[LU] Lufax Holding
Q4 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
Yada Li, CICC
Richard Xu, Morgan Stanley
Alex Ye, UBS
Emma Xu, Bank of America

Presentation

Operator: Ladies and gentlemen, thank you for standing by, and welcome to the Lufax Holding Limited's Fourth 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 fourth 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. Y.S. Cho, who will provide an update of our business performance, the macroeconomic impact, and our business strategy. Our Co-CEO, Mr. Greg Gibb, will then go through our fourth 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. Y.S. Cho, Chairman and CEO of Lufax. Please.

Y.S. Cho: Thanks for joining. I would like to start by providing some perspective on where we are and on our business performance in Q4. While the fourth quarter was undoubtedly challenging, we are confident in our strategy to achieve a U-shaped recovery. At present, we must be patient, prudent, and prepared. We need to be patient for the macroeconomic tailwinds to flow through to the SMB segment, be prudent in implementing new risk strategies and embedding lessons learned from the pandemic period, and be prepared to gear up new business when the improved environment arrives.

Recently, we have made the hard decisions on right-sizing risk and resources, with many related execution work streams to be completed in the first quarter. In the first half of 2023, our focus will continue to be on asset quality over growth, and depth over breadth in terms of upgrading our direct sales capabilities in prioritized geographies and within SBO customer segments. Our focus will also include optimizing credit enhancement approaches to provide further support to our operating margins and business sustainability in the medium-term.

We believe these strategies will lead to a U-shaped recovery, and we remain patient in terms of preparing ourselves for this recovery and delivering sound operating and financial results.

Now, I would like to share some updates for the fourth quarter. On the macro environment, we saw that the operating environment for SMBs remained challenging during Q4, although there have been signs of recovery in the medium-term since the change of zero-COVID policy on December 7, 2022. The composite PMI was 49 in October, decreased to 47.1 in November and further decreased to 42.6 in December. Nominal GDP in the fourth quarter grew at only 2.9% year over year. Our SBO segment was hit particularly hard as a result.

With the adjustment of zero-COVID policy, we believe China's economy will recover over the next several quarters. We have already seen signs of robust tourism activity, and witnessed a consumption boom during the Spring Festival. Non-manufacturing PMI returned to expansion after 6 consecutive months of contraction in January, and manufacturing sector PMI hit 52.6 in February, the highest since April 2012. The IMF has also raised its forecast for China's economic growth in 2023.

Meanwhile, the government has called for more efforts to implement a policy package for shoring up the economy. The Chinese government has stressed enhancing the role of finance in stabilizing the macro economy and improving financial services for the real economy.

As SMBs are highly dependent on the macro environment and operating continuity, it is expected that SMBs' operations will gradually return to normal post-reopening.

While it is too early to say when a notable recovery in performance will arrive, the indicators that we are monitoring closely include our C-M3 ratio and the asset quality of new loan vintages compared with older ones.

For new business volumes, due to the challenging macroeconomic environment in 2022, we have prioritized asset quality over growth by tightening our customer selection standards and focusing new customer acquisition in more economically resilient regions, as we have seen a better credit performance from customers in these regions, and we have turned away potential customers who do not meet our credit standards.

For example, for our general unsecured loans, we rank the quality of our borrowers using our R1-R6 risk rating system, which is based on the customers' credit risk score and their available assets. R1 represents customers with the highest quality, and R6 with the lowest quality. Currently, we only enable loans for borrowers that are ranked R4 or better. We have also optimized our risk rating system by factoring in the differences in economic resilience and underlying credit performance by region and industry.

Meanwhile, we have been optimizing our direct sales force to be more nimble, productive and effective in customer targeting as we focus on higher-quality borrowers. We reduced the size of our direct sales force from over 58,000 as of the end of Q3 to approximately 46,000 as of the end of Q4. We have managed to retain the most productive members of our sales force to target more economically resilient regions.

During Q4, we made many difficult decisions, including adjustments to customer selection strategy and operational optimization of the sales force. The above factors, coupled with seasonality, caused our new loans enabled in Q4 to drop by 37% quarter over quarter to RMB77.8 billion. We believe that seasonality accounts for approximately 10% of the decrease between Q3 and Q4, based on the data of the past two years.

As a result of the aforementioned factors, in Q4 our revenue declined by 6.6% quarter over quarter. However, the new loans that we enabled should generate better results as compared to loan vintages as a whole from a loan life-cycle point of view.

At the same time, while our core SBO customers were impacted by the deteriorating macro environment, we observed that our consumer finance sector was less affected, allowing us to continuously develop and grow our consumer finance business. The outstanding balance of consumer finance loans has grown substantially from RMB3.6 billion as of December 31, 2020 to RMB29.7 billion as of December 31, 2022, representing 188% compound annual growth over the two years. Similarly, our borrowers with outstanding consumer finance loans increased from 168,000 as of December 31, 2020, to 1.3 million as of December 31, 2022, representing 179% compound annual growth.

We are in the process of optimizing our risk-bearing model. CGI premiums charged by our insurance partners remained elevated in the fourth quarter, as they typically price the risks based on historical loan vintages that were impacted by the challenging macroeconomic environment.

While we continue to work closely with our credit enhancement partners, we cannot ensure that the outcome of the CGI premium pricing negotiations will align with our expectation. In circumstances and to the extent where we no longer find these partnerships to be commercially attractive, we are looking to increase our risk-bearing portion on the loans that we enable through our licensed financing guarantee subsidiary, and reduce the size of cooperation with external credit enhancement providers.

We are now in discussions with our funding partners regarding potential adjustments to our model where we reduce usage of external credit enhancement partners. We target to complete these adjustments with the majority of our funding partners over the next few quarters to increase our operating flexibility.

As of the end of Q4, we had net assets of RMB94.8 billion on a consolidated basis, and our financing guarantee subsidiary had net assets of RMB48 billion. The strong capital position provides a solid foundation for us to increase the percentage of risk we bear and supports the optimization of our risk-bearing model.

On regulation, we have largely completed our rectifications and the industry will enter into a stage of normalized supervision. In January 2023, the regulators confirmed that rectifications on the financial business of the 14 platform companies have largely been completed with only a few pending issues currently in progress to be resolved. The regulatory authorities will maintain normalized supervision in general going forward, according to the guidance provided by the regulatory authorities.

Finally, I am pleased to share that we are pursuing a Hong Kong listing. We submitted the A1 filing for a dual primary listing by introduction on the main board of Hong Kong Exchange on February 1, 2023, and we will continue to communicate with the Hong Kong Stock Exchange regarding the listing plan.

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

Greg Gibb: Thank you, Y.S. I will now provide more details on our Q4 and full year 2022 results and our operational focus for this year. Please note all figures are in RMB unless otherwise stated.

The challenging macro environment adversely affected our top-line and bottom-line financial performance for the fourth quarter and full year 2022. Our revenue in Q4 declined slightly to RMB12.3 billion, down 6.6% compared with Q3. In aggregate, 2022 full year revenue was RMB58.1 billion, a 6.0% decline compared with 2021. Due to a further spike in our credit impairment loss in the fourth quarter, which reflected the impact of a challenging macroeconomic environment on both our customers and operations, we made a net loss of RMB0.8 billion in Q4, while full year net income declined 47.5% year over year to RMB8.8 billion.

Similarly, asset quality metrics in Q4 worsened across the board, with DPD30+ and DPD90+ reaching 4.6% and 2.6%, respectively, increasing from 3.6% and 2.1% compared with Q3. Our credit impairment loss increased from RMB4.0 billion in Q3 to RMB6.3 billion in Q4, reaching an aggregate of RMB16.6 billion for the full year 2022. We have also seen continued deterioration in our C-M3 ratio, which worsened by 21 basis points compared to Q3 and reached 1.0% in Q4, as compared to 0.5% in Q4 2021.

In spite of the challenges we faced in Q4, there were some bright spots in our performance. For instance, our funding cost in Q4 declined by 33 basis points compared with a year ago, as we were able to tap public trust funding. As Y.S. mentioned, our consumer finance business saw steady growth in 2022, and credit performance for consumer finance was healthy and in line with the industry.

As part of our business strategy, we have continued our focus on regions demonstrating more economic resilience given divergence in performances between different regions, while further enhancing our operating efficiency and optimizing our channels.

As we mentioned in last quarter's earnings release, we have seen variations in performance across different regions, and this remained the case in Q4. Last quarter, we saw a clear divergence between the top-, average-, and less desirable-performing regions that we had categorized in Q3. We have therefore adopted and applied differentiated strategies in different regions, as we strive to grow in regions that demonstrate more resilience in credit performance.

Although we witnessed credit deterioration across the board in Q4, our asset quality metrics for top- and average- performing regions suffered less deterioration than those of less desirable-performing regions. For example, the C-M3 ratio of general unsecured loans for top and average-performing regions worsened by 14 basis points and 19 basis points, respectively, in the fourth quarter compared to the third quarter, while the C-M3 ratio for less desirable-performing regions deteriorated much more by 28 basis points during the same period.

On new loan sales, we achieved stronger contribution in new loan volumes from top-performing regions due to our differentiated strategy targeting such regions. Compared with Q3, contribution of new loans enabled from top-performing regions increased from 43% in Q3 to 46% in Q4, average-performing regions remained stable at 30%, while less desirable-performing regions declined from 27% to 24%.

In Q4, we continued our efforts to enhance efficiency and optimize our channels. For new loans enabled in the full year 2022, including consumer finance, contribution from direct sales channel increased by 4.7% from 49.5% in 2021 to 54.2% in 2022, and contribution from online and telemarketing channels also increased from 12.8% in 2021 to 19.6% in 2022. Meanwhile, contribution from other channels declined from 37.7% in 2021 to 26.2% for full year 2022.

We optimized our direct sales force during the fourth quarter to make our operations nimbler and more efficient. The overall size of our direct sales force downsized from about 58,000 employees as of the end of Q3 to about 46,000 as of the end of Q4. We have retained the more productive direct sales workforce in the top-performing regions, whose average productivity is more than twice that of the less productive direct sales members who departed in Q4.

In addition to our differentiated strategies mentioned above, we have enacted prudent cost control measures to enhance operating efficiency. As a result, our cost-to-income ratio decreased from 48.8% in 2021 to 46.3% in the full year 2022.

As of the end of Q4, we bore 23.5% of credit risk on the outstanding loan balance, an increase from 22.5% as of the end of Q3. As Y.S. just mentioned, we are making progress in implementing an optimized risk-bearing model with our funding partners, underpinned by our strong capital position, to address the challenges brought about by the elevated insurance premium charged by credit enhancement providers. We have already engaged most of our funding partners to discuss the model under which our guarantee subsidiary provides full provision of credit enhancement. We aim to complete these discussions with the majority of our funding partners in the next few quarters. Among our 81 funding partners, 15 funding partners

have already agreed to the model where our guarantee company provides full provision of credit enhancement, gradually alleviating future margin pressure from the elevated fees currently sought by insurance partners.

As mentioned before, our strong capital position provides us with a solid foundation to transform to an optimized risk-bearing model. As of December 31, 2022, our net assets stood at RMB94.8 billion with RMB43.9 billion of cash at bank. Our financing guarantee subsidiary had net assets of 47.9 billion and a leverage ratio of 2.0x as of the same date.

At the same time, we have continued to make progress on our new SBO ecosystem. We launched our new small business owner value-added services platform in November 2022. This value-added services platform, branded Ludiantong, is an open-platform design populated with digital operating tools and industry content to support business development for small businesses themselves. We intend to use this platform 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. Our goal is to create an ecosystem that fosters both customer-to-customer and customer-to-sales team interactions, and supports business owners whose end customers are both other small businesses and consumers. As of December 31, 2022, we had approximately 250,000 registered customers with complete business or personal information, of which around 130,000 are C-end customers and 120,000 are B-end customers. Growth of the new ecosystem has continued to accelerate quickly into 2023, with the total number of registered customers expanding roughly five-fold in the first two months of 2023.

Although we are not able to provide detailed guidance for 2023 at the moment due to the uncertainty as to the speed of the U-shaped recovery, which largely depends on the speed of recovery of the Chinese economy and the outcome of negotiation with credit enhancement providers, I would like to provide some directional guidance on our outlook for 2023. We project a return to profitability in Q1, albeit at a more subdued level given the challenging operating environment we described earlier.

Challenging as the macro and operating environment for SBOs are, we do see signs of recovery in the medium-term resulting from zero-COVID policy changes, and we are confident that we will achieve our U-shaped recovery, and we must remain patient, prudent and prepared for this recovery as Y.S. said earlier. As far as we can see, there are three stages in this U-shaped recovery process. Stage 1: broader credit policy adjustment we have made during the course of 2022, featured by tightening up credit standards and focusing on regions and industries showing more economic resilience; Stage 2: business adjustment and operating efficiency improvement which we initiated in Q4 2022, and expect to complete within the next several months, including optimization of direct sales force, streamlining of management layers and optimization of the risk-bearing model; and Stage 3: back to sustained growth and profitability as the economy is returning to normal.

During the process, we need to be patient for the macroeconomic tailwinds to flow through to the SBO segment, be prudent in implementing new risk strategies and embedding lessons learned from the pandemic period, and be prepared to gear up new business when the improved environment arrives.

Finally, we would like to thank our shareholders for their continued support. To deliver greater value to our shareholders, our board has approved the distribution of 40% of our 2022 net profit on a full year basis as cash dividends. In October, we paid our first half 2022 dividends of USD0.17 per ADS, representing 32% of our net profit for the first half of 2022. We will distribute an additional cash dividend of USD0.05 per ADS for the second half of 2022, bringing the full year dividend to USD0.22 per ADS.

I will now turn it over to David for more details on our financial performance.

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

In the fourth quarter, our total income decreased to 12.3 billion and total expenses grew to 12.9 billion. The increase in total expenses was primarily driven by the increase in credit impairment costs, while our operating-related expenses decreased by 20.8% to 6.6 billion.

For the full year of 2022, we recorded 58.1 billion in total income and 8.8 billion in net profit.

Next, let's have a closer look at our total income. First, as Y.S. and Greg mentioned before, our performance took a hit from the sluggish macro conditions in China, resulting in a 22.2% decrease in our top-line performance this quarter. As we are dedicated to building up a more sustainable business model, the total income mix of our retail credit enablement business continued to evolve.

During this quarter, while platform service fees decreased by 33.5% to 5.9 billion, our net interest income grew 3.2% to 4.4 billion, and our guarantee income grew by 2.2% to 1.7 billion. As a result, our Technology platform-based income service fees, as a percentage of total income, decreased to 47.7% from 55.8% a year ago. In addition, due to the increase in the consumer finance loans, our net interest income, as a percentage of total income, actually increased to 35.5% from 26.7% a year ago.

Furthermore, as we continued to better utilize our guarantee company's abundant capital to bear more credit risk by ourselves, instead of by our P&C insurance partners, we generated more guarantee income, reaching 13.6% of our total income, compared with 10.3% a year ago.

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, was 131 million in the fourth quarter of 2022 compared to 769 million in the same period of 2021. The decrease was mainly due to the change of fee structure that we charged to our primary credit enhancement partner.

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 20.8% year over year to 6.6 billion this quarter, as we further improved our operating efficiency. In the fourth quarter, our total expenses grew to 12.9 billion, from 11.5 billion a year ago. This increase was primarily driven by an increase in credit impairment losses of 3.7 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 23.4% to 3.7 billion in the fourth quarter. This decrease was driven by three factors. First, the decreased new loan sales and reductions in commissions; second, the decreased investor acquisition and retention expenses and referral expenses from platform service driven by decreased transaction volume; and last, the decreased general sales and marketing expenses driven by the decrease in new loan sales.

Our general and administrative expenses decreased by 22.8% to 750 million in the fourth quarter from 971 million in the same period of 2021, because of decreased personnel expenses.

Our operation and service expenses decreased by 12.7% to 1.7 billion in the fourth quarter from 1.9 billion a year ago, mainly due to our expense control measures and decrease of loan balance and new loan sales.

Our credit impairment losses increased by 147.1% to 6.3 billion in the fourth quarter from 2.5 billion a year ago mainly driven by the increase of provision and indemnity losses as a result of increased risk exposure, and worsening credit performance due in large part to the cumulative impact of challenging macroeconomic environment.

Our asset impairment losses decreased to 7 million in the fourth quarter from 689 million a year ago, mainly due to the higher base of impairment loss in the fourth quarter of 2021, driven by impairment loss of intangible assets.

Our finance costs increased by 87.6% to 501 million in the fourth quarter of 2022 from 267 million in the same period of 2021, mainly due to non-recurring interest costs due to early repayment of Ping An group convertible notes.

Other gains were 419 million in the fourth quarter compared to 300 million a year ago, mainly due to the increase in government subsidies

As a result, net loss for the fourth quarter was 806 million, compared to net profit of 2.9 billion in the same quarter of 2021. Meanwhile, our basic and diluted losses per ADS during the fourth quarter were both RMB0.36 or USD0.05. Our basic and diluted earnings per share during the year of 2022 were RMB3.8 or USD0.55.

On the balance sheet side, our balance sheet remains strong and solid as our cash at bank balance increased. As of December 31, 2022, we had a cash balance of 43.9 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 49.9 billion as of the end of December 2022.

As of the end of December 2022, our guarantee company's leverage is only at 2 times, whilst 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 and continue our dividend payout.

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

Questions and Answers

Operator: Thank you. (Operator Instructions). Yada Li of CICC. Please go ahead.

Yada Li: This is Yada from CICC. I have two questions for today. Firstly, I was wondering, when will the market see the U-shaped recovery? And among the expansion of new loan sales and the improvement of credit impairment losses, which one shall the market expect first?

And my second question is in regards to the improvement in credit risk after the COVID pandemic. Are there any positive signs of loan recovery collection and customer management? And is there any improvement in borrowers' willingness to repay after reopening? And what are the main causes if we still find some of the borrowers fail to repay?

Y.S. Cho: Thanks, Yada. So let me answer your question. When to see U-shaped recovery; and then you are asking among new loan sales or credit impairment losses recovery, which should we expect to see first? And then you also asked whether we are seeing any signs of recovery in collection, and then what's the reason for our borrowers failing in their repayment?

So for our recovery, it depends on, yes, our U-shaped curve. It depends on the recovery of the overall economy or, in particular, the SBO economy, and the outcome of negotiations with credit enhancement partners, as Greg said, which can largely affect our net margin. Although we see that in some industries, like travel, accommodation, or restaurants, we see the signs of initial improvement, but in overall, it's too early to say when a notable recovery will arrive with supporting numbers.

New loan sales expansion and improved incremental credit impairment loss, I think they will come at a similar time, but new loan sales expansion will precede. We are monitoring all indicators of loan and credit performance, like net flow rate, and delinquency rates. And for each segment, region, and industry, when we see the impairment is seasonal, then we expand with targets expanding loan volume growth, while credit performance impairment will follow as it carries a lag effect.

And for your second question, yes, we see some positive signs of consumption and travel boom. But knowing that the SBO sector got seriously hit during the last year, I believe it will take more time to show obvious recovery. And then it's not because -- and the reason our customers are failing in repayment is not because they are unwilling to repay, but their ability to repay the loan got damaged last year the most. So they'll obviously pay. We believe we'll gradually return to normal post-reopening, so it will take a bit of time, but the trends, I think, we are sure about that.

Operator: Richard Xu of Morgan Stanley.

Richard Xu: I've got two questions. So I understand basically, the company is trying to use more guarantees rather than insurance CGI, insurance guarantees. So any long-term target in terms of

the split between guaranteed by your guarantee company versus insurance? Any timeline target on that as well?

Second question is, recently, there's some news on CBIRC -- well, a crackdown on some of the loan brokers. I don't know if there's any impact on our business. And how do we separate typical -- the loan brokers essentially targeted by the new regulatory scrutiny at the moment versus our agents on the ground? Yes, two questions.

Y.S. Cho: Let me address our first question, and then Greg can take the second. I think you are aware that our CGI premium level remains high to now. That affects our new business net margin. We have been negotiating with our credit enhancement partners, but we have not made clear progress in lowering our CGI premium rate so far. And as they price the rates based on a cyclical loan vintage performance, right, and then that was affected by the macro environment last year. So if we do not make good progress, meaning that if we do not find the CGI class in the future is not commercially attractive for us, then we can increase our risk-bearing portion and reduce our cooperation scale with CGI partners.

Now we are discussing with funding partners, and as Greg mentioned, already a large number of our funding partners have agreed to switch to new CGI models in which we provide a full partner of credit enhancement. And then if you see how much net assets we have under our guarantee company, we already have almost 50 billion net asset under our guarantee company, which can provide 10x leverage support, so in other words, about 500 billion new loan sales.

So I believe overall direction is clear. We will have less dependence on CGI partners. Because of the price issue, we will take more self-guarantee portion from 30% to above 50%, or going forward, even higher, that's possible. But we don't have any timeline that we provide today

Greg Gibb: Great. Richard, on your second question, I think you're reflecting an announcement that came out with the CBIRC this past Friday with regards to loan brokers. I think two points to make. The first is our core business itself is operated under the guarantee license, and so our sales force is able to find clients, introduce those to the banks, and the banks then make their judgment on providing a loan. So as such, we are really not acting as a broker with our funding partners. I think that is really the most critical point.

The second point is if you look at the apparent reasons for the CBIRC to raise this, as there have been examples where there have been third-party agents without a license who have basically been either packaging customer information to make a loan look like it's to be used for business purposes, but then is used for other purposes; and/or external brokers working with banks to charge customers other in-transparent fees, therefore, increasing total cost. So that is an area that we really don't touch.

We do operate through our guarantee company, and when we do our business, at the end of the day, the banks are able to collect and see all information they need to determine the use of funds for the loan, be that secured or unsecured. So this is something that we will nonetheless keep a close eye on. The banks, the funding partners themselves, will be going through a process, which goes from March until September to review. And certainly, if there's any higher standards or

anything in our process that we would need to uplift, we would do so, but we don't anticipate a major issue there, Richard.

Operator: Alex Ye of UBS.

Alex Ye: My question is on pricing and take rate, so I will separate them into two parts. The first is on the short-term outlook. So how should we expect the pricing trend going forward? And if we take into account the pricing and CGI cost, how does the take rate outlook look like for the rest of 2023 and in terms of the trajectory of that take rate recovery?

And second, from a medium-term perspective of, say, in the next one to two years, and after your U-shaped recovery did materialize, so after that, what is a sustainable level of take rate that we should target at? And in the past, I remember management used to give high-level guidance of targeting a pretax margin of 3.5% to 4.0%. I'm wondering is that still a reasonable target?

Greg Gibb: Thank you, Alex. I think the view on pricing, which today for new unsecured loans, is just below 20%, I think it's about 19.7%. This pricing will largely remain stable in 2023. If you look at that headline pricing over the last couple of quarters, it's come down a little bit, but the reason for it coming down is really because of the way we prioritize our business focus. So we are prioritizing, as Y.S. said, serving customers who rate R1 to R4 in the better-performing regions. And those rated customers have traditionally had slightly better pricing.

So what you see in our pricing on the APR side as it comes down a bit, it continues to represent the improvement in our overall customer mix, so we will not -- even though CGI pricing remains elevated, that really is reflecting the history of the macro economy over the last 12 months. But because of that, we're not going to change our customer focus to then try and drive up higher pricing because we really want to stay focused on those higher-quality customers.

So the key for us to return to the historical level of net margins of pretax 3% to 4% is really doing two things. One is making sure that the new customers that we're acquiring and building out in the R1 to R4-rated group achieve what we believe to be the reasonable and targeted performance. And that is something that we've seen over the last couple of quarters to be largely intact. It's now a matter of continuing to build up that business in line with the speed of the economic recovery. That's point one.

Point two, to achieve that historical level of 3% to 4% is indeed as Y.S. just laid out, optimizing the mix of our credit guarantee versus credit insurance, right, because if the credit insurance partners continue to charge a high amount, that reduces the net margin in the business model. So the transition to a higher percentage of our self-guarantee is the key to us achieving that historical level, which we do intend to achieve over the medium-term.

I think if you were to press on the number you asked medium-term, the answer to that question is yes, is that a 2023 or 2024 event? We would see that more as likely as the 2024 event for the portfolio as a whole because we need to be that new business buildup and replace the legacy business as it matures.

Operator: Emma Xu of Bank of America.

Emma Xu: I have three questions. The first one is about your loan growth. What's your loan growth plan in the coming quarters? And what are the assumptions underpinning the current growth plan?

The second one is about your costs. Are there room for you to continue to optimizing costs, including funding costs, sales and marketing costs, and other operating costs?

And the third one is about your dividend policy. We note that you changed your dividend policy. So could management comment on the change and its impact to the shareholders?

Greg Gibb: Sure. So on the first two -- and I'll ask David to also elaborate on the third point -- on loan growth, what we're really looking at is the overall improvement of the key lead indicator C-M3, right? So what we've seen is that being elevated through Q4, not increasing as fast as what we've seen in some of the other previous quarters, but nonetheless, remaining at a higher level. So while we continue to prioritize new loan growth at the moment to the best customer segments in the best regions, broader loan growth will depend upon us seeing a more across-the-board improvement in some of those lead indicators. So we hope that improvement will be something that we see in the next one to two quarters, right? As we see that improvement, we will then see an uptick in our overall loan growth.

But as Y.S. said, our bias at the moment is to go for quality over volume. And so that's something that we will probably have that stance, I think, through Q1 and into Q2. But indeed if we see that improvement then in the second half, there will be more opportunities to enhance that relative loan growth.

On the cost side, we have been optimizing starting in Q4. It goes through into Q1 in terms of optimizing lower-productivity sales force, reducing some management layering, and indeed optimizing mid- and back-office costs. All of the execution of this is happening really mostly in Q1, a little bit into Q2. There's a little bit of room to optimize. I think it's something that really is in line with our overall business growth. But in terms of funding costs, we're probably not going to see a huge optimization in the near-term on that front, even though we have seen improvement there over the last couple of quarters.

On dividend, just a high-level comment, which is that for the last 2 years, we basically have announced a dividend policy of 20% to 40%. This time, we basically kept within that range. The cash dividend for the full year of 2022 is 40%, so the overall range hasn't changed. What we did modify slightly is that for 2021, our dividend was paid out in two halves. And so what we have done is saying for the full year of 2022, we will take it to a total of 40%; the dividend that was paid out in the first half of 2022 was really based at 32%, and so we had basically brought it at par across the entire year of 40%.

I don't know if, David, you want to add any other comments on the dividend policy?

David Choy: Yes, Greg has given pretty comprehensive comments on the dividend. Yes, nothing changed in that the frequency of our dividend money has not changed. The range, the dividend payout ratio that's approved by the Board, didn't change, 20% to 40%. Thechange is really on how to calculate on a semiannual basis or on a full year basis, that is the change. This change, we

believe, will leave management more flexibility, and we are able to develop greater value to our shareholders. So I believe it is positive to all shareholders.

Operator: There are no further questions. This concludes our Q&A session for today. I'll now hand the call back over to our management team for closing remarks.

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

Operator: Thank you. That concludes today's call. Thank you, everyone, for attending. You may now disconnect.