Q&A Record for the Investor and Analyst Session of 2024 Interim Results Briefing of Industrial and Commercial Bank of China

(Transcribed according to recording)

Time: 18:30-19:30, August 30, 2024 (Friday)

Form: On-site meeting in Beijing + online live streaming

Venue: B3 Academic Exchange Center, the Head Office

Management members present: President Liu Jun and Senior Executive Vice Presidents Wang Jingwu, Zhang Weiwu, Duan Hongtao and Zhang Shouchuan

Independent directors present offline: Herbert Walter and Murray Horn

Non-executive directors present online: Lu Yongzhen, Feng Weidong, Cao Liqun, Chen Yifang, Dong Yang and Shen Si

Attendance: 658 global investors and analysts

Recorder: Investor Relations Management Team of Corporate Strategy and Investor Relations Department of ICBC

Wang Liancheng: Good evening to all distinguished investors and analysts here! I am Wang Liancheng, General Manager of the Corporate Strategy and Investor Relations Department of ICBC. Welcome to the 2024 Interim Results Briefing of Industrial and Commercial Bank of China. Today, the Briefing will be held in the form of "on-site + global online live streaming". We are very pleased to have some investors and analysts on the site for exchange.

Next, I would like to introduce the senior management members attending the Briefing. Attendees present at the Briefing are President Liu Jun and Senior Executive Vice Presidents Wang Jingwu, Zhang Weiwu, Duan Hongtao and Zhang Shouchuan. Directors Herbert Walter and Murray Horn attend the meeting on site. Directors Lu Yongzhen, Feng Weidong, Cao Liqun, Chen Yifang, Dong Yang and Shen Si attend the meeting online. The main persons in charge of relevant departments and offices of the Head Office and subsidiaries attend the meeting on site.

Next, Mr. Duan Hongtao, Senior Executive Vice President and Board Secretary, will first give us an introduction to the overall picture and main features of ICBC's 2024 interim results.

Duan Hongtao: In the first half of 2024, in the face of the severe and complex external environment, ICBC adhered to the general principle of pursuing progress while ensuring stability, and deeply carried forward the "five transformations" of intelligent risk control, modern layout, digital driver, diversified structure and ecological foundation. As a result, in serving the recovery and improvement of the economy and promoting its high-quality development, ICBC kept stable major operating indicators and achieved stable operating results with sound momentum and improved quality. ICBC's 2024 interim results are mainly manifested in three aspects.

First, the Bank maintained a sound operation trend, demonstrating the resilience of its business development.

Core performance indicators remained stable. The Bank secured its leading position in the market. At the end of June 2024, total assets of the Bank exceeded RMB47 trillion, maintaining a leading position in the world. Total loans and advances to customers amounted to nearly RMB28 trillion, representing an increase of RMB1.8 trillion over the end of last year. Due to customers exceeded RMB34 trillion, representing an increase of RMB580 billion over the end of last year. Sound operating results were delivered. The Bank recorded an operating income of RMB402 billion and a net profit of RMB171.3 billion, both maintaining a leading position among domestic peers. The annualized return on average total assets ("ROA") and the annualized return on weighted average equity ("ROE") were 0.75% and 9.53%, respectively, both maintaining a reasonable level. The net interest margin ("NIM") and the total cost-to-income ratio stood at 1.43% and 24.79%, respectively, both remaining stable. The operating foundation was sound. The capital adequacy ratio was 19.16%, cementing the Bank's position among the world's top banks. The NPL ratio and allowance to NPLs stood at 1.35% and 218.43%, respectively.

In 2023, the Bank's annual cash dividend totaled RMB109.2 billion, remaining a listed company with the highest dividend payouts on the A share market. Reflecting its average share price in the first half of 2024, dividend yields for A shares and H shares stood at 5.79% and 7.97%, respectively. The Bank is actively pursuing interim dividends this year and plans to distribute a cash dividend of RMB51.1 billion. It is expected that the dividend will be paid in January 2025. This shows the efforts made by the Bank to provide shareholders with stable and sustainable returns on investment.

Second, with a steady increase in both assets and liabilities, the Bank improved the quality and efficiency of serving the real economy.

In the first half of 2024, the Bank's assets maintained stable growth. The balance of total loans and advances and the balance of bond investments rose by 6.7% and 9.8%, respectively. Due to customers kept growing stably, of which personal deposits increased by 5.8%. The stability of deposits markedly improved, with the lowest deposit deviation ratio in the same period in the past five years.

The Bank consistently optimized its credit structure and made solid progress in the "Five Priorities" of technology finance, green finance, inclusive finance, pension finance and digital finance. In the first half of 2024, corporate loans rose by RMB1.37 trillion, with further efforts being made to promote the targeted and direct credit supply. While increasing the proportion of "retail + inclusive" loans, the Bank actively accelerated the transformation of retail banking. As a result, personal business loans and personal consumption loans maintained rapid growth. By capturing market opportunities, the Bank actively promoted the services for the "Five Priorities" of technology finance, green finance, inclusive finance, pension finance and digital finance. The balance of loans to strategic emerging industries reached RMB3.1 trillion, up 15%; the balance of loans to technology enterprises stood at RMB2.1 trillion, up 19%; the balance of green loans exceeded RMB6 trillion, up 14%; the balance of inclusive loans stood at RMB2.7 trillion, up 22%; the total pension management scale reached RMB4.5 trillion, up 8%; the balance of loans to core industries of digital economy exceeded RMB910 billion, up 16%.

Third, the Bank deepened business transformation and innovation and strengthened the growth drivers for high-quality development.

In the first half of 2024, the Bank advanced the reform and development at a faster pace and constantly improved the framework of "five transformations" with constantly deepened content and upgraded measures, and the effects continued to emerge.

Advantages in pillar business were further consolidated. In the corporate banking line, corporate loans reached RMB17.5 trillion, the number of corporate customers exceeded 12.8 million, and the balance of loans to the manufacturing industry exceeded RMB4 trillion, maintaining a leading position among peers. In the personal banking line, personal financial assets under management ("AUM") totaled RMB21.8 trillion, and the Bank maintained a leading position among peers in terms of the number of private banking customers, and the total scale and growth of AUM, as well as the number of personal pension accounts opened and the total amount of contributions. In the institutional banking line, the balance of institutional deposits stood at RMB8.4 trillion, continuing to rank first among peers. For six consecutive years, the Bank received a "Double Excellence" rating in the evaluation of centralized payment agents organized by the central government treasury under the Ministry of Finance. In the market line, the scale of the mega asset management business exceeded RMB30 trillion, of which the domestic assets under custody reached RMB24.5 trillion. Moreover, the Bank maintained a leading position among peers in such business as bond investment, underwriting, customer-driven foreign currency, and market making.

New achievements have been made in D-ICBC development. In the first half of 2024, the Bank worked consistently to iteratively refine the “3+3” external and internal platforms, consolidated the business support system and the data technology support system, and expedited the digital and intelligent upgrade of financial services from both customer service and employee empowerment perspectives. In terms of external platforms, the number of monthly active customers of mobile banking exceeded 230 million, the number of monthly active customers of ICBC e Life was more than 17.4 million, and the transaction volume of open banking topped RMB200 trillion, constantly improving customer experience.

The customer ecosystem was continuously optimized, and the “GBC” + projects were implemented in an in-depth manner. In an effort to consolidate the bank-wide customer base, the Bank moved faster to boost the “integration of four chains”, namely the capital chain, customer chain, service chain, and value chain. The number of personal customers totaled nearly 750 million, representing an increase of 9 million over the end of last year. The number of customers on mobile banking was more than 560 million, representing an increase of 12 million over the end of last year, remaining first among peers.

While asset quality remained stable, the quality and efficiency of enterprise risk management were improved. The Bank consistently optimized its enterprise risk management system, enhanced the coordination of big risk control, refined the risk officer mechanism, and accelerated the intelligent transformation of risk control. With these efforts, various risks were controllable as a whole, and asset quality remained stable. At the end of June, the Group’s NPL ratio was 1.35%, dropping 1BP over the beginning of the year; the credit cost rate was 0.70%, remaining at a superior level. The Bank effectively advanced risk prevention and mitigation in key areas, saw a decrease in the NPL ratio in the real estate industry, effectively supported local governments in preventing and mitigating debt risks in line with the principle of market orientation and the rule of law, and provided small and medium banks with technical and professional support in risk mitigation.

ESG concepts were organically integrated into business development. The Bank further solidified the ESG governance framework and made ongoing efforts to build a “three-in-one” ESG information disclosure system. With an AA MSCI ESG rating, the Bank was in a leading position among domestic peers.

Looking to the second half of 2024, ICBC will stay committed to the path of financial development with Chinese characteristics, focus on the “five transformations”, achieve an organic balance of value creation, market position, risk control, and capital constraints, embark on a new journey after the 40th anniversary of ICBC with high-quality development achievements, and create sound and sustainable value returns for domestic and overseas shareholders.

Wang Liancheng: Thank you, President Duan, for the introduction. Next, we’ll come to the Q&A session. Let’s first invite investors and analysts who attend the meeting on site to ask questions!

Question 1: (UBS Securities) My question is about operating income and profit. In the first half of the year, the banking sector was under great pressure, and ICBC saw a decline of 2% in its net profit. May I ask about what measures can be taken by ICBC to stabilize its operating income and profit?

Liu Jun: In the first half of 2024, ICBC reported a net profit of RMB171.3 billion, a year-on-year decrease of 2%. Like what you just said, it declined to a certain extent, but such a decline was consistent with the overall trend of domestic banks. Our business scale is very large, but the average value is relatively stable, and the variance is also kept within the threshold of effective management. Meanwhile, the size of the Bank's interim dividends also reflects its image as a responsible listed company and its substantial financial returns for the capital market and investors, which has been disclosed in our announcements.

The pressure on the banking sector in the first half of 2024 is highly related to the macro interest rate environment. It is also related to characteristics specific to the current phase, which is a macro and meso environment facing the entire banking sector. Judging from the situation throughout 2024, we have made relevant predictions. Although the pressure for us to stabilize operating income and profit truly exists, positive trends favorable to stable operations are constantly emerging as well, which will support the steady improvement in the annual net profit to a certain extent.

First, the cost saw a decline over the beginning of the year, and the stability of deposit growth significantly improved. Benefiting from cuts in posted deposit rates and the effective control of the liability cost, in the first half of 2024, the cost on deposits of the Bank was 1.84%, down by 5BP from 1.89% last year. At the end of July, the Bank lowered posted deposit rates again, which will further drive down the liability cost in the second half of 2024 and alleviate the narrowing pressure on the annual net interest margin. Meanwhile, ICBC implemented a deposit stability management mechanism in an in-depth manner and continuously improved the quality of deposit growth. With these efforts, in the first half of 2024, the deposit deviation ratio was 2.2%, the lowest level in the same period in the past five years. Deposits at key time points with poor quality were effectively managed, and efforts were synchronously made to optimize the deposit structure. Therefore, you will see a gradual increase in the percentage of valid liabilities in total liabilities with better quality.

Second, the asset structure was continuously optimized, and the decrease in the return on assets narrowed quarter-on-quarter. In the environment of low interest rates, the Bank continuously stepped up efforts to adjust the asset structure. While serving the high-quality development of the economy, we were trying to stabilize the return on assets. In the first half of 2024, loans and bond investments accounted for 59.08% and 26.75%, respectively, of assets of the Bank, up 0.7 and 1.1 percentage points from the first quarter, indicating an improvement in the stability of the asset structure. In the first half of 2024, the return on assets stood at 3.28%, down 5BP from the first quarter, with a narrowing decrease compared with the decrease of 12BP in the first quarter.

Third, sources of income were more diversified, with a continuous increase in the contribution to stabilizing operating income. On the basis of the trend of interest spread toward stabilization, in the first half of 2024, the Bank incessantly boosted the high-quality development of fee-based business. Specifically, net fee and commission income amounted to RMB67.4 billion, still ranking first among domestic peers in terms of the total scale. In fee-based business, the income from such products as investment banking, syndicated loans, FX spot trading, and RMB corporate settlement grew remarkably. Meanwhile, by capturing market opportunities, the Bank continuously stepped up efforts in investments and transactions and thus recorded other non-interest income of RMB20.6 billion, representing a year-on-year increase of RMB2.2 billion or 12%, which effectively offset the impact of the decline in the net interest income. When we were under the pressure of a declining net interest income, it was particularly important for the Bank to expand the sources and coverage of income with huge potential. Therefore, ICBC intensified efforts in this aspect in the first half of 2024 and will adhere to this strategy in the second half of 2024.

Fourth, asset quality saw stable improvements, indicating that the Bank's risk resistance capacity has been continuously enhanced. As at the end of June, the Bank's NPL ratio was 1.35%, representing a decrease of 0.01 percentage points from the first quarter, and asset quality generally showed a trend of stable improvements; the allowance to NPLs was 218.4%, representing an increase of 4.5 percentage points over the beginning of the year; the allowance to total loans ratio was 2.95%, representing an increase of 0.05 percentage points over the beginning of the year; the balance of total allowances stood at RMB954.2 billion, up RMB70 billion over the beginning of the year, of which the allowance for impairment losses on loans was RMB819.9 billion, up RMB63.5 billion over the beginning of the year. The NPL ratio is declining, the allowance to NPLs is rising, and the profit is kept within the market average range. This development pattern displays that ICBC has given full play to its key and ballast stone role in serving the high-quality development of the economy.

In the second half of 2024, we will, with a focus on the "five transformations", make well-coordinated efforts for various tasks to prevent risks, enhance asset quality, stabilize liabilities, raise operating income, and promote reform. We will proactively adapt to the new changes in the macro interest rate environment and strive to create long-term and stable value returns for shareholders and investors with sound and sustainable operating results on the basis of serving the high-quality development of the economy.

First, the Bank will take various measures to stabilize the interest margin and endeavor to narrow the decrease in the net interest income. At the asset end, insisting on producing effect early on, ICBC will continue to focus on the "Five Priorities" of technology finance, green finance, inclusive finance, pension finance and digital finance, support the development of new quality productive forces, enhance the capability of credit supply for "major strategies, key areas, and weak links", and move faster to increase the proportion of "retail + inclusive" loans on the basis of maintaining leading advantages in loans to the manufacturing industry, loans to strategic emerging industries, green loans, and loans to private enterprises. At the liability end, aiming at a closed-loop of the capital chain, ICBC will continue to promote the "GBC+" projects. We will pay attention to the source and traffic and work to increase the retention of low-cost settlement funds through sophisticated management, with a view to improving quality and efficiency. With a focus on key scenarios, we will step up efforts to compete for current funds, embed duration management in the whole process of deposit management, facilitate the positive interaction between savings deposits and AUM, reduce the proportion of high-cost liabilities in an orderly manner, and drive a stable decrease in the cost on deposits.

Second, the Bank will accelerate the transition to modern financial services and continue to increase the contribution of non-interest income. ICBC will improve such services as clearing, settlement, payment, and custody for new-type infrastructure, tap into the growth potential of four new business types, including investment banking, asset management, wealth finance, and transaction banking, revitalize the traditional balance sheet through the value-oriented ecological chain of "investment banking, asset management, wealth finance, and transaction banking", and provide more effective support for the growth in the operating income, in the hope of developing the "Second Curve" of income growth for ICBC. In terms of corporate banking, ICBC will use flexibly the combination of commercial banking and investment banking to create a comprehensive service ecosystem and promote income growth in such business as investment banking, syndicated loans, custody, and bond underwriting through customer sharing and business synergy. In terms of basic services, we will continuously improve the construction of relevant scenarios for payment, settlement, and consumption with merchants, assist in the full release of momentum for consumption, and promote income growth in such products as credit cards, third-party payment, and RMB settlement. In terms of wealth management, we will develop a product library with a wider range of products with a focus on market moves, meet customers' diversified financial preservation and appreciation demands, and further stimulate the growth potential of fund distribution, agency sales of wealth management, precious metal, and other types of business.

Third, the Bank will continue to strengthen the control of asset quality and strike a more coordinated new balance between income and expenses. ICBC will give full play to its advantage in risk control, grasp long-term positive factors for credit asset quality in an environment of low interest rates, and effectively control the credit cost. On one hand, we will continuously upgrade the enterprise risk management system, deepen risk prevention and control in key areas, and endeavor to maintain the stable improvement trend of asset quality. On the other hand, we will adopt a direct operation and management mechanism in the disposal of non-performing assets, continuously improve the operation quality and efficiency of risk-weighted assets, work to promote a steady decrease in newly listed credit costs and achieve a new balance between financial income and expenses in the process of proactively adapting to the new ecosystem, so as to consistently enhance the internal growth momentum of operations.

Question 2: (Guosen Securities) We recently noticed that major banks generally faced a slowdown in credit growth. Could you please introduce ICBC's credit supply from the perspectives of total scale, distribution of loans, and pricing? Regulatory authorities recently adjusted the expression of the "scale" as well. In this case, will ICBC lower its lending plan for 2024?

Zhang Shouchuan: With respect to credit supply in the first half of 2024, ICBC fully followed the orientation of national macro policies. In keeping with the pace, intensity and focus of investment, the Bank moved faster to revitalize idle funds and promote the transformation and upgrading of credit structure. Like what President Liu just said, ICBC has given full play to its key and ballast stone role in serving the recovery and improvement of the economy.

First, the Bank led the industry in terms of both amount and growth. At the end of June, the balance of domestic RMB loans exceeded RMB26 trillion, up RMB1.74

trillion, indicating the Bank realized high-quality sustained growth despite a high base. Second, the targeted and direct credit supply was promoted. The Bank saw an increase of nearly RMB1.4 trillion in the corporate loans of domestic branches at the end of June. Among them, the increase of medium to long-term corporate loans accounted for 72% of the total, up approximately 3 percentage points year on year. In an effort to fully serve Chinese modernization, the Bank enhanced financial services in areas such as the "Five Priorities" of technology finance, green finance, inclusive finance, pension finance and digital finance, "Major Strategies and Key Fields", "Renewal and Trade-in", the manufacturing industry, and the security of food and energy resources. Specifically, the balance of loans to strategic emerging industries exceeded RMB3 trillion, the balance of loans to the manufacturing industry exceeded RMB4 trillion, and the balance of green loans topped RMB6 trillion. Moreover, the growth rates of key business types, such as loans to Specialization, Refinement, Differentiation and Innovation ("SRDI") enterprises, inclusive loans, and agriculture-related loans, were higher than 10%. The Bank thoroughly implemented the relevant arrangements made by the CPC Central Committee and the State Council for the high-quality development of real estate, actively supported the loan needs of projects in the "whitelist" of the coordination mechanism for urban real estate financing, and facilitated the stable and sound development of the real estate industry. Third, growth drivers were continuously enhanced, and active efforts were made to meet the financial demands of residents in consumption. Non-mortgage retail loans of domestic branches increased by nearly RMB300.0 billion compared to the beginning of the year, maintaining a year-on-year growth trend in the increase amount. The Bank actively promoted the transformation and development of second-hand housing loans, and maintained a leading position among peers in terms of the amount of new mortgage loans issued in the first half of the year. To adapt to economic transformation and upgrading, the Bank made steady progress in revitalizing idle funds, and transferred more than RMB2 trillion of refinancing from inefficient existing credit, effectively improving the efficiency of fund allocation. Fourth, credit supply was kept at a balanced pace. The daily average increment in RMB loans exceeded RMB2.1 trillion, up 9% from last year. The increment was at the leading level among peers, and stable cross-year and cross-quarter growth was achieved, providing balanced financial support in serving the real economy.

With respect to the outlook and lending arrangements for the second half of 2024, currently, China's real economy has grown overall steadily and maintained growth momentum, and a prudent monetary policy is pursued with more emphasis laid on guiding commercial banks to maintain reasonable credit growth and balanced credit supply. As various policies continue to release their effects, we have full confidence in both China's economic outlook and our own high-quality development. In the second half of the year, ICBC will fully follow the orientation of macro policies, drive steady and reasonable growth in total loans, and set proper lending plan targets based on the situation of market demand, so as to maintain ICBC's advantages in the market competition and improve its ability to serve the real economy, achieve sustainable development, and lead the industry.

First, with a focus on serving major national strategies and high-quality customers, the Bank will leverage the Group's strengths in comprehensive financial services and step up financial support for major strategies, key areas, and weak links. While consolidating the credit fundamentals of ICBC, we will create new growth points, such as FinTech, settlement finance, value-oriented investment banking, and commerce-investment linkage. We will provide financial services to ensure timely delivery of housing and government-subsidized housing, assist in the development of new modes for real estate development, actively seize investment opportunities arising from economic upgrading, properly increase the investment in medium to long-term project loans, and work to stabilize the return on loans within an appropriate range.

Second, in order to better adapt to changes in market trends and customer demand, the Bank will provide higher-quality and more diversified retail banking services and move faster to develop retail and inclusive loans, including personal consumption loans, personal business loans, and credit card overdrafts. We will further increase the proportion of high-quality assets, put in place more marketing resources, and proactively promote the structural adjustment of mortgage loans around the secondhand housing market, serving to ensure that people enjoy peace and contentment in work and life.

Third, the Bank will expedite the optimization and allocation of credit resources, rehabilitate existing assets in an orderly manner, improve the securitization of credit assets, ramp up efforts in the disposal of non-performing assets, and make room for high-quality assets in credit supply. We will intensify regional coordination to promote coordinated regional development. We will enhance the adaptability of credit resource input to economic development in each region, better support economic transformation and development, and contribute to building a new development pattern.

Question 3: (Morgan Stanley) There have been some economic fluctuations recently, while ICBC has maintained a very stable trend in its asset quality. Looking ahead, the economic downside may continue. Could you give us an introduction to ICBC's asset quality? What are the main risk points to which you pay attention? At the same time, people are quite concerned about the quality of real estate assets. What judgments has ICBC made on the quality of real estate-related credit assets now?

Wang Jingwu: In the first half of 2024, ICBC coordinated high-quality development and high-level security. Focusing on "preventing risks, strengthening compliance, and promoting development", the Bank strengthened the whole-cycle credit risk management. As a result, risks in key areas were defused in an orderly manner, and the quality of credit assets remained stable and controllable.

As at the end of June 2024, the Group's NPL ratio was 1.35%, down 1BP compared with the end of last year. Judging from the business segment, asset quality in the corporate banking line continued to improve. The overall NPL ratio of corporate loans of domestic branches stood at 1.63%, down 14BP compared with the end of last year. The NPL ratios in major industries declined to varying degrees over the beginning of the year. Among them, the NPL ratio in the manufacturing, wholesale, and retail industries declined by 40BP over the beginning of the year. Asset quality in retail and inclusive segments was at a superior level. However, affected by factors like the slowdown in economic growth and people's income, the NPL ratios in retail and inclusive segments were on the rise. In accordance with the principle of "early identification, warning, exposure, and resolution" of risks, we are taking measures, such as enhancing intelligent risk control, optimizing the collection mechanism, strengthening the collection of overdue loans, and accelerating the disposal of non-performance assets, to control risks.

In the real estate sector, ICBC has long adhered to a sound and prudent business philosophy. We have been pursuing a “three-in-one” asset selection standard, including regions, customers, and projects. Focusing on building a decentralized, diversified, and balanced real estate investment structure, we reasonably grasped the proportion of loans in the real estate sector in all loans and strictly controlled the proportion of each single real estate enterprise group in the whole real estate sector.

With respect to the new circumstances and characteristics that arose in the operation of the real estate industry in recent years, ICBC adopted a variety of measures from the four aspects of “optimizing the increment, preventing risks, defusing risks, and conducting governance”. The Bank well managed the investment direction, optimized the increment, and assisted in building new modes for real estate development. Meanwhile, we well managed the existing assets, accurately defused risks, and stepped up efforts in the exit from real estate enterprises with risks and the disposal of relevant projects. At the end of June, the balance of domestic corporate loans in the real estate industry was RMB852.1 billion, only accounting for 3% of total loans, and the NPL ratio declined by 2BP over the beginning of the year, indicating that asset quality was overall stable. Meanwhile, we have set aside sufficient provisions for loans with potential risks, which can fully cover losses and risks.

In the second half of 2024, ICBC will continue to adhere to prudent development targets, strengthen the lines of defense for secure development, play our ballast stone role in maintaining financial stability, and contribute to high-quality development based on high-level risk control. We will enhance management empowerment and make consistent efforts to improve the building of a bank-wide risk control system. We will optimize policy empowerment, accurately grasp loan extension in key areas, and improve the capacity of asset layout. Besides, we will deepen digital empowerment, continue to advance the intelligent transformation of risk control, and strive to realize forward-looking responses to and accurate control of risks.

Question 4: (HSBC) I would like to ask some questions about dividends. We notice that ICBC has long maintained a high capital adequacy ratio. Could you tell us about ICBC’s capital plan in the future? Given the current backdrop, where the banking sector faces the pressure of ongoing drops in the NIM, how can ICBC well balance capital adequacy, asset growth, and stable dividends while creating sustained returns for shareholders?

Duan Hongtao: ICBC now well manages its assets and implements the capital plan in an orderly manner. In the first half of 2024, ICBC actively pushed forward the implementation of the *New Capital Regulation* in accordance with the “endogenous, exogenous, and balanced” overall thinking. Insisting on taking retained profits as the main channel for capital replenishment, the Bank optimized capital management and improved capital efficiency.

At the end of the second quarter, ICBC’s capital adequacy ratio was 19.16%, and its common equity tier 1 capital adequacy ratio and tier 1 capital adequacy ratio stood at 13.84% and 15.25%, respectively, continuing to run stably within a reasonable range, ranking relatively high among comparable peers, and thus laying a solid foundation for serving the real economy and enhancing the Bank’s risk resistance capacity.

First, the capability for endogenous capital accumulation was enhanced. In the first half of 2024, ICBC reported a profit of RMB171.3 billion. After deducting dividends distributed last year and interest payments for equity instruments, the Bank achieved a profit retention of RMB56.6 billion. In recent years, ICBC has maintained stable profitability. Therefore, while providing shareholders and investors with considerable returns, the Bank has effectively replenished its capital. Second, steady steps were taken to push forward exogenous capital replenishment. In the first half of 2024, ICBC's capital instrument issuance plan of RMB370 billion was approved by regulatory authorities. Based on the development trend of assets and the trend of market interest rates, ICBC stably controlled the issuance pace. Currently, the Bank has completed the issuance of perpetual bonds of RMB50 billion and tier 2 capital bonds of RMB50 billion. By reasonably grasping the current interest rate window, the Bank replaced existing instruments upon maturity, lowering the overall Interest payment cost of capital instruments by 26BP. Third, active efforts were made to implement the requirements set out in the *New Capital Regulation*. The new *Regulation Governing Capital of Commercial Banks* came into effect this year. ICBC strictly implemented the requirement set out in the New Capital Regulation in asset layout, capital measurement, and risk constraint, and allocated capital to key industries and areas on a priority basis. As a result, the growth rate of risk-weighted assets was lower than that of total assets, and thus the Bank further reduced capital occupation and ensured a smooth transition between old and new rules. Fourth, the Bank took an active part in the innovation of TLAC instruments. In the first half of 2024, thanks to the guidance and support of regulatory authorities and shareholder entities, ICBC successfully issued the first TLAC non-capital instrument totaling RMB40 billion in China, which was highly recognized by institutional market participants. As a systematically important bank, the Bank gave full play to its exemplary role and offered new high-quality investment products in the market.

You just mentioned that banks now face the pressure of ongoing drops in the NIM. The NIM trend is greatly affected by macro and industry environments, and ICBC's NIM in the first half of 2024 was basically consistent with the change trends of comparable peers. Compared with data in previous periods, we can notice a trend of marginal improvement. ICBC attached great importance to NIM management in the environment of low interest rates, optimized the allocation of large-scale assets by adjusting the asset-liability layout, and enhanced the building of a customer ecosystem to stabilize the NIM. First, the Bank optimized the credit layout and precise pricing. In the first half of 2024, the interest rates of newly granted RMB loans rallied by 4BP from the fourth quarter of 2023, with an interest rate trend in sync with peers. Second, the cost on RMB deposits stably declined. Favorable factors for cost reduction increased, and the effects of deposit rate adjustments in 2023 gradually emerged. As a result, the interest rate on new time deposits dropped by 29BP compared with 2023, remaining at a superior level among peers. Moving forward, ICBC will make coordinated efforts at both the asset end and the liability end, accelerate the "five transformations", boost the coordinated development of deposit growth and cost, and work to maintain the NIM at a reasonable level in the industry.

ICBC recently is pursuing interim dividends. Considering the current capital is adequate, interim dividends will not generate significant pressure on the Bank's capital adequacy ratio. Meanwhile, while the annual overall dividend ratio remains unchanged, a moderate increase in the dividend frequency will also help smooth out fluctuations in the capital adequacy ratio. Going forward, ICBC will persist in serving the real economy, reinforce capital constraints, accurately coordinate the reasonable growth in quantity, the refined management of prices, the effective improvement in quality, and the accurate prevention and control of risks, develop a "benefit triangle" featuring coordination among capital, assets, and funds, build a healthy and clean balance sheet and a balanced, coordinated and sustainable income statement, constantly improve the capability for endogenous capital accumulation and the ability to ensure sustainable development of assets, and continue to deepen value creation.

Question 5: (CITIC Securities): I would like to ask some questions about investments in the financial market. In the first half of the year, ICBC saw rapid growth in its bond investments. Can bank leaders give a detailed introduction to ICBC's bond investments? Besides, what strategic arrangements are made to expand bond investments in the next phase?

Zhang Weiwu: As at the end of June 2024, the balance of ICBC's bond investments rose by 9.8% from the end of last year, of which the balance of RMB-denominated bond investments increased by 10.4% from the end of last year. While maintaining a leading position in the market in terms of the scale of investments in key products, such as government bonds and local government bonds, ICBC optimized the investment structure of credit bonds with a focus on the "Five Priorities" of technology finance, green finance, inclusive finance, pension finance and digital finance. From January to June this year, our new RMB-denominated corporate bond investments in key areas, such as advanced manufacturing, technology innovation, and green and environmentally friendly industries, rose by over 60% year on year. Besides, ICBC actively provided quotation and market making services for investment entities at home and abroad, striving to improve the activity and liquidity in the National Interbank Bond Market. As at the end of June 2024, the volume of bond transactions between ICBC and overseas institutional investors rose by 35% year on year, basically consistent with the growth rate of the Bank's transaction volume in bond market making.

We recently noticed that there were some new moves made by the PBOC in the transmission of monetary policies and the selection of instruments, and there were some changes in the issuance, investment, pace, and supply & demand in primary and secondary bond markets. Next, ICBC will engage in bond investments in accordance with the principle of "adequate efforts, steady pace, optimal structure, and sustainable pricing", strive to unify functionality and profitability, and make a greater contribution to serving the real economy and ICBC's high-quality development.

First, focusing on its mission and responsibility as a major bank, the Bank will fully support the development needs of the real economy. We will continuously optimize the account structure and portfolio structure, reasonably arrange investment types, terms, and currencies, balance the liquidity, security, and profitability of investment portfolios, work to improve the contribution of bond investment transactions to operating income, and achieve high-quality development. In respect of investment support in key areas, we will deepen and refine the "Five Priorities" of technology finance, green finance, inclusive finance, pension finance and digital finance, increase bond investments targeting major strategies, key areas, important regions, and weak links, guide more financial resources to flow to key industries and areas that represent new quality productive forces, and unremittingly improve the quality and efficiency in serving the real economy.

Second, the Bank will earnestly perform responsibilities as a market maker and assist in promoting the efficient operation of the domestic bond market. We will improve market making services across the board, constantly improve the ability to research markets and judge market trends and work to increase the income from transaction business on the premise of effectively serving market liquidity. We will strive to expand the scope of counterparty services, extend the service coverage, and continue to expand overseas sovereign and non-banking institutional customers on the basis of over 700 existing overseas counterparties. Meanwhile, we will actively cooperate with the competent authorities of financial infrastructures to constantly optimize the building of the bond market system, maintain sound transaction order, and assist in the high-standard development and opening-up of the National Interbank Bond Market.

Third, the Bank will give full play to the synergistic business effects and realize interconnection and joint development between bond underwriting and bond investments. Furthermore, we will comprehensively integrate ICBC's customer advantages, business advantages, talent advantages, technological advantages, and brand advantages, and work consistently to optimize the ecosystem for bond issuers and sub-underwriting targets. On the one hand, we will continuously expand the scope of customers for the domestic underwriting business, further support more overseas central banks, international development institutions, multinational enterprises, and other overseas issuers in issuing Panda bonds in China, and assist in continuous improvements in the functions of RMB as a financing currency. On the other hand, we will further improve the bond sub-underwriting network, step up efforts in bond sub-underwriting and capacity building, realize the differentiated risk appetite management for bond investments and bond sub-underwriting, promote the collaborative development between primary and secondary bond markets, and assist in improving the building of a multi-layer bond market system toward the mutual integration between investment and financing.

Wang Liancheng: The Q&A session today has come to an end. Many thanks to the management members for their professional answers, and sincere thanks to investors and analysts for communicating with us. If you have any other questions, our investor relation team is very pleased to further communicate with you. I hope that you can support ICBC as always. We will be committed to achieving high-quality development and make ongoing efforts to create sound and sustainable returns for investors.

That's all for the 2024 Interim Results Briefing of ICBC. Thank you!