended new loans sales APR now is around 21%, 20%. So, we believe this will meet our regulatory requirement. So price, we think we can maintain the current level for new ones. Why? We can save further expense from operational costs and new funding costs. But they can be upset by that increase in credit costs in the first quarter, second quarter.

So overall, I think net margin will remain, not much changes.

Hans Fan: And on the regulatory, will the cooperation with third party credit assessment company start this June.

Y. S. Cho: Yes. So we are ready with a new process, working with Baihang so if that process can be done by June this year. But we haven't got clear signal, clear guidance from PBOC yet. We submitted our plan, but we haven't answer. So we are waiting. But even if we do that -- let me add just one more comment regarding the cost. It will cost us about CNY300,000 a month, so of course that is nothing, but I'm just telling you that, process-wise, we are fully ready.

Greg Gibb: And, last, one of the reasons that the PBOC hasn't given us a clear answer yet is they're still also not sure, in the sense that our guarantee license is already met the requirement

Ji Guangheng: [Foreign Language]

Y. S. Cho: The financial guarantee license company. They're not sure yet whether we have to follow this process. So, we are waiting.

Hans Fan: Right. Right. And also, I remember in -- last time in third quarter briefing, the management mentioned that there's also a potential chance -- we are thinking the possibility to seek -- to apply for license of credit scoring company. Is that still on the table?

Y. S. Cho: Yes, that's on the table. But for Baihang you may know that about 8% of their shares is owned by Ping An. So if any -- we also have a stake-hold in the company. And then, the plan that you mention, this too is still going on.

Hans Fan: That's it. Thank you very much.

Yu Chen: Next question, please.

Operator: Thank you. We now have a question from Thomas Wang from Goldman Sachs.

Thomas Wang: Thank you, management. It's a good set of numbers. Congrats on that. Can I just check on the full-year '22 guidance? If I roughly work on new loan numbers, first-half guidance is only 3 to 6 and the full year is 9 to 12. So it roughly works out 15 to 20% implied for the second half. Can I just sort of get your thought on if you extend it a little bit further, do you think this is kind of a sustainable type of new loan facilitation growth? Or have you factored in some sort of pent-up demand into the number, we may see some even normalization going forward in 2023? Just to get your thought on why you think the second-half numbers impact in that range. Thank you.

Y. S. Cho: Okay. So I think the key here is the new sales. But if you remember fourth-quarter guidance number, we believe new sales will make not make all this growth from the previous year. The biggest reason, as I just said, the large channel contribution from Ping An dropped almost by 40%. Right? So even if our direct sales should grow by two digits, it cannot upset enough the short-term life channel, that won't decrease. So it will take some time, but going forward -- because we believe the 20% saved

consolidation from life channel, this will be maintained, because we took all the necessary actions by now. So the rest going forward will greatly increase over sales volume by developing more and more direct sales channels. So it takes time, but that will come. That will happen come second quarter. And then, from second half, you use the August sales growth ratio versus last year, by more than 2 digits. So that will drive our revenue and our net income growth in the second half.

Greg Gibb: And so, Thomas, if you take that -- as far as we can tell, the contribution from Ping An Life this year will be about 20%. And that may be true for another year or two, right, depending on the speed of the transition of Ping An Life itself. And so, if you take that into account, rolling into 2023 with the reform on the DS side, or the strengthening of the direct sales side, then to go back to a more -- for a 15% level that you're seeing in the second half into 2023 is possible. So, there is an adjustment in the first half of this year, which is slower, but as you look at the second half of the year, that is a good indication to where we think things are medium term.

Thomas Wang: Got it. So, say if I take it, basically, is the market still there. It's not -- and it's kind of adjusting your internal on the channel on your sales force, so that's why you sort of have this kind of dip in the first half for 2022. And where are you hiring kind of those new direct sales personnel? So what type of person are you hiring? And then how are you training them?

Y. S. Cho: Yes. We are hiring locally. So we have 35 local branches. They are hiring their own direct sales. And then we are specifically targeting, as I explained, we call them new type -- they have different profiles. We've analyzed who's delivering highest sales volume, higher productivity and low delinquency ratio among our direct sales, almost 60,000 direct sales. We found that in general people who had sales experience more than 3 years before they joined us, and then who got married, are the best profile indicators. So, we are specifically targeting to hire those group. And then those group, they used to take less than 10% of our new hire last year, especially first half. And as of today, they take about 40%, more than 40% of new hire. So, we are making good progress.

And it's hard to hire them because earlier the reason they didn't want to, or they hesitated to joining us, was because our fixed salary rates had been more -- very, very low. But then we changed it, so we are putting higher fixed salary out in the first 6 months. And then gradually we switch the portions. We gradually reduce fixed part and increase variable bonus based on their performance. So, this is resolving hire issue.

And then how we educate, how we train them? We have the written documents. We give a lot of online training, too, through our sales app. So, through that we provide a lot more efficient training than before. It's not [indiscernible]. We provide for different target groups, different age group, different profile. We provide different set of training for online sales app.

Greg Gibb: So, I think that the interesting thing here, Thomas, to sort of just hit your point, is that for the first half this is to a certain extent self-imposed. Because we want to maintain the sort of long-term credit quality as a key criterion. And just recognizing that was necessary -- a necessary change to make, given some of the transformations on the Ping An Life side. I think that what Y.S. has laid out, what becomes interesting over time when you move into maybe next year, is this year's direct sales group, this more experienced, more stable group of sales people over time, the ability to deliver on a customer management level rather than a pure loan sales model is very powerful for our economics and our productivity. And so that, at the end of the day, is what we're really trying to build. And then, the work behind that as well is really on the technology side, to give them the tools to drive that customer management in an efficient way.

And so this is kind of a more medium-term transition that you should see come through. It's more about changing mix in the first half of this year, but then it also involves changing a little bit of business model on how we serve customers as you go into the medium term.

Thomas Wang: Got it. [Multiple speakers] Thank you.

Yu Chen: Yes. Please move to the next and last question, please, Operator.

Operator: We now have our last question, from May Yan from UBS.

May Yan: Okay. Thank you. Thank you for giving me this chance to ask the last question. I actually have three questions, if I may. The first one is to

[Foreign Language]

Ji Guangheng: [Foreign Language]

Operator: May, sorry to interrupt. Please kindly repeat both of your questions in English.

May Yan: Oh, okay.

Yu Chen: So, why don't I …

[Multiple Speakers]

Yu Chen: brief summary of this segment of the Q&A.

May Yan: Sure.

Yu Chen: Sorry, May. So, I'll do a quick summary of the Q&A that just happened before we move on to next.

May Yan: Yes, please go ahead.

Yu Chen: [Interpreting for Ji Guangheng]

So, the question was on the regulatory stance of the April 29th ratification and whether there's likely going to be more scrutiny or regulations coming for the loan facilitation model. That was the question.

So, the Chairman's answer was based on our overall judgement of, obviously collecting information and insights from a number of channels, including talking to various departments and talking to some of the other platforms in reporting that's going through the review. We are forming a view that it is -- number one, it is coming to an end. The process is coming to near the end of completion, given that it is about a year long.

And, second, Lu Holdings is one of the better ones. We're not saying we're the best among the 14, but we're definitely one of the better ones. And that's based on our judgement, again, from multiple departments and talking with multiple people.

In terms of the end results, personally I don't think there will be an exact ranking of the 14 platforms, but I won't be surprised to see if there are grouping of different types of platforms. For example, there could be two types. The first type is the ratification is almost complete or there's clear an acceptable plan for the ratification and the second group there's not exactly acceptable plans to complete the ratification.

In terms of timing, look, we're being -- saying to the regulators, lobbying hard, given it is coming to the one-year anniversary, we do think we need this to conclude. And I'm pleased to say that I think people at the PBOC and the CBRS and CSRC, they do hear our views and they do agree with us that they want to bring this to a conclusion.

In terms of what we've done in the past two years, I think through this process, very importantly, we've kind of rebuilt our trust with the regulators. And through the process obviously we have redesigned a lot of our models to be more compliant.

In terms of the new regulations on loan facilitation, based on my communication and personal understanding, we think the regulations is already not the focus. It's more on the actual implementation of those regulations, including some that are still going through consultation. And the regulators would like to see the outcome of the early implementation, rather than introduce new ones.

Greg Gibb: May, go ahead with your other two questions, please.

May Yan: Okay. Thank you. [Foreign Language]

Sorry my question is so long. Okay. The other two questions I have, one is still regarding the business channel transformation that you mentioned. The direct sales channel would have better asset quality. I think Greg mentioned that the C-M3 flow ratio has deteriorated a bit in the fourth quarter, as you increase the business sources from direct channel. So, is that mainly because of the macro environment changes that some retail loans are having some deterioration in the asset quality? Or is it also because of some other reasons, like maybe the life insurance side business has deteriorated a lot more?

And, second, so a small question is about take rate on the wealth management. You mentioned that the take rate has gone up. What kind of product was mainly driving that? And also going into the future, how is take rate to improve further? Thank you.

Y.S. Cho: Okay. The second question about the asset quality situation in the fourth quarter, It's is mainly because of the impact from life channel. If you exclude life channel and only look at performance of the other channels, especially direct sales channels, that is quite stable. Little bit impact in December, January because of the lockdown of Cities like Xi'an where we have credit centers. But they made minor impacts on our present performance. But mostly, the most impact is from the life channel situation. And that's why we made a rapid adjustment to channel mix.

Greg Gibb: Maybe, May, I'll take your question on wealth before going back to Chairman Ji. On wealth, what we did basically through the course of 2021 is we let lower-margin products kind of run off and replaced them with more focus on qualified investor products and also gradually -- the fund mix is also changing, too, within mutual funds through higher-margin products. And then we're also adding insurance services, which are higher margin. So, all of those together, as well as some of our services to third-party platforms, fees that we collect for providing our technology to other financial institutions, have been growing as well. If you take those in accumulation, we see the number of -- I think it's 69 basis points in the fourth quarter, which was up a lot year on year.

I expect in 2022 we'll continue to see improvement on this revenue over AUM. Adding another 10 basis points over the course of the year is probably a realistic expectation.

Ji Guangheng: [Foreign Language]

Chen Yu: Again, a quick summary of the Q&A just happened. The question was on the exact timing of the April 29th announcement and whether that would impact the Hong Kong listing. The answer is -- again, the Chairman personally and he stresses many times that it's his personal judgement that the announcement will likely be made in one go instead of separate announcement for each of the platforms. And on that announcement there's likely going to be -- obviously, there's one group that the ratification is almost final. The plan is acceptable, so it will be okay to move on to other things. And the remaining plans are not acceptable will require continued monitoring and scrutiny from the regulators. So, he believes will be one announcement. And personally, he does not think that's going to be too long. But, of course, the exact timing we'll need to wait for regulatory' s formal announcement -- full announcement.

In terms of Hong Kong listing, yes, the April 29th ratification will impact the timing of Hong Kong listing. Before we complete that, we will not go to Hong Kong. We have made preliminary discussions

with PBOC, CSRC, CDIC and the China cybersecurity watchdog. So obviously Lufax will not pursue a Hong Kong IPO until we get blessing from those relevant regulators.

And the last point on the China/US relationship, through our channels we believe the regulators from both sides are having continued dialogues. We trust in their wisdom. As you know, the impact of a forced delisting of the Chinese ADRs would be too big for both sides to take. So, we think they are currently working very hard and we hope a conclusion, or some sort of plan or compromise, will be reached soon.

Thank you, Operator. I think that concludes our call today.

May Yan: Thank you.

Operator: Thank you. Ladies and gentlemen, this concludes today's call. Thank you for joining. You may now disconnect your lines.