

**CNFinance Holdings Limited**  
**Q3 2022 Financial Results Conference Call**  
**November 22, 2022 08:00 AM ET.**

Executives:

Matt Lu, IR Specialist

Jun Qian, Director and Vice President

Jing Li, Acting CFO

Analysts:

William Gregozeski, Greenridge Global

**Presentation**

Operator: Good day, and welcome to the CNFinance Third Quarter of 2022 Unaudited Financial Results Conference Call. (Operator Instructions). After today's presentation, there will be an opportunity to ask questions. (Operator Instructions). Please note, this event is being recorded today.

I would now like to turn the conference over to [Matt Lu], IR Specialist. Please go ahead.

Matt Lu: Thank you. Good morning and evening, and welcome to the CNFinance third quarter of 2022 financial results conference call. In today's call, our Director and Vice President, Mr. Qian Jun, will walk us through the operating results, followed by the financial results from our acting CFO, Ms. Li. After that, we will have a Q&A session.

Before we start, I would like to remind you that this conference call contains forward-looking statements within the meaning of Section 21E of the Securities and Exchange Act of 1934 as amended, and as defined in the U.S. Private Securities Litigation Reform Act of 1995. These forward-looking statements can be identified by terminology such as "will," "expects," "anticipates," "future," "intends," "plans," "believes," "estimates," "target," "going forward," "outlook" and similar statements.

Such statements are based upon management's current expectations and current market and operating conditions, and relate to events that involve known or unknown risks, uncertainties, and other factors, all of which are difficult to predict, and many of which are beyond the company's control, which may cause the company's actual results, performance or achievements to differ materially from those in the forward-looking statements.

Further information regarding these and other risks, uncertainties or factors is included in the company's filings with the U.S. Securities and Exchange Commission. The company does not

undertake any obligation to update any forward-looking statements as a result of new information, future events or otherwise, except as required under law.

Now, please welcome Mr. Qian Jun.

Qian Jun: (Speaking foreign language).

(Translated). Thank you, everyone, for joining us in this conference call. On today's call, we will introduce the company's financial and operational results in the third quarter of 2022, followed by the Q&A session.

In the third quarter of 2022, as China's economy made a turn to the better, our business volume has increased as well. We facilitated loans of over 3.8 billion under our collaboration with the trust companies, and introduced loans of 400 million to the commercial banks. Our revenue stream was more diversified, as service fee associated with the commercial bank partnership and the interest income charged to sales partners, both increased. The company's gross profit margin was also higher than that of same period of last year due to the decrease of collaboration cost and funding costs.

We continued to be conservative in evaluating potential losses and recorded a provision for credit losses of 42 million during the quarter. As the result, we recorded a net income of 46 million, which was 27 million higher than the same period of last year.

Now, I would like to give a more detailed introduction of the work we have done, and also share the management's thoughts on our future development. During the quarter, China's economy made a turn to the better and its GDP increased by 3.9% from the second quarter of 2022.

As for the company, both of the loans facilitated under the trust lending model and the loans introduced to commercial banks, increased on a year-on-year basis. During the quarter, we mainly focused on building and empowering the sales system, reducing funding costs and promoting our partnership with commercial banks. The works we have done include: First, building the sales system and using technology to empower it. This quarter, we worked on diversifying our sales system by establishing collaboration with channeling partners and empower them using our platform.

We launched a mobile app this quarter, allowing our service team to timely interact with sales and application reviewers about the status of borrower, channel information, loan product and funding information, and therefore, increased the overall efficiency as the full process can be timely coordinated.

Second, the management made an estimation at the beginning of 2022, that the market condition will take a turn this year, and there will be adequate fundings. In order to take this opportunity, we proactively initiated dialogues with our trust company partners on reducing funding costs and reached agreements, which has driven down our funding costs as compared to the same period of last year.

Third, as a result of the work we have done in the past few quarters, our partnership with commercial banks has started to scale. In the first 9 months of 2022, we have introduced loans of

over 600 million to commercial banks, and the outstanding loan principal under the commercial bank partnership was approximately 640 million as of September 30, 2022.

Our partnership with private banks was showing particularly good momentums. First, our partnership with Bank of Sanxiang continued to scale and the outstanding loan principal has reached 150 million as of September 30, 2022. Besides, we have started collaboration with Yillion Bank this quarter and have already introduced loans of over 80 million for it.

Report to the 20th National Congress of the Communist Party of China stressed that “We will support the development of micro, small and medium enterprises,” which is a proof of the correctness of management's estimation that there are huge opportunities in China's inclusive financing industry. To embrace such opportunities, we will continue to work on building our sales system, reducing funding costs and leveraging technology to stimulate the business growth.

Our goal is to provide affordable and accessible financing services to more MSE owners in China. Our plans are, first, besides servicing the current sales partners, we will put more resources to promote collaboration with channeling partners who have accesses to broader customers, and empower them by providing them with refined services and managements. We will use our platform and system to empower those channeling partners and help them to form scale.

Second, we will continue to raise low-cost capital from trust companies. We will also continue to expand our cooperation with commercial banks and make it a bigger part in our product mix. In addition, we will also negotiate with subordinated units investors about refinancing NPLs, and make this refinancing to reach a certain scale by the end of next year. We will also refine our own process to better coordinate loan application and fund raising, and better manage idle cash, and therefore, further cut the interest rates on our loan products so that the MSE owners could receive the infusion.

Third, we will continue to empower our business with technology and make our products simpler and more efficient. Within 2023, we will register and maintain an official public account, and use this account to send notice to borrowers, answer customer inquiries and deal with complaints. We hope such official account could enrich our toolkits in terms of developing customer loyalty and further harness the value of our products.

Fourth, we will participate more proactively in the capital market. Other than keep pushing a secondary offering, we are also seeking chances to an acquisition by exchanging shares using the treasury shares we have repurchased. We will pay attention to the elite fintech startups for that purpose.

On behalf of the company and the board of directors, I would like to welcome Mr. Yang Ge to join the board as an independent director. Mr. Yang holds a bachelor's degree from Nankai University, majoring in International Finance. He also holds an MBA degree from Tsinghua University, and an M.S. in Accounting from Seton Hall University. Mr. Yang has over 30 years of experiences in corporate finance, non-bank financial institution, and wealth and asset management. He has worked with public companies listed in Shanghai, New York, and Hong Kong. Mr. Yang has work experiences both in China and overseas including Europe and the U.S.

Currently based in New York, he is expected to, together with other board members, explore further opportunities for the company to continue growth in the capital market and create more values to our shareholders.

With that, I would like to hand the call over to Ms. Jay Li, the acting CFO of the Company, who will walk you through the third quarter 2022 financials.

Jay Li: Thanks, Mr. Qian, and thanks again to everyone joining us today. I will walk you through our third quarter of 2022 financials. We believe year-over-year comparison is the best way to review our performance. Unless otherwise stated, all percentage changes I'm going to give will be on that basis. Also, unless otherwise stated, all numbers I'm going to give will be in RMB.

As of September 30, 2022, total outstanding loan principal was 10.5 billion, as compared to 10.4 billion RMB as of December 31, 2021. The total origination volume was approximately RMB3.9 billion in the third quarter of 2022, compared to RMB3.1 billion in the same period of 2021.

Interest and financing service fees on loans decreased to 9% to 413 million for the third quarter of 2022 from 455 million in the same period of last year, primarily attributable to a decrease in the balance of average daily outstanding loan principal. Such decrease was mainly as a result of the company's transfer of loans under the traditional facilitation model to third parties in bulk during the fourth quarter of last year, which was partially offset by an increase in the total outstanding loan principal under the collaboration model.

Interest expense decreased by 11% to 195 million for the third quarter of 2022, compared to 219 million in the same period of last year, primarily due to a decrease in principals of other borrowings and lower interest rates charged by trust companies.

Interest income charged to sales partners, representing fee charged to sales partners who choose to repurchase default loans in installments, increased by 213% to 34 million in the third quarter of 2022 from 11 million in the same period last year, primarily attributable to an increase in the delinquent loans that were repurchased by the sales partners in installments.

Collaboration cost for sales partners decreased to 85 million for the third quarter of 2022 from RMB 102 million, primarily attributable to a lower average fee rate the company paid to sales partners in the third quarter of 2022 as compared to the same period of last year. The fee rate under collaboration model varies based on different collaboration model types and the terms of the loan.

Provision for credit losses increased by 30% to 42 million in the third quarter of 2022 from 33 million. The increase was due to the heightened economic uncertainty caused by Covid-19 pandemic and the relevant prevention and control measures, as well as the downward pressure faced by China's real estate market during the third quarter of 2022.

Total operating expenses decreased by 11% to 83 million for the third quarter of 2022 from 93 million.

Income tax expense increased by 153% to 17 million for the third quarter of 2022 from 7 million, primarily due to an increase in the amount of taxable income.

Net income increased by 142% to 46 million for the third quarter of 2022 from 19 million in the same period of last year.

As of September 30, 2022 and December 31, 2021, the company had cash, cash equivalents and restricted cash of 1.4 billion and 2.2 billion.

The delinquency ratio for loans originated by the company decreased from 24.1% as of December 31, 2021 to 22.9% as of September 30, 2022.

The delinquency ratio, excluding loans held for sale, for loans originated by the company decreased from 16.2% as of December 31, 2021 to 13% as of September 30, 2022.

The NPL ratio for loans originated by the company increased from 9.4% as of last December 31, 2021 to 10.8% as of September 30, 2022.

The NPL ratio, excluding loans held for sale, for loans originated by the company decreased from 2.1% as of December 31, 2021 to 1.5% as of September 30, 2022.

With that --

Matt Lu: We would like to open the Q&A session with that. Operator, please.

## **Questions and Answers**

Operator: We will now begin the question-and-answer session. (Operator Instructions). William Gregozeski with Greenridge Global.

William Gregozeski: Great quarter. Can you provide an update on the number of active sales partners and give some kind of indication on how their liquidity is?

Jun Qian: (Speaking foreign language).

Unidentified Company Representative: (Speaking foreign language).

(Translated). So at the end of this quarter, the number of active sales partners is about 1,267, which is about 100 more than the same period in Q2 2021, and 30 more than at the end of Q2 2022.

As of the liquidity, they actually made a turn to the better, which can be observed in two aspects. The first is the increase in the loan origination volume, which means they now have liquidity to expand their business. And the second aspect is that they can now fulfill their obligation associated with defaulted loans because we are seeing fewer complication of credit risk mitigation position. Thank you.

William Gregozeski: Okay, great. Can you talk about the commercial lending? It was about 10% of total origination. Is that where you guys want to be at this point? And how do you see that continue to grow?

Jun Qian: (Speaking foreign language).

Unidentified Company Representative: (Speaking foreign language).

(Translated). So the loans facilitated -- the loans introduced to commercial banks in this quarter was about RMB 400 million, which is not priced there yet. But we are hoping the loans we introduced to commercial banks continue to cut bigger shares in our portfolio. And our goal in 2023 for loans introduced to commercial banks is to make it about 25% to 35% of the total loans originated, including the loans under the trust lending model, which is about RMB 500 million to RMB 600 million every month.

William Gregozeski: Okay, great, great. And then can you just give an update on the demand you're seeing from the SME borrowers in terms of having a lot of demand, if there's a lot of demand and if they have good collateral with that?

Jun Qian: (Speaking foreign language).

Unidentified Company Representative: (Speaking foreign language).

(Translated). Okay. So because of the uncertainties raised associated with the pandemic prevention and control, as well as the downward pressure of the economy, so we're actually seeing less demand as compared to the same period of 2021. However, it's getting better if you compare it to the first half. And also from a letter released by PBC, at the end of October, the new RMB loans is about RMB 615 billion, which is RMB 211 billion lower from the same period of 2021, so you can see that.

Jing Li: (Speaking foreign language).

Unidentified Company Representative: (Speaking foreign language).

(Translated). As for the collateral, you can see that both of the delinquency ratio and the NPL ratio has decreased at the end of the third quarter. So that means the quality of collateral is still within our control.

William Gregozeski: Okay, perfect. And last question is you guys mentioned looking to do some acquisitions. Is there anything in that fintech space specifically you're looking for, or just anything that might be complementary to what you guys offer?

Jun Qian: (Speaking foreign language).

Unidentified Company Representative: (Speaking foreign language).

(Translated). There is not a particular target at this moment. It's just something we want to achieve in the capital markets.

William Gregozeski: Okay. All right. Thank you.

Operator: (Operator Instructions). With no further questions, we will conclude our question-and-answer session. I'd like to turn the conference back over to [Matt Lu] for closing remarks.

Matt Lu: Thank you. And thank you, again, just for joining us tonight or this morning. If you have any further questions, you can always view our official website at [ir@cashchina.com](mailto:ir@cashchina.com). Also can you sending us e-mail. Thank you. Thank you again.

Operator: The conference has now concluded. Thank you very much for attending today's presentation. You may now disconnect your lines.