

CNFinance Holdings Limited
Q3 2023 Financial Results Conference Call
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Executives:

Ms. Jay, Manager of Capital Marketing
Jun Qian, Director and Vice President
Jing Li, Acting CFO

Analysts:

William Gregozeski, Greenridge Global

Presentation

Operator: Good day, and welcome to the CNFinance Holdings Limited Third Quarter of 2023 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.

I would now like to turn the conference over to Ms. [Jay], Manager of Capital Marketing. Please go ahead.

Ms. Jay: Good morning and evening. And welcome to CNFinance third quarter 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 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 the 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 statement 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 for taking the time to join this conference call. We will discuss CNFinance's third quarter of 2023 operating and financial results, and followed by a Q&A session.

During the third quarter of 2023, the Company focused on expanding its business scale and improving asset quality, and achieved year-on-year growth in all important indicators. During the quarter, the Company facilitated loans of RMB5.1 billion, increased by 20% year-on-year, and achieved a net income of 53 million, increase by 15% year-on-year. Furthermore, as the result of its sound risk control mechanism, the Company's recovery rate remained at 110%.

The Company's highlights for the quarter include the following. Devoted to expanding business scale. During the quarter, the Company's total loan origination volume was 5.1 billion, representing a year-on-year increase of 20% and a 12% increase as compared to the second quarter of 2023. Among the 5.1 billion loans facilitated, 3.9 billion was under trust lending model and 1.2 billion was under commercial bank partnership;

Continuing to refine our service to sales partners and help ease their liquidity pressures. Due to our installment policy, sales partners' liquidity has significantly improved. During the quarter, (inaudible) historically defaulted sales partners was able to recommence their installment payments. This has effectively reduced the risk exposure of the Company;

Optimizing products and helped making finance more inclusive. In the third quarter of 2023, the Company's average financing cost was slightly lower than that in the beginning of the year, and the Company adjusted proportion of the lower-interest rate products in its product mix accordingly. By optimizing the product mix and lower customer interest rates, we were able to give real benefits to MSE owners and lay a good foundation for serving the needs of borrowers with better credit history;

In order to improve the asset quality, the Company has been continuously refining the factors in its credit assessment, and has fully leveraged technology to improve the accuracy of the assessment of borrowers and collaterals. In addition, the company has strategically shifted its business to core regions. During the quarter, loans facilitated in the first-tier and new first-tier cities has reached 80% of overall loan facilitation.

Management believes that China's market is currently in a period of recovery, and the price of real estate market is still fluctuating. At the same time, we believe that China will continue to introduce stimulus policies and China's inclusive finance industry is still in the opportunity period. We will continue to adopt the guiding principle of high-quality development, which emphasizes scale, quality and compliance, with the following specific objectives in mind. Optimize the product mix, improve sales capabilities, refine the risk control system, reach to prospective borrowers with high-quality collaterals as well as good credit records. In order to

match this goal, the Company needs to continuously broaden its financing channels, bring in new funders, and launch new loan products;

Continue to promote the application of models, systems and big data in credit approval, make the whole process more standardized, generative, systematized and intelligent, to reduce human [intervention] and improve overall efficiency; continue the transition to the platform model by accelerating the disposal of non-performing loans. The Company plans to transfer a bulk of defaulted loans to third parties before the end of the year to recover cash and reduce the Company's risk exposure.

Now I'd like to hand the call over to Ms. Jing Li, and she will walk you through the third quarter financials.

Jing Li: Thank you. Now we will go over the financials. Please notice that the currency we use will be in RMB, and all comparisons will be made on year-on-year basis unless otherwise stated.

For the third quarter of 2023, total interest and fees income was 425 million as compared to 445 million.

Interest and financing service fees on loans was 388 million as compared to 413 million. The decrease was due to the decrease of weighted average interest rate of loans outstanding.

Interest income charged to sales partners was 32.7 million as compared to 33.5 million.

Total interest and fees expenses decreased by 13% to 170 million as compared to 195 million. The decrease was mainly due to the lower funding cost of trust company partners as a result of recent regulatory development.

Net interest and fees income increased slightly from 254 million to 255 million.

Net revenue under the commercial bank partnership model was 27.6 million as compared to 0.4 million. The outstanding loan principal under the commercial bank partnership was 5 billion as of September 30, 2023, as compared to 0.6 billion at September 30, 2022.

Collaboration cost for sales partners was 87 million as compared to 85 million.

Net interest and fees income after collaboration cost increased 15.5% to 196 million from 170 million.

Provision for credit losses decreased by 72% to 12 million from 41 million. In the third quarter of 2023, some sales partners who forfeited their Credit Risk Mitigation Positions due to the inability to fulfill their obligations to repurchase delinquent loans in last few quarters were able to recommence their payments, which has provided more protection to the loans.

Total operating expenses increased by 27% to 106 million from 83 million.

Employee compensation and benefits was increased 16% to 58 million from 50 million, due to an increase in the performance-based bonuses as a result of an increase in loan origination volume during the third quarter of 2023.

Other expenses increased by 71% to 35 million from 20 million, mainly due to the increase in fees paid to local channels who are rewarded for referring sales partners to the company, and will also receive commissions of a certain percentage of loans recommended to the company by the sales partners they have referred.

Net income increased by 15% to 53 million from 46 million.

Now, we would like to start the Q&A session, operator, please.

Questions and Answers

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

William Gregozeski: Great quarter. With regards to the trust lending at 3.9 billion, that's up quite a bit from where it has been. Can you just talk about where, I guess, the demand you saw for that growth came from, and if you expect it to continue going forward?

Jun Qian: (Speaking foreign language).

(Translated). So for the increase of loan originations under the trust lending model, I think the main reasons are twofold. I think the first one is that in the beginning of the year, we have decided to shift our business more to tier-1 and new tier-1 cities. And also, the second reason was because we kind of focused on our most competitive products, which is large-ticket size products with higher value as the collateral. I think those two are the two main reasons that gave us the chance to grab the amounts of the borrower with such uncertainties in the economy, as well as the fluctuation in property prices.

Also, since we have been able to manage to decrease the overall financing cost, it allowed us to reach to customers with better collateral, as well as better credit records. And it also helped to broaden our customer reach as well.

William Gregozeski: Okay, great. As far as the origination, since we're getting close to 2024, do you guys have any forecast for where you're looking for that for next year on a total basis, or broken out by trust and commercial?

Jun Qian: (Speaking foreign language).

(Translated). So based on the current uncertainty of the market, we have [set] a rather realistic and also conservative goal for the year of 2024. So our projected loan origination for next year is 20 billion, with loans facilitated under the commercial bank model taking up 30% to 35%.

William Gregozeski: Okay. So roughly flat on an overall basis from this year?

Jun Qian: (Speaking foreign language).

(Translated). Yes.

William Gregozeski: Okay. And last question is with the sales partners flying back into their position in the quarter, are you seeing your sales partners with more cash to be a little more flexible to not fall behind on payments, or can you just kind of briefly talk about the health of the sales partners financially?

Jun Qian: (Speaking foreign language).

(Translated). So the first thing that help to improve their liquidity is we can loosen the terms on their installment payments. And the second reason is that we have made our effort to help the sales partners to dispose their nonperforming loans. We have made our efforts to push the legal proceeding, as well as the settlement with borrowers, which also helped the sales partners to get rid of the nonperforming assets and also recover cash.

William Gregozeski: Okay, great. Thank you.

Operator: There are no other questions at this time. This concludes our question-and-answer session. I would like to turn the conference back over to Ms. [Jay] for closing remarks.

Ms. Jay: Thank you for joining us today. If you have any questions, please feel free to contact us at ir@cashchina.cn. Thank you.

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