



## Minsheng Bank (1988 HK / 600016 CH)

### Lack of fundamental catalyst

- Relatively weak fundamentals compared to industry average
- Aside from challenging operation environment, low balance sheet growth slows topline recovery
- Marginal improvement in NPL ratio but risk buffer limits earnings support
- Maintain **HOLD**. Our GGM-based H/A-shr TPs imply 0.21x/0.31x 24E P/B

**Fundamental outlook stays sluggish.** Fundamental remains weak in 1Q24 compared to major listed peers. Topline and net profit dropped 6.8% and 5.63% YoY in 1Q24. On the other hand total assets and total liabilities grew by a mere 0.68% and 0.54% QoQ as of Mar 2024. We believe a slow balance sheet growth will limit MSB's ability to achieve a meaningful fundamental turnaround in coming quarters, especially given the sector-wide NIM pressure and slow net fee income recovery. As specified in Exhibit 2&3, MSB underperformed in most major performance indicators such as profitability, capital position and risk buffer, when compared with the industry average and JSB average according to NAFR data. Except that its NPL ratio, as of Dec 2023, was 11bps lower than the industry average and its earnings growth in 2023 was 5.24ppt higher than JSB average. In our opinion, only meaningful improvement in fundamentals will rebuild investor confidence in the bank.

**Topline to recover slowly.** We lower our FY24E/25E NII and net fee income by 4.91%/5.67% and 21.27%/29.61% mainly due to lethargic growth in balance sheet and slow recovery in net fee income. In our base case scenario, we anticipate MSB's total assets and total liabilities CAGR to be 5.8% and 6.0% over FY23-26E. We estimate the bank's NIM to narrow 6bps-14bps YoY each in FY24E-26E, reaching 1.18% by FY26E. NII may resume positive growth in FY25E. On net fee income front, reduction in agency fee rate in 3Q23 will hinder momentum, while recovery in capital market and retail consumption demand will be crucial. Our base case suggests MSB's net fee income to turn positive in FY26E at the earliest. By lowering MSB's FY24E/25E topline by 2.16%/3.53%, we project a FY23-26E CAGR of 0.6%.  
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#### Results and Valuation

FY ended Dec 31	2022A	2023A	2024E	2025E	2026E
Revenue (RMB mn)	139,219	137,391	136,228	137,471	140,086
Chg (% YoY)	(15.9)	(1.3)	(0.8)	0.9	1.9
Net profit* (RMB mn)	35,269	35,823	35,085	35,487	36,533
Chg (% YoY)	2.6	1.6	(2.1)	1.1	2.9
EPS (RMB)	0.71	0.72	0.70	0.71	0.74
Chg (% YoY)	0.4	1.1	(2.3)	1.3	3.4
BVPS (RMB)	11.53	12.10	12.55	13.02	13.50
Chg (% YoY)	4.3	4.9	3.8	3.7	3.7
P/E (x) – H-shr	3.64	3.60	3.69	3.64	3.52
P/B (x) – H-shr	0.22	0.21	0.21	0.20	0.19
P/E (x) – A-shr	5.55	5.49	5.62	5.55	5.37
P/B (x) – A-shr	0.34	0.33	0.31	0.30	0.29
ROAA (%)	0.50	0.48	0.44	0.43	0.41
ROAE (%)	6.31	6.10	5.83	5.72	5.71
DPS(RMB)	0.214	0.216	0.240	0.243	0.250
Yield (%) H-shr	8.25	8.33	9.27	9.38	9.66
Yield (%) A-shr	5.42	5.47	6.09	6.16	6.34

Note: HKD/CNY=1.08

\*Net profit refers to Net profit attributable to equity holders of the Company in this report unless otherwise stated

Source(s): Company, Bloomberg, ABCI Securities estimates

## Company Report

May 3, 2024

Rating (H): HOLD

Rating (A): HOLD

TP (H): HK\$ 2.68

TP (A): RMB 3.76

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Price (H/A shr)	HK\$ 2.80/ RMB 3.95
Est. share price return (H/A shr)	-4.29%/ -4.81%
Est. dividend yield (H/A shr)	9.38%/6.16%
Est. total return (H/A shr)	5.09%/ 1.35%
Last Rating & TP (H/A shr)	HOLD, HK\$2.49 /HOLD, RMB3.38
Previous Report Date	4 Sep, 2023

Source(s): Bloomberg, ABCI Securities estimates

#### Key Data

52Wk H/L (HK\$) (H shr)	3.52/2.43
52Wk H/L (RMB) (A shr)	4.52/3.58
Total issued shares (mn)	43,782.4
Issued H shr (mn)	8,320.3
Issued A shr (mn)	35,462.1
Market cap (HK\$ mn)	174,578.1
H-shr market cap (HK\$ mn)	23,296.8
A-shr market cap (HK\$ mn)	151,281.3
3-mth avg daily turnover (HK\$ mn) (H shr)	36.6
3-mth avg daily turnover (RMB mn) (A shr)	420.1

#### Major shareholder(s) (%):

Dajia Life Insurance	17.84
New Hope	4.18
China Oceanwide	4.12

Source(s): Bloomberg, ABCI Securities



**Exhibit 1: Key financial performance in 1Q24**

(RMB mn)	1Q23	1Q24	change (%)
Net interest income	25,369	24,262	(4.36)
Net fee and commission	5,935	5,129	(13.58)
Operating income	36,773	34,273	(6.80)
Operating expenses	(11,277)	(11,300)	0.20
Impairment losses	(9,331)	(7,737)	(17.08)
Profit before tax	16,039	15,253	(4.90)
Net profit attributable to equity holders	14,232	13,431	(5.63)
Key indicators (%)	1Q23	1Q24	change (ppt)
Net interest margin	1.49	1.38	(0.11)
Cost to income ratio	26.95	29.32	2.37
ROAA	0.77	0.70	(0.07)
ROAE	11.10	10.01	(1.09)
	Dec-23	Mar-24	
CT1 CAR	9.28	9.35	0.07
Total CAR	13.14	12.38	(0.76)
NPL ratio	1.48	1.44	(0.04)
Provision to total loans	2.22	2.16	(0.06)
Provision coverage ratio	149.69	149.36	(0.33)

Source(s): Company, ABCI Securities

**Exhibit 2: MSB's key performance indicators vs. industry average (%)**

	MSB (2023)	Industry average (4Q23)	Diff
Net interest margin	1.46	1.69	-0.23
Cost to income ratio	37.00	35.26	1.74
Return on average assets	0.48	0.70	-0.22
Return on average equity	6.10	8.93	-2.83
CT1 CAR	9.28	10.54	-1.26
Total CAR	13.14	15.06	-1.92
NPL ratio	1.48	1.59	-0.11
Provision to total loans	2.22	3.27	-1.05
Provision coverage ratio	149.69	205.14	-55.45
Total assets growth	5.78	9.90	-4.12
Total liabilities growth	5.94	10.10	-4.16
Earnings growth YoY (2023)	1.57	3.23	-1.66

Note: Green/red represents better/worse than average

Source(s): Company, NAFR, ABCI Securities

**Exhibit 3: MSB's key performance indicators vs. JSBs average (%)**

	MSB (2023)	JSBs average (4Q23)	Diff
Net interest margin	1.46	1.76	-0.30
Return on average assets	0.48	0.71	-0.23
Total CAR	13.14	13.43	-0.29
NPL ratio	1.48	1.26	0.22
Provision to total loans	2.22	2.76	-0.54
Provision coverage ratio	149.69	219.07	-69.38
Earnings growth YoY (2023)	1.57	-3.67	5.24

Note: Green/red represents better/worse than average

Source(s): Company, NAFR, ABCI Securities

**Lower risk buffer limits earnings support.** In our opinion, MSB's low risk buffers will limit its flexibility to support earnings. As of Mar 2024, MSB's provisioning ratio and provision coverage ratio were reported at 2.16% and 149.36%, down 6bps and 33bps QoQ, much lower than the JSB average of 2.76% and 219.07%, according to the NAFR statistics. MSB's NPL was down 4bps QoQ to 1.44% as of Mar-24. In view of this, we estimate FY23-26E provision expenses CAGR to be -3.2%. With MSB's business strength in private enterprises and MSEs, however, we assume its asset quality to be less stable than peers. Our base case estimates MSB's NPL ratio at 1.30% by end-FY26E, with provisioning ratio and provision coverage ratio approaching to 2.00% and 153.85% by end-FY26E.



Exhibit 4: MSB's quarterly NIM (%)

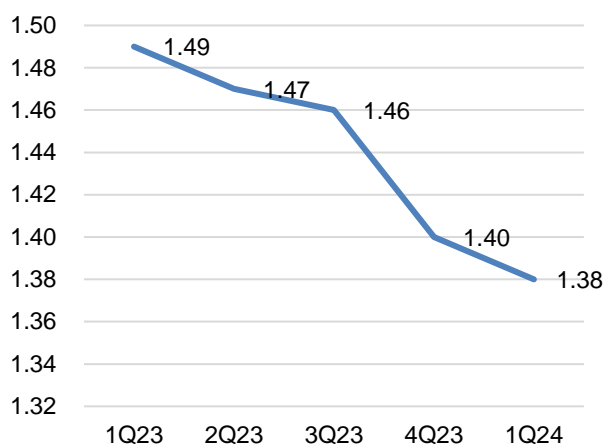
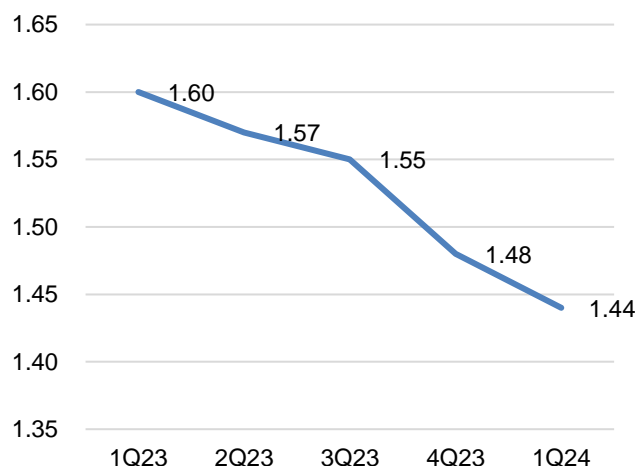


Exhibit 5: MSB's quarterly NPL ratio (%)



Note: Q2 and Q4 NIM based on ABCI calculation  
Source(s): Company, ABCI Securities estimates

Source(s): Company, ABCI Securities

Exhibit 6: Changes in forecasts

(RMB mn)	2024E (old)	2024E (new)	change (%)	(RMB mn)	2025E (old)	2025E (new)	change (%)
Net interest income	105,968	100,770	(4.91)	Net interest income	107,211	101,136	(5.67)
Net fee and commission	23,211	18,274	(21.27)	Net fee and commission	25,184	17,726	(29.61)
Operating income	139,236	136,228	(2.16)	Operating income	142,507	137,471	(3.53)
Operating expenses	(55,264)	(54,391)	(1.58)	Operating expenses	(57,474)	(56,295)	(2.05)
Impairment losses	(46,740)	(45,094)	(3.52)	Impairment losses	(46,166)	(43,597)	(5.56)
Profit before tax	37,233	36,743	(1.32)	Profit before tax	38,867	37,579	(3.31)
Income tax expenses	(1,489)	(1,470)	(1.28)	Income tax expenses	(1,943)	(1,879)	(3.29)
Net profit attributable to equity holders	35,398	35,085	(0.88)	Net profit attributable to equity holders	36,612	35,487	(3.07)
<b>Key indicators (%)</b>			<b>change (ppt)</b>	<b>Key indicators (%)</b>			<b>change (ppt)</b>
Net interest margin	1.33	1.32	(0.01)	Net interest margin	1.24	1.24	-
CIR	39.74	39.98	0.24	CIR	40.38	41.00	0.62
ROAA	0.43	0.44	0.01	ROAA	0.42	0.43	0.01
ROAE	5.89	5.83	(0.06)	ROAE	5.90	5.72	(0.18)
Dividend payout	30.00	30.00	-	Dividend payout	30.00	30.00	-
CT1 CAR	8.67	9.22	0.55	CT1 CAR	8.48	9.17	0.69
Total CAR	12.21	13.25	1.04	Total CAR	11.76	13.12	1.36
NPL ratio	1.51	1.40	(0.11)	NPL ratio	1.53	1.34	(0.19)
Provision to total loans	2.21	2.10	(0.11)	Provision to total loans	2.14	2.04	(0.10)
Provision coverage ratio	146.36	150.00	3.64	Provision coverage ratio	139.87	152.24	12.37

Source(s): Company, ABCI Securities estimates

**Maintain HOLD on relatively weak fundamentals.** In our opinion, MSB's relatively weak fundamentals in recent quarters has been the major reason behind its depressed valuation. We maintain our **HOLD** rating to MSB's H/A-shr as concrete fundamental recovery is crucial to rebuilding investor confidence. In our Gordon Growth model, by factoring in 0.7% net profit CAGR over FY23-26E, we revise down our sustainable ROAE and long-term growth assumptions. Also, we revise the beta and risk premium and roll over our TP calculation from mid-24E to end-24E BVPS. Our H/A-shr TPs therefore increased 7.6%/11.2% to HK\$ 2.68/RMB 3.76, which imply 0.21x/0.31x FY24E P/B.

**Exhibit 7: Changes in GGM assumptions**

	H-shr		A-shr		Reason
	old	new	old	new	
TP (HKD/RMB)	2.49	2.68	3.38	3.76	Roll over TP calculation to FY24E BVPS
Sustainable ROE (%)	5.79	5.56	5.79	5.56	Lower earnings and ROAE forecasts
COE (%)	13.97	15.94	10.77	11.54	Adjust beta and risk premium with reference to Bloomberg
LT gr (%)	3.90	3.00	3.90	3.00	Reduce on sluggish balance sheet and earnings growth
Target 24E P/B (x)	0.18	0.21	0.27	0.31	

Source(s): Company, ABCI Securities estimates

**Risk Factors:** 1) Business focus on MSEs may increase volatility in asset quality and credit cost; 2) Potential asset quality deterioration in specific sectors or regions; 3) Delayed recovery in topline and earnings growth; 4) Low provisioning ratio and provision coverage ratio; 5) Declining NIM & ROAE and increasing CIR; 6) Potential dilution effect from issuance of additional capital instruments; 7) Potential dilution from conversion of outstanding convertible preference shares/perpetual bonds.



## Financial statements

### Consolidated income statement

FY Ended Dec 31 (RMB mn)	2022A	2023A	2024E	2025E	2026E
Net interest income	107,463	102,431	100,770	101,136	102,060
Non-interest income	31,756	34,960	35,458	36,334	38,025
Of which: Fees and commissions	20,274	19,236	18,274	17,726	18,080
<b>Operating income</b>	<b>139,219</b>	<b>137,391</b>	<b>136,228</b>	<b>137,471</b>	<b>140,086</b>
Operating expenses	(52,602)	(52,807)	(54,391)	(56,295)	(58,547)
<b>Pre-provision operating profit</b>	<b>86,617</b>	<b>84,584</b>	<b>81,837</b>	<b>81,176</b>	<b>81,539</b>
Impairment loans losses	(49,447)	(47,226)	(45,094)	(43,597)	(42,829)
<b>Profit before tax</b>	<b>37,170</b>	<b>37,358</b>	<b>36,743</b>	<b>37,579</b>	<b>38,710</b>
Tax	(1,393)	(1,372)	(1,470)	(1,879)	(1,936)
Minority interests	(508)	(163)	(187)	(214)	(241)
<b>Net profit attributable to equity holders</b>	<b>35,269</b>	<b>35,823</b>	<b>35,085</b>	<b>35,487</b>	<b>36,533</b>
Dividend and interest to other equity instruments	(4,106)	(4,316)	(4,316)	(4,316)	(4,316)
<b>Net profit attributable to ordinary shareholders</b>	<b>31,163</b>	<b>31,507</b>	<b>30,769</b>	<b>31,171</b>	<b>32,217</b>
<b>Growth (%)</b>					
Net interest income	(14.6)	(4.7)	(1.6)	0.4	0.9
Non-interest income	(20.2)	10.1	1.4	2.5	4.7
Of which: Fees and commissions	(26.5)	(5.1)	(5.0)	(3.0)	2.0
<b>Operating income</b>	<b>(15.9)</b>	<b>(1.3)</b>	<b>(0.8)</b>	<b>0.9</b>	<b>1.9</b>
Operating expenses	2.8	0.4	3.0	3.5	4.0
<b>Pre-provision operating profit</b>	<b>(24.3)</b>	<b>(2.3)</b>	<b>(3.2)</b>	<b>(0.8)</b>	<b>0.4</b>
Impairment loans losses	(37.2)	(4.5)	(4.5)	(3.3)	(1.8)
<b>Profit before tax</b>	<b>4.4</b>	<b>0.5</b>	<b>(1.6)</b>	<b>2.3</b>	<b>3.0</b>
Tax	86.5	(1.5)	7.1	27.8	3.0
Minority interests	7.6	(67.9)	15.0	14.0	13.0
<b>Net profit attributable to equity holders</b>	<b>2.6</b>	<b>1.6</b>	<b>(2.1)</b>	<b>1.1</b>	<b>2.9</b>
Dividend and interest to other equity instruments	23.4	5.1	0.0	0.0	0.0
<b>Net profit attributable to ordinary shareholders</b>	<b>0.4</b>	<b>1.1</b>	<b>(2.3)</b>	<b>1.3</b>	<b>3.4</b>
<b>Per share (RMB)</b>					
EPS	0.71	0.72	0.70	0.71	0.74
BVPS	11.53	12.10	12.55	13.02	13.50
DPS	0.214	0.216	0.240	0.243	0.250
<b>Key ratio (%)</b>					
Net interest margin	1.60	1.46	1.32	1.24	1.18
Cost to income ratio	36.44	37.00	39.98	41.00	41.84
Return on average assets	0.50	0.48	0.44	0.43	0.41
Return on average equity	6.31	6.10	5.83	5.72	5.71
Effective tax rate	3.75	3.67	4.00	5.00	5.00
Dividend payout	30.07	30.02	30.00	30.00	30.00

Note: Individual items may not sum to total due to rounding difference

Key ratios and figures may not match with financial reports due to adjustment and reclassification for comparison consistency among individual equities

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet

As of Dec 31 (RMB mn)	2022A	2023A	2024E	2025E	2026E
Cash & balances with central bank	338,552	390,367	402,947	418,558	439,723
Due from FIs and repo	274,149	338,229	395,649	467,000	548,776
Investment securities	2,225,870	2,272,142	2,351,667	2,457,492	2,580,367
Net loans and advances	4,072,982	4,323,908	4,586,729	4,854,013	5,126,013
<b>Total interest-earning assets</b>	<b>6,911,553</b>	<b>7,324,646</b>	<b>7,736,991</b>	<b>8,197,063</b>	<b>8,694,879</b>
Property and equipment	58,896	60,490	62,305	64,797	68,037
Other non-interest earning assets	285,224	289,829	295,080	303,932	315,521
<b>Total assets</b>	<b>7,255,673</b>	<b>7,674,965</b>	<b>8,094,376</b>	<b>8,565,792</b>	<b>9,078,437</b>
Customer deposits	4,051,592	4,353,281	4,684,111	5,034,301	5,405,017
Due to FIs and repo	1,833,211	1,875,361	1,922,245	1,989,524	2,069,105
Subordinated debt	648,107	675,826	712,996	745,081	778,610
<b>Total interest-bearing liabilities</b>	<b>6,532,910</b>	<b>6,904,468</b>	<b>7,319,353</b>	<b>7,768,905</b>	<b>8,252,731</b>
Current taxes	5,040	1,392	1,308	1,243	1,193
Other liabilities	104,909	131,304	115,313	116,283	123,386
<b>Total liabilities</b>	<b>6,642,859</b>	<b>7,037,164</b>	<b>7,435,974</b>	<b>7,886,431</b>	<b>8,377,310</b>
Share capital	43,782	43,782	43,782	43,782	43,782
Other equity instruments	94,962	94,962	94,962	94,962	94,962
Reserves	461,184	485,858	505,798	526,065	547,103
Minorities	12,886	13,199	13,859	14,552	15,279
<b>Shareholder's equity</b>	<b>612,814</b>	<b>637,801</b>	<b>658,401</b>	<b>679,361</b>	<b>701,127</b>
<b>Growth (%)</b>					
Cash & balances with central bank	(6.3)	15.3	3.2	3.9	5.1
Due from FIs and repo	8.5	23.4	17.0	18.0	17.5
Investment securities	9.4	2.1	3.5	4.5	5.0
Net loans and advances	2.7	6.2	6.1	5.8	5.6
<b>Total interest-earning assets</b>	<b>4.5</b>	<b>6.0</b>	<b>5.6</b>	<b>5.9</b>	<b>6.1</b>
Property and equipment	3.7	2.7	3.0	4.0	5.0
Other non-interest earning assets	1.9	1.6	1.8	3.0	3.8
<b>Total assets</b>	<b>4.4</b>	<b>5.8</b>	<b>5.5</b>	<b>5.8</b>	<b>6.0</b>
Customer deposits	5.9	7.4	7.6	7.5	7.4
Due to FIs and repo	6.3	2.3	2.5	3.5	4.0
Subordinated debt	(8.8)	4.3	5.5	4.5	4.5
<b>Total interest-bearing liabilities</b>	<b>4.3</b>	<b>5.7</b>	<b>6.0</b>	<b>6.1</b>	<b>6.2</b>
Current taxes	(42.8)	(72.4)	(6.0)	(5.0)	(4.0)
Other liabilities	9.7	25.2	(12.2)	0.8	6.1
<b>Total liabilities</b>	<b>4.3</b>	<b>5.9</b>	<b>5.7</b>	<b>6.1</b>	<b>6.2</b>
Share capital	0.0	0.0	0.0	0.0	0.0
Other equity instruments	5.6	0.0	0.0	0.0	0.0
Reserves	4.7	5.4	4.1	4.0	4.0
Minorities	5.1	2.4	5.0	5.0	5.0
<b>Shareholder's equity</b>	<b>4.5</b>	<b>4.1</b>	<b>3.2</b>	<b>3.2</b>	<b>3.2</b>
<b>Key ratio (%)</b>					
CT1 CAR	9.17	9.28	9.22	9.17	8.98
Total CAR	13.14	13.14	13.25	13.12	12.81
NPL ratio	1.68	1.48	1.40	1.34	1.30
Provision to total loans	2.39	2.22	2.10	2.04	2.00
Provision coverage ratio	142.49	149.69	150.00	152.24	153.85

Note: Individual items may not sum to total due to rounding difference

Key ratios and figures may not match with financial reports due to adjustment and reclassification for comparison consistency among individual equities

Source(s): Company, ABCI Securities estimates

## Disclosures

### Analyst Certification

The analyst, AU Yu Hang, Johannes, primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect my personal view about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. I and/or my associates have no financial interests in relation to the listed company(ies) covered in this report, and I and/or my associates do not serve as officer(s) of the listed company (ies) covered in this report.

### Disclosures of Interests

ABCI Securities Company Limited and/or its affiliates, within the past 12 months, have investment banking relationship with MSB.

### Definition of equity rating

Rating	Definition
Buy	Stock return rate $\geq$ Market return rate ( $\sim 7\%$ )
Hold	- Market return rate ( $\sim 7\%$ ) $\leq$ Stock return rate $<$ Market return rate ( $\sim +7\%$ )
Sell	Stock return $<$ - Market return ( $\sim 7\%$ )

Notes: Stock return rate: expected percentage change of share price plus gross dividend yield over the next 12 months  
Market return rate: average market return rate since 2005 (For reference: HSI total return index 2005-23 averaged at 7.4%)

Time horizon of share price target: 12-month

Stock rating, however, may vary from the stated framework due to factors including but not limited to: corporate governance, market capitalization, historical price volatility relative to corresponding benchmark index, average daily turnover of the stock relative to market capitalization of the stock, competitive advantages in corresponding industry, etc.

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